FIRST INTERSTATE BANCSYSTEM INC
Form 10-K405
March 29, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934. FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

COMMISSION FILE NUMBER: 33-64304

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

MONTANA	81-0331430
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
401 NORTH 31ST STREET BILLINGS, MONTANA	59116
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

The aggregate market value (appraised minority value) of the common stock of the registrant held by non-affiliates of the registrant as of March 1, 2002 was $43.00.

The number of shares outstanding of the registrant's common stock as of February 28, 2002 was 7,844,056.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2002 definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 17, 2002 are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

THE COMPANY

First Interstate BancSystem, Inc. ("FIBS" and collectively with its subsidiaries, the "Company"), incorporated in Montana in 1971, is a financial holding company registered under the Bank Holding Company Act of 1956, as amended. FIBS is headquartered in Billings, Montana. At December 31, 2001, the Company had assets of $3.3 billion, deposits of $2.7 billion and total stockholders' equity of $222 million, making it the largest banking organization in Montana.

FIBS operates a wholly-owned bank subsidiary, First Interstate Bank (the "Bank"), with 56 banking offices in 30 Montana and Wyoming communities. The Bank, a Montana corporation organized in 1916, delivers a comprehensive range of loan, deposit and investment products and, mortgage banking and trust services to meet the needs of individual customers, businesses, and municipalities.

The Company conducts various other financial-related business activities through wholly-owned non-bank subsidiaries. During 2000, the Company incorporated its technology services division into a separate subsidiary, i_Tech Corporation ("i_Tech"). i_Tech provides technology services to the Bank and to 149 non-affiliated financial institutions in Montana, Wyoming, Idaho, Washington, Oregon and Colorado. Additionally, i_Tech's ATM network provides processing support for over 2,850 ATM locations in 32 states. FIB Capital Trust ("FIB Capital"), incorporated under Delaware law in 1997, was formed for the exclusive purpose of issuing mandatorily redeemable trust preferred securities ("trust preferred securities") and using the proceeds to purchase junior subordinated debentures ("subordinated debentures") issued by FIBS. Commerce Financial, Inc. ("CFI") was incorporated in 1978. CFI's principal activity has been the liquidation of assets acquired through foreclosure actions by FIBS. FI Reinsurance, Ltd. ("FIR"), domiciled in Nevis Island, West Indies, was formed in 2001 to underwrite, as reinsurer, credit-related life and disability insurance.

The Company is the licensee under a trademark license agreement granting it an exclusive, nontransferable license to use the "First Interstate" name and logo in Montana, Wyoming and surrounding states.

COMMUNITY BANKING PHILOSOPHY

The banking industry continues to experience change with respect to regulatory matters, consolidation, consumer needs and economic and market conditions. The Company believes that it can best address this changing environment through its "Strategic Vision." The Company's Strategic Vision emphasizes providing its customers full service commercial and consumer banking at a local level using a personalized service approach, while serving and strengthening the communities in which the Bank is located through community service activities.

The Company grants significant flexibility to its banking offices in delivering and pricing products at a local level in response to market considerations and customer needs. This flexibility enables the banking offices to remain competitive and enhances the relationships between the banking offices and the customers they serve. The Company also emphasizes accountability, however, by establishing performance and incentive standards that are tied to net income and other success measures at the individual banking office and market level. The Company believes this combination of flexibility and accountability allows the banking offices to provide personalized customer service while remaining attentive to financial performance.

The Company has centralized certain products and business activities to provide consistent service levels to customers Company-wide, to gain efficiency in management of those products and activities and to ensure regulatory compliance. Centralized products and activities include trust, investment, wire transfer, escrow, credit card, technology and escrow services, mortgage servicing, and selected operational activities.

GROWTH STRATEGY

The Company's growth strategy includes growing internally and expanding into new and complementary markets when appropriate opportunities arise. The Company believes it has in place an infrastructure that will allow for growth and provide economies of scale into the future.

During 2000, the Company acquired Equality State Bankshares, Inc. ("ESB"), a bank holding company with three banking offices. At the date of acquisition, ESB has loans of $64 million and deposits of $80 million. For additional information regarding acquisitions, see "Notes to Consolidated Financial Statements - Acquisitions" included in Part IV, Item 14.

The Company has opened 18 new banking offices in Montana and Wyoming since 1998. Among these new offices are 12 full service banking offices located inside retail establishments. The Company intends to continue to expand its presence in the Montana and Wyoming markets through the opening of new banking offices. The Company currently plans to open four additional banking offices in Montana and Wyoming through 2003.

Beginning in 1999, the Company accelerated its investment in information systems and staff to support the continued growth of its technology services subsidiary, i_Tech. During 2001, i_Tech opened new item capture facilities in Idaho and Colorado. i_Tech intends to continue to expand into new market areas through aggressive sales efforts.

THE BANK

During 2001, the Company merged its two bank charters, First Interstate Bank in Montana and First Interstate Bank in Wyoming. The resulting bank, First Interstate Bank ("FIB" or the "Bank"), is headquartered in Billings, Montana.

The Company's banking offices are located in communities of approximately 700 to 90,000 people, but serve larger market areas due to the limited number of financial institutions in other nearby communities. The Company believes that the communities served provide a stable core deposit and funding base, as well as economic diversification across a number of industries, including agriculture, energy, mining, timber processing, tourism, government services, education and medical services.

CENTRALIZED SERVICES

FIBS and i_Tech provide general oversight and centralized services for the Bank to enable it to serve its markets more effectively. These services include technology services, credit administration, finance and accounting, human asset management and other support services.

Technology Services. i_Tech provides technology services to the Bank, including system support of the general ledger, investment security, loan, deposit, web banking, imaging, management reporting, cash management and e-mail systems. i_Tech also manages the Company's wide-area network and the ATM network used by the Bank and provides item proof and capture services. These technology services are performed through the use of computer hardware owned and maintained by the Bank and software licensed by i_Tech.

Credit Administration. FIBS monitors the lending activities of the Bank to maximize the quality and mix of loans, provides centralized loan approval for the Bank's larger loans, evaluates the risk inherent in the Bank's loan portfolio and assists in determining the loan loss reserve including specific reserve allocations.

Finance and Accounting. FIBS provides financial and accounting services for the Bank, including internal and external reporting, asset/liability management, investment portfolio analysis and capital management.

Human Asset Management. Through its human asset management group, FIBS provides the Bank with incentive and employee benefit administration and compensation, training, employee recruitment and hiring services.

Other Support Services. FIBS provides the Bank with legal, compliance, internal auditing, marketing and sales services, general administration and various other support services.

LENDING ACTIVITIES

FIBS has comprehensive credit policies establishing Company-wide underwriting and documentation standards to assist Bank management in the lending process and limit risk to the Company. The credit policies establish lending authorities based on the experience level and authority of the lending officer, the type of loan and the type of collateral. The policies also establish thresholds at which loan requests must be approved by a Bank committee and/or by FIBS.

The Bank offers short and long-term real estate, consumer, commercial, agricultural and other loans to individuals and small to medium sized businesses in its market areas. While each loan must meet minimum underwriting standards established in the Company's credit policies, lending officers are granted certain levels of flexibility in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area.

Real Estate Loans. The Bank provides interim and permanent financing for both single-family and multi-unit properties, medium term loans for commercial, agricultural and industrial property and/or buildings, and equity lines of credit secured by real estate. The Bank originates variable and fixed rate real estate mortgages, generally in accordance with the guidelines of the Fannie Mae and the Federal Home Loan Mortgage Corporation. Loans originated in accordance with these guidelines are sold in the secondary market. Real estate loans not sold in the secondary market are typically secured by first liens on the financed property and generally mature in less than 15 years.

Consumer Loans. The Bank's consumer loans include personal loans, credit card loans and equity lines of credit. Personal loans are generally secured by automobiles, boats and other types of personal property and are made on an installment basis. Credit cards are offered to customers in the Company's market areas. Equity lines of credit are generally floating rate, reviewed annually and secured by real property. Approximately 60% of the Company's consumer loans are indirect dealer paper that is created when the Company purchases consumer loan contracts advanced for the purchase of automobiles, boats and other consumer goods from consumer products dealers.

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

Agricultural Loans. The Bank's agricultural loans generally consist of short and medium-term loans and lines of credit that are generally used for crops, livestock, equipment and general operating purposes. Agricultural loans are generally secured by assets such as livestock or equipment and are repaid from the operations of the farm or ranch. Agricultural loans generally have maturities of five years or less, with operating lines for one production season.

For additional information about the Company's loan portfolio, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Loans."

FUNDING SOURCES

The Bank offers traditional depository products including checking, savings and time deposits. Additional funding sources include federal funds purchased for one day periods, repurchase agreements with primarily commercial depositors, time deposits brokered outside the Company's market areas and short-term borrowings from the Federal Home Loan Bank of Seattle. Deposits at the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits.

Under repurchase agreements, the Company sells investment securities held by the Company to a customer under an agreement to repurchase the investment security at a specified time or on demand. The Company does not, however, physically transfer the investment securities. As of December 31, 2001, all outstanding repurchase agreements were due in one day.

For additional information on the Banks' funding sources, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Deposits" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Other Borrowed Funds."

COMPETITION

Competition within Montana and Wyoming for banking and related business is strong. The Bank competes with both state and nationally chartered commercial banks for deposits, loans and trust accounts, and with savings and loan associations, savings banks and credit unions for deposits and loans. In addition, there is significant competition with other financial institutions including personal loan companies, mortgage banking companies, finance companies, insurance companies, securities firms, mutual funds and certain government agencies as well as major retailers all actively engaged in providing various types of loans and other financial services.

While historically the technology services industry has been highly decentralized, there is an accelerating trend toward consolidation resulting in fewer companies competing over larger geographic regions. i_Tech's competitors vary in size and include national, regional and local operations.

EMPLOYEES

At December 31, 2001, the Company employed 1,494 full-time equivalent employees. None of the Company's employees are covered by a collective bargaining agreement. The Company considers its employee relations to be good.

REGULATION AND SUPERVISION

Financial holding companies and commercial banks are subject to extensive regulation under both federal and state law. Set forth below is a summary description of certain laws that relate to the regulation of FIBS and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

First Interstate BancSystem, Inc.

As a financial holding company, FIBS is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and to supervision and regulation by the Federal Reserve.

Under Federal Reserve regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve's policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both.

FIBS is required to obtain the prior approval of the Federal Reserve for the acquisition of 5% or more of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior approval of the Federal Reserve is also required for the merger or consolidation of FIBS and another bank holding company.

As a financial holding company, FIBS may engage in certain business activities that are financial in nature or incidental to financial activities as well as all activities authorized to bank holding companies. FIBS may engage in financial activities provided that it remains a financial holding company and meets certain regulatory standards of being well-capitalized and well-managed. FIBS must notify the Federal Reserve of its financial activities within a specified time period following its initial engagement in each business or activity.

The Bank

FIB is subject to the supervision of and regular examination by the Federal Reserve and the State of Montana. If either of the foregoing regulatory agencies determines that the financial condition, capital resources, asset quality, earning prospects, management, liquidity or other aspects of a bank's operations are unsatisfactory or that a bank or its management is violating or has violated any law or regulation, various remedies are available to such agencies. These remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of a bank, to assess civil monetary penalties, to remove officers and directors and to terminate a bank's deposit insurance, which would result in a revocation of a bank's charter. The Bank has not been the subject of any such actions by regulatory agencies.

The FDIC insures the deposits of the Bank in the manner and to the extent provided by law. For this protection, the Bank pays a semiannual statutory assessment. See "Premiums for Deposit Insurance" herein.

Restrictions on Transfers of Funds to FIBS and the Bank

A large portion of FIBS's revenues are, and will continue to be, dividends paid by the Bank. The Bank is limited, under both state and federal law, in the amount of dividends that may be paid from time to time. In general, the Bank is limited, without the prior consent of its state and federal banking regulators, to paying dividends that do not exceed the current year net profits together with retained earnings from the two preceding calendar years.

A state or federal banking regulator may impose, by regulatory order or agreement of the Bank, specific regulatory dividend limitations or prohibitions in certain circumstances. The Bank is not subject to a specific regulatory dividend limitation other than generally applicable limitations. In addition to regulatory dividend limitations, the Bank dividends are, in certain circumstances, limited by covenants in FIBS's debt instruments.

Financial transactions between the Bank and FIBS are also limited under applicable state and federal law and regulations. The Bank may not lend funds to, or otherwise extend credit to or for the benefit of, FIBS or FIBS affiliates, except on specified types and amounts of collateral and other terms.

Effect of Government Policies and Legislation

Banking depends on interest rate differentials. In general, the difference between the interest rate paid by the Bank on deposits and borrowings and the interest rate received by the Bank on loans extended to customers and on investment securities comprises a major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank. Accordingly, the earnings and potential growth of the Bank is subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The commercial banking business is not only affected by general economic conditions but is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Federal Reserve. The Federal Reserve implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States government securities, by adjusting the required level of reserves for financial institutions subject to the Federal Reserve's reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial service providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial service providers are frequently made in Congress, in the Montana and Wyoming legislatures and before various bank regulatory and other professional agencies. The likelihood of any major legislative changes and the impact such changes might have on FIBS or the Bank are impossible to predict.

Capital Standards

The federal banking agencies have adopted minimum capital requirements for insured banks that are applicable to the Bank. In addition, the Federal Reserve has adopted minimum capital requirements that are applicable to FIBS. The capital requirements are intended to, among other things, provide a means for evaluating the capital adequacy and soundness of the institutions. The Federal banking agencies may also set higher capital requirements for particular institutions in specified circumstances under Federal laws and regulations.

At December 31, 2001, the Bank and FIBS each met the "well-capitalized" requirements applicable to the respective institution. The "well-capitalized" standard is the highest level of the minimum capital requirements established by the Federal agencies. Neither the Bank nor FIBS is subject to a minimum capital requirement other than those applicable to banks or bank holding companies generally.

For more information concerning the capital ratios of FIBS, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Capital Resources" and "Notes to Consolidated Financial Statements - Regulatory Capital" included in Part IV, Item 14.

Compliance and Safety and Soundness Standards

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

Premiums for Deposit Insurance

Deposits in the Bank are insured by the FDIC in accordance with the Federal Deposit Insurance Act (the "FDIA"). Insurance premiums are assessed semiannually by the FDIC at a level sufficient to maintain the insurance reserves required under the FDIA and relevant regulations. The insurance premium charged to a bank is determined based upon risk assessment criteria, including relevant capital levels, results of bank examinations by state and federal regulators, and other information. The Bank currently is assessed the most favorable deposit insurance premiums under the risk-based premium system.

Community Reinvestment Act and Fair Lending Developments

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act ("CRA") activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities or in authorizing expansion activities by the Bank and FIBS.

In connection with its assessment of CRA performance, the appropriate bank regulatory agency assigns a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." FIB received an "outstanding" rating on its most recent examination.

RISK FACTORS

Asset Quality

A significant source of risk for the Company arises from the possibility that losses will be sustained by the Bank because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. The Company has adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believes are appropriate to mitigate this risk by assessing the likelihood of nonperformance, monitoring loan performance and diversifying the Company's credit portfolio. Such policies and procedures, however, may not prevent unexpected losses that could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business - Lending Activities."

Interest Rate Risk

Banking companies' earnings depend largely on the relationship between the yield on earning assets, primarily loans and investments, and the cost of funds, primarily deposits and borrowings. This relationship, known as the interest rate spread, is subject to fluctuation and is affected by economic and competitive factors which influence interest rates, the volume and mix of interest earning assets and interest bearing liabilities and the level of non-performing assets. Fluctuations in interest rates affect the demand of customers for the Company's products and services. The Company is subject to interest rate risk to the degree that its interest bearing liabilities reprice or mature more slowly or more rapidly or on a different basis than its interest earning assets. Significant fluctuations in interest rates could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

For additional information regarding interest rate risk, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Cash Flow."

Economic Conditions; Limited Geographic Diversification

The Company's banking operations are located in Montana and Wyoming. As a result of the geographic concentration of its operations, the Company's results depend largely upon economic conditions in these areas. Although markets served by the Company are economically diverse, a deterioration in economic conditions could adversely impact the quality of the Company's loan portfolio and the demand for its products and services, and accordingly, could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

Ability of the Company to Execute Its Business Strategy

The financial performance and profitability of the Company will depend on its ability to execute its business strategy and manage its future growth. Although the Company believes that it has substantially integrated recently acquired banks into the Company's operations, there can be no assurance that unforeseen issues relating to the assimilation or prior operations of these banks, including the emergence of any material undisclosed liabilities, will not materially adversely affect the Company. In addition, any future acquisitions or other future growth may present operating and other problems that could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. The Company's financial performance will also depend on the Company's ability to maintain profitable operations through implementation of its Strategic Vision. Moreover, the Company's future performance is subject to a number of factors beyond its control, including pending and future federal and state banking legislation, regulatory changes, unforeseen litigation outcomes, inflation, lending and deposit rate changes, interest rate fluctuations, increased competition and economic conditions. Accordingly, there can be no assurance that the Company will be able to continue the growth or maintain the level of profitability it has recently experienced.

Dependence on Key Personnel

The Company's success depends to a significant extent on the management skills of its existing executive officers and directors, many of whom have held officer and director positions with the Company for many years. The loss or unavailability of any of its key executives, including Thomas W. Scott, Chief Executive Officer, Lyle R. Knight, President and Chief Operating Officer, Terrill R. Moore, Senior Vice President and Chief Financial Officer, or Ed Garding, Senior Vice President and Chief Credit Officer could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. See Part III, Item 10, "Directors and Executive Officers of Registrant."

Competition

Several competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services than the Bank. Moreover, the Banking and Branching Act has increased competition in the Bank's markets, particularly from larger, multi-state banks. There can be no assurance that the Company will be able to compete effectively in its markets. Furthermore, developments increasing the nature or level of competition could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. See "Business - Competition" and "Business - Regulation and Supervision."

Government Regulation and Monetary Policy

The Company and the banking industry are subject to extensive regulation and supervision under federal and state laws and regulations. The restrictions imposed by such laws and regulations limit the manner in which the Company conducts its banking business, undertakes new investments and activities and obtains financing. This regulation is designed primarily for the protection of the deposit insurance funds and consumers and not to benefit holders of the Company's securities. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation in the future, none of which is in the control of the Company. Significant new laws or changes in, or repeals of, existing laws could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit conditions for the Company, and any unfavorable change in these conditions could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. See "Business-Regulation and Supervision."

Control by Affiliates

The directors and executive officers of the Company beneficially own 48.77% of the outstanding common stock of the Company. Many of these directors and executive officers are members of the Scott family, which collectively owns 80.86% of the outstanding common stock. By virtue of such ownership, these affiliates are able to control the election of directors and the determination of the Company's business, including transactions involving any merger, share exchange, sale of assets outside the ordinary course of business and dissolution.

Lack of Trading Market; Market Prices

The common stock of FIBS is not actively traded, and there is no established trading market for the stock. There is only one class of common stock, with 91.73% of the shares subject to contractual transfer restrictions set forth in shareholder agreements and 8.27% without such restrictions. FIBS has the right to acquire some or all the restricted stock at fair market value per share determined as the minority appraised value per share based upon the most recent quarterly appraisal available to FIBS. All stock not subject to such restrictions may be sold at a price per share that is acceptable to the shareholder. FIBS has no obligation to purchase unrestricted stock, but has historically purchased such stock in order to reduce the amount of its stock not subject to transfer restrictions. During 2001, the Company repurchased 20,050 shares of its unrestricted stock from participants in the Savings and Profit Sharing Plan for Employees of First Interstate BancSystem, Inc. ("Savings Plan"). All shares were repurchased at the most recent minority appraised value at the repurchase date.

The appraised minority value of the FIBS common stock represents the estimated fair market valuation of a minority block of such stock, taking into account adjustments for the lack of marketability of the stock and other factors. This value does not represent an actual trading price between a willing buyer and seller of the FIBS common stock in an informed, arm's-length transaction. As such, the appraised minority value is only an estimate as of a

specific date, and there can be no assurance that such appraisal is an indication of the actual value holders of the FIBS common stock may realize with respect to shares held by them. Moreover, the estimated fair market value of the FIBS common stock may be materially different at any date other than the valuation dates.

FIBS has no obligation, by contract, policy or otherwise to purchase stock from any shareholder desiring to sell, or to create any market for the stock. Historically, it has been the practice of FIBS to repurchase common stock to maintain a shareholder base with restrictions on sale or transfer of the stock. In the last three calendar years (1999-2001), FIBS has repurchased a total of 382,573 shares of common stock, 362,523 of which were restricted by the shareholder agreements. FIBS repurchased the stock at the price determined in accordance with the shareholder agreements. FIBS's repurchases of stock are subject to corporate law and regulatory restrictions that could prevent stock repurchases. See also Part II, Item 5, "Market for Registrant's Common Equity and Related Stockholder Matters."

There is a limited public market for the trust preferred securities. Future trading prices of the trust preferred securities depend on many factors including, among other things, prevailing interest rates, the operating results and financial condition of the Company and the market for similar securities. As a result of the existence of FIBS's right to defer interest payments on or, subject to prior approval of the Federal Reserve if then required under applicable capital guidelines or policies of the Federal Reserve, shorten the stated maturity of the subordinated debentures, the market price of the trust preferred securities may be more volatile than the market prices of subordinated debentures that are not subject to such optional deferrals or reduction in maturity. There can be no assurance as to the market prices for the trust preferred securities or the subordinated debentures that may be distributed in exchange for the trust preferred securities if the Company exercises its right to dissolve FIB Capital.

Forward-Looking Statements

Certain statements contained in this document including, without limitation, statements containing the words "believes," "anticipates," "expects," and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions in those areas in which the Company operates; demographic changes; competition; fluctuations in interest rates; changes in business strategy or development plans; changes in governmental regulation; credit quality; the availability of capital to fund the expected expansion of the Company's business; and other factors referenced in this document, including, without limitation, information under the captions "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Given these uncertainties, shareholders, trust preferred security holders and prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

ITEM 2. PROPERTIES

The Company is the anchor tenant in a commercial building in which the Company's principal executive offices are located in Billings, Montana. The building is owned by a joint venture partnership in which FIB is one of the two partners, owning a 50% interest in the partnership. As of December 31, 2001, the Company leases approximately 68,087 square feet of space for operations in the building. The Company also leases space for operations, technology services, and 21 banking offices in 27 buildings. All other banking offices are located in Company-owned facilities.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is named or threatened to be named as a defendant in various lawsuits. In the opinion of management, following consultation with legal counsel, the pending lawsuits are without merit or, in the event the plaintiff prevails, the ultimate liability or disposition thereof will not have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

DESCRIPTION OF FIBS CAPITAL STOCK

The authorized capital stock of FIBS consists of 20,000,000 shares of common stock without par value, of which 7,848,704 shares were outstanding as of December 31, 2001, and 100,000 shares of preferred stock without par value, none of which were outstanding as of December 31, 2001.

Common Stock

Each share of the common stock is entitled to one vote in the election of directors and in all other matters submitted to a vote of stockholders. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election if they choose to do so, subject to the rights of the holders of the preferred stock. Voting for directors is noncumulative.

Subject to the preferential rights of any preferred stock that may at the time be outstanding, each share of common stock has an equal and ratable right to receive dividends when, if and as declared by the Board of Directors out of assets legally available therefore. In the event of a liquidation, dissolution or winding up of the Company, the holders of common stock will be entitled to share equally and ratably in the assets available for distribution after payments to creditors and to the holders of any preferred stock that may at the time be outstanding. Holders of common stock have no conversion rights or preemptive or other rights to subscribe for any additional shares of common stock or for other securities. All outstanding common stock is fully paid and non-assessable.

The common stock of FIBS is not actively traded, and there is no established trading market for the stock. There is only one class of common stock, with 91.73% of the shares subject to contractual transfer restrictions set forth in shareholder agreements and 8.27% held by 16 shareholders without such restrictions, including the Company's 401(k) plan which holds 76.51% of the unrestricted shares. See also Part I, Item 1, "Risk Factors - Lack of Trading Market; Market Prices."

Quarter-end minority appraisal values for the past two years, determined by Alex Sheshunoff & Co. Investment Banking are as follows:

Valuation As Of	Appraised Minority Value
December 31, 1999	$ 40.00

March 31, 2000	39.00
June 30, 2000	38.00
September 30, 2000	38.00
December 31, 2000	39.00
March 31, 2001	39.00
June 30, 2001	40.00
September 30, 2001	42.00
December 31, 2001	43.00

As of December 31, 2001, options for 24,170 shares of the FIBS common stock were outstanding at various exercise prices, ranging from $7.61 to $42.00. The aggregate cash proceeds to be received by FIBS upon exercise of all options outstanding at December 31, 2001 would be $638,334, or a weighted average exercise price of $26.41 per share.

The appraised minority value as of December 31, 2001 was $43.00. See also Part I, Item 1, "Risk Factors - Lack of Trading Market; Market Prices."

Resale of FIBS stock may be restricted pursuant to the Securities Act of 1933 and applicable state securities laws. In addition, most shares of FIBS stock are subject to shareholder's agreements:

- Members of the Scott family, as majority shareholders of FIBS, are subject to a shareholder's agreement ("Scott Agreement"). The Scott family, under the Scott Agreement, has agreed to limit the transfer of shares owned by members of the Scott family to family members or charities, or with FIBS's approval, to the Company's officers, directors, advisory directors, or to the Company's Savings Plan.

- Shareholders of the Company who are not Scott family members, with the exception of 16 shareholders who own an aggregate of 648,799 shares of unrestricted stock, are subject to shareholder's agreements ("Shareholder's Agreement"). Stock subject to the Shareholder's Agreement may not be sold or transferred without triggering the Company's option to acquire the stock in accordance with the terms of the Shareholder's Agreement. In addition, the Shareholder's Agreement grants the Company the right to repurchase all or some of the stock at any time.

Purchases of FIBS common stock made through the Company's Savings Plan are not restricted by the Shareholder's Agreement, due to requirements of Employee Retirement Income Security Act ("ERISA") and the Internal Revenue Code. However, since the Savings Plan does not allow distributions "in kind," any distributions from an employee's account in the Savings Plan will allow, and may require, the Trust Department of FIB (the "Plan Trustee"), to sell the FIBS stock. While FIBS has no obligation to repurchase the stock, it is possible that FIBS will repurchase FIBS stock sold by the Savings Plan. Any such repurchases would be upon terms set by the Plan Trustee and accepted by FIBS.

There are 531 record shareholders of FIBS as of December 31, 2001, including the Company's Savings Plan as trustee for 496,407 shares held on behalf of 876 individual participants in the plan. 246 individuals in the Savings Plan also own shares of FIBS stock outside of the Plan. The Plan Trustee votes the shares based on the instructions of each participant. In the event the participant does not provide the Plan Trustee with instructions, the Plan

Trustee votes those shares in accordance with voting instructions received from a majority of the participants in the Plan.

Dividends

It is the policy of FIBS to pay a dividend to all common shareholders quarterly. Dividends are declared and paid in the month following the calendar quarter and the amount has historically been determined based upon a percentage of net income for the calendar quarter immediately preceding the dividend payment date. Since 1996, the Company has paid dividends of approximately 30% of quarterly net income without taking into effect compensation expense or benefit related to stock options. The Board of Directors of FIBS has no current intention to change its dividend policy, but no assurance can be given that the Board may not, in the future, change or eliminate the payment of dividends.

Historical quarterly dividends for 2000 and 2001 are as follows:

Quarter	Month Declared and Paid	Amount Per Share	Total Cash Dividend
1st quarter 2000	April 2000	$ .27	$ 2,142,112
2nd quarter 2000	July 2000	.28	2,216,554
3rd quarter 2000	October 2000	.30	2,373,769
4th quarter 2000	January 2001	.28	2,209,055
1st quarter 2001	April 2001	.25	1,966,110
2nd quarter 2001	July 2001	.31	2,427,846
3rd quarter 2001	October 2001	.34	2,676,300
4th quarter 2001	January 2002	.30	2,352,927

Dividend Restrictions

For a description of restrictions on the payment of dividends, see "Regulation and Supervision - Restrictions on Transfers of Funds to FIBS and the Bank."

Preferred Stock

The authorized capital stock of FIBS includes 100,000 shares of preferred stock. The FIBS Board of Directors is authorized, without approval of the holders of common stock, to provide for the issuance of preferred stock from time to time in one or more series in such number and with such designations, preferences, powers and other special rights as may be stated in the resolution or resolutions providing for such preferred stock. FIBS Board of Directors may cause FIBS to issue preferred stock with voting, conversion and other rights that could adversely affect the holders of the common stock or make it more difficult to effect a change of control of the Company.

Sales of Unregistered Securities

During 2001, the Company issued 1,400 shares of its common stock to one of its former executive officers exercising stock options. The weighted average exercise price of the options was $15.80 per share. The shares were immediately redeemed by the Company at the minority appraised value of $40.00 per share.

During 2001, the Company issued 3,613 unregistered shares of its common stock to 53 senior officers valued at an aggregate of $137,294 as part of the incentive bonuses paid to them. These issuances were made in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data with respect to the Company's consolidated financial position as of December 31, 2001 and 2000 and its results of operations for the fiscal years ended December 31, 2001, 2000 and 1999, has been derived from the consolidated financial statements of the Company included in Part IV, Item 14. This data should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and such consolidated financial statements, including the notes thereto.

FIVE YEAR SUMMARY
(Dollars in thousands except share and per share data)

Years ended December 31,	2001	2000	1999
Operating Data:			
Interest income	$ 219,126	211,797	183,362
Interest expense	93,984	101,789	83,015
Net interest income	125,142	110,008	100,347
Provision for loan losses	7,843	5,280	3,563
Net interest income after provision for loan losses	117,299	104,728	96,784
Noninterest income	52,034	44,151	37,676
Noninterest expense	120,249	101,323	91,503
Income before income taxes	49,084	47,556	42,957
Income tax expense	17,901	17,176	15,229
Net income	$ 31,183	30,380	27,728
Net income applicable to common stock	$ 31,183	30,380	27,728
Basic earnings per common share	3.97	3.83	3.48
Diluted earnings per common share	3.94	3.78	3.42
Dividends per common share	1.18	1.11	1.07
Weighted average common shares outstanding - diluted	7,921,694	8,044,531	8,111,316

FIVE YEAR SUMMARY, CONTINUED
(Dollars in thousands except share and per share data)

Years ended December 31,	2001	2000	1999
Operating Ratios:			
Return on average assets	1.01%	1.10	1.09
Return on average common stockholders' equity	14.89	16.81	16.60
Average stockholders' equity to average assets	6.80	6.52	6.58
Net interest margin	4.66	4.59	4.54
Net interest spread	4.11	4.00	3.97
Common stock dividend payout ratio(1)	29.72	28.98	30.75
Ratio of earnings to fixed charges(2):			
Excluding interest on deposits	7.76x	5.23x	5.78x
Including interest on deposits	1.52x	1.46x	1.51x
Balance Sheet Data at Year End:			
Total assets	$3,314,716	2,933,262	2,612,663
Loans	2,157,968	1,972,323	1,722,961
Allowance for loan losses	34,091	32,820	29,599
Investment securities	693,178	613,708	578,647
Deposits	2,708,613	2,365,225	2,118,183
Other borrowed funds	8,095	11,138	41,875
Long-term debt	34,331	37,000	23,394
Trust preferred securities	40,000	40,000	40,000
Stockholders' equity	222,069	197,986	173,638
Asset Quality Ratios at Year End:			
Nonperforming assets to total loans and other real estate owned ("OREO")(3)	1.24%	1.54	1.89
Allowance for loan losses to total loans	1.58	1.66	1.72
Allowance for loan losses to nonperforming loans(4)	129.16	119.73	94.84
Net charge-offs to average loans	0.32	0.17	0.27
Regulatory Capital Ratios at Year End:			
Tier 1 risk-based capital	8.73%	8.55	9.62
Total risk-based capital	10.33	10.36	11.69
Leverage ratio	6.77	6.78	7.15

(1) Dividends per common share divided by basic earnings per common share.

(2) For purposes of computing the ratio of earnings to fixed charges, earnings represents income before income taxes and fixed charges. Fixed charges represent interest expense and preferred stock dividends, which dividends commenced in October 1996 and concluded in October 1997. Deposits include interest bearing deposits and repurchase agreements. Without including preferred stock dividends in fixed charges and excluding interest on deposits, the ratio of earnings to fixed charges for the year ended December 31, 1997 was 5.76x. Without including preferred stock dividends in fixed charges and including interest on deposits, the ratio of earnings to fixed charges for the year ended December 31, 1997 was 1.55x.

(3) For purposes of computing the ratio of non-performing assets to total loans and OREO, non-performing assets include non-accrual

loans, loans past due 90 days or more and still accruing interest, restructured loans and OREO.

(4) For purposes of computing the ratio of allowance for loan losses to non-performing loans, non-performing loans include non-accrual loans, loans past due 90 days or more and still accruing interest and restructured loans.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following discussion and analysis is intended to provide greater details of the results of operations and financial condition of the Company. The following discussion should be read in conjunction with the information under Part II, Item 6, "Selected Consolidated Financial Data" and the Company's consolidated financial statements,

including the notes thereto, and other financial data appearing elsewhere in this document. Certain statements included in the following discussion constitute "forward-looking statements" which involve various risks and uncertainties. The Company's actual results may differ significantly from those anticipated in such forward-looking statements. Factors that might cause such a difference include, without limitation, the ability of the Company to execute its business strategy, interest rate risk, economic conditions, government regulation, competition and asset quality. For additional information concerning these and other factors, see Part I, Item 1, "Business - Risk Factors."

RESULTS OF OPERATIONS

Increases in the Company's earnings during recent years have been effected through a successful combination of acquisitions and internal growth. Internal growth experienced by the Company is reflected by an increased volume of customer loans and deposits, without giving effect to acquisitions. The Company's internal growth has largely been accomplished through a combination of effective offering and promotion of competitively priced products and services and the opening of several de novo banking offices. Net income was $31.2 million, or $3.94 per diluted share, in 2001 as compared to $30.4 million, or $3.78 per diluted share, in 2000 and $27.7 million, or $3.42 per diluted share, in 1999.

Net Interest Income

Net interest income, the largest source of the Company's operating income, is derived from interest, dividends and fees received on interest earning assets, less interest expense incurred on interest bearing liabilities. Interest earning assets primarily include loans and investment securities. Interest bearing liabilities primarily include deposits and various forms of indebtedness.

The following table presents, for the periods indicated, condensed average balance sheet information for the Company, 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

	Years Ended December 31,		
	2001		
(Dollars in thousands)	Average Balance	Interest	Averag Rate
Interest earning assets:			
Loans(1)(2)	$2,056,179	181,845	8.84
U.S. and agency securities	444,462	27,067	6.09
Federal funds sold	72,368	2,709	3.74
Other securities	75,983	4,343	5.72
Tax exempt securities(2)	79,380	5,747	7.24
Interest bearing deposits in banks	20,014	466	2.33
Total interest earning assets	2,748,386	222,177	8.08
Noninterest earning assets	331,719		
Total assets	$3,080,105		
Interest bearing liabilities and trust preferred securities:			
Demand deposits	$ 403,285	5,421	1.34
Savings deposits	640,101	18,654	2.91
Time deposits	990,616	55,567	5.61
Borrowings(3)	250,306	7,969	3.18
Long-term debt	41,032	2,844	6.93
Trust preferred securities	40,000	3,529	8.82
Total interest bearing liabilities and trust preferred securities	2,365,340	93,984	3.97
Noninterest bearing deposits	471,798		
Other noninterest bearing liabilities	33,551		
Stockholders' equity	209,416		
Total liabilities and stockholders' equity	$3,080,105		

	Years Ended December 31,		
	2000		
(Dollars in thousands)	Average Balance	Interest	Averag Rate
Interest earning assets:			

Loans(1)(2)	$1,865,125	176,742	9.48
U.S. and agency securities	414,274	25,809	6.23
Federal funds sold	21,167	1,400	6.61
Other securities	77,872	4,914	6.31
Tax exempt securities(2)	77,784	5,617	7.22
Interest bearing deposits in banks	1,641	112	6.83
Total interest earning assets	2,457,863	214,594	8.73
Noninterest earning assets	313,193		
Total assets	$2,771,056		
Interest bearing liabilities and trust preferred securities:			
Demand deposits	$ 368,710	6,961	1.89
Savings deposits	556,930	22,470	4.03
Time deposits	876,350	50,774	5.79
Borrowings(3)	278,721	15,525	5.57
Long-term debt	31,293	2,530	8.08
Trust preferred securities	40,000	3,529	8.82
Total interest bearing liabilities and trust preferred securities	2,152,004	101,789	4.73
Noninterest bearing deposits	407,241		
Other noninterest bearing liabilities	31,036		
Stockholders' equity	180,775		
Total liabilities and stockholders' equity	$2,771,056		

	Years Ended December 31,		
	1999		
(Dollars in thousands)	Average Balance	Interest	Averag Rate
Interest earning assets:			
Loans(1)(2)	$1,598,594	145,164	9.33
U.S. and agency securities	464,954	27,777	5.97
Federal funds sold	24,854	1,304	5.25
Other securities	91,606	5,680	6.20
Tax exempt securities(2)	72,755	5,250	7.22
Interest bearing deposits in banks	7,071	353	4.99
Total interest earning assets	2,259,834	185,528	8.21
Noninterest earning assets	279,945		

Total assets	$2,539,779		
Interest bearing liabilities and trust preferred securities:			
Demand deposits	$ 346,711	6,084	1.75
Savings deposits	539,513	19,482	3.61
Time deposits	785,307	41,959	5.34
Borrowings(3)	221,037	9,998	4.52
Long-term debt	24,556	1,963	7.99
Trust preferred securities	40,000	3,529	8.82
Total interest bearing liabilities and trust preferred securities	1,957,124	83,015	4.24
Noninterest bearing deposits	387,969		
Other noninterest bearing liabilities	27,675		
Stockholders' equity	167,011		
Total liabilities and stockholders' equity	$2,539,779		

AVERAGE BALANCE SHEETS, YIELDS AND RATES, CONTINUED

	Years Ended December 31					
	2001			2000		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Ave R
Net FTE interest income		$128,193			$112,805	
Less FTE adjustments(2)		(3,051)			(2,797)	
Net interest income per consolidated statements of income		$125,142			$110,008	
Interest rate spread			4.11%			4
Net yield on interest earning assets(4)			4.66%			4

(1) Average loan balances include nonaccrual loans. Loan fees included in interest income were $7.2 million, $5.2 million and $4.8 million

for the years ended December 31, 2001, 2000 and 1999, respectively.

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

(3) Includes interest on Federal funds purchased, securities sold under repurchase agreements and other borrowed funds. Excludes long-term debt.

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

Net interest income on a fully-taxable equivalent basis ("FTE") increased 13.6% to $128.2 million in 2001 from $112.8 in 2000 primarily due to a more rapid decline in the cost of funds than the decline in the yield on interest earning assets in combination with strong growth in loans and deposits. A higher mix of loans in earning assets allowed the net yield on earning assets to increase 11 basis points to 4.11% in 2001 from 4.00% in 2000. Net FTE interest income increased 10.0% to $112.8 million in 2000 from $102.5 million in 1999 primarily due to increases in the prime lending rate and continued strong loan demand, principally in commercial and commercial real estate loans. Approximately 31% of this increase is directly attributable to new banking offices opened or acquired in 2000 and 1999.

Customer loan fees, included in net interest income, increased 38.4% to $7.2 million in 2001 from $5.2 million in 2000. All major categories of loan fees increased with the most significant increases occurring in commercial and consumer loan fees. Customer loan fees increased 8.3% to $5.2 million in 2000 from $4.8 million in 1999 primarily due to increases in consumer, real estate and commercial loan business.

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

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

ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATES
(Dollars in thousands)

Year ended	December 31, 2001 compared with December 31, 2000 favorable (unfavorable)			December 31, 2000 compared with December 31, 1999 favorable (unfavorable)			
	Volume	Rate	Net	Volume	Rate	Net	V
Interest earning assets:							

Loans(1)	$18,105	(13,002)	5,103	24,203	7,375	31,578	1
U.S. and agency securities	1,881	(623)	1,258	(3,028)	1,060	(1,968)	
Federal funds sold	3,386	(2,077)	1,309	(193)	289	96	(
Other securities	(119)	(452)	(571)	(852)	86	(766)	
Tax exempt securities(1)	115	15	130	363	4	367	
Interest bearing deposits in banks	1,254	(900)	354	(271)	30	(241)	
Total change	24,622	(17,039)	7,583	20,222	8,844	29,066	1

ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATES, CONTINUED
(Dollars in thousands)

Year ended	December 31, 2001 compared with December 31, 2000 favorable (unfavorable)			December 31, 2000 compared with December 31, 1999 favorable (unfavorable)		
	Volume	Rate	Net	Volume	Rate	Net
Interest bearing liabilities and trust preferred securities:						
Demand deposits	653	(2,193)	(1,540)	386	491	877
Savings deposits	3,356	(7,172)	(3,816)	629	2,359	2,988
Time deposits	6,620	(1,827)	4,793	4,864	3,951	8,815
Borrowings(2)	(1,583)	(5,973)	(7,556)	2,609	2,918	5,527
Long-term debt	787	(473)	314	539	28	567
Trust preferred securities	--	--	--	--	--	--
Total change	9,833	(17,638)	(7,805)	9,027	9,747	18,774
Increase (decrease) in FTE net interest income (1)	$14,789	599	15,388	11,195	(903)	10,292

(1) Interest income and average rates for tax exempt loans and securities are presented on a fully-taxable equivalent (FTE) basis.

(2) Includes interest on Federal funds purchased, securities sold under repurchase agreements and other borrowed funds.

Provision for Loan Losses

The provision for loan losses creates an allowance for loan losses known and inherent in the loan portfolio at each balance sheet date. The Company performs a quarterly assessment of the risks inherent in its loan portfolio, as well as a detailed review of each significant asset with identified weaknesses. Based on this analysis, the Company records a provision for loan losses in order to maintain the allowance for loan losses at assessed levels. Periodically, provisions are made for loans where the probable loss can be individually identified and reasonably determined, while the balance of the provisions for loan losses are 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. Annual fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. Ultimate loan losses may vary from current estimates. See additional information concerning the provision for loan losses, see "Critical Accounting Policies" included herein.

The provision for loan losses increased 48.5% to $7.8 million in 2001 from $5.3 million in 2000 and 48.2% to $5.3 million in 2000 from $3.6 million in 1999. These increases are primarily the result of increases in problem loans, softening economic conditions in the Company's market areas, particularly in agriculture, health care, transportation and hotel/motel market sectors, and slowing regional and national economies.

Noninterest Income

The principal sources of noninterest income include service charges on deposit accounts; technology services revenues; other service charges, commissions and fees; and, income from fiduciary activities, comprised principally of fees earned on trust assets. Noninterest income increased 17.9% to $52.0 million in 2001 from $44.2 million in 2000, and 17.2% to $44.2 million in 2000 from $37.7 million in 1999. These increases in noninterest income were a function of changes in each of the principal categories, as discussed below.

Service charges on deposit accounts increased 16.2% to $14.6 million in 2001 from $12.6 million in 2000. Approximately 38% of this increase is directly attributable to new banking offices opened or acquired since June 2000. The remaining increase occurred primarily in overdraft fees. Service charges on deposit accounts increased 10.7% to $12.6 million in 2000 from $11.4 million in 1999 primarily due to new banking offices opened or acquired during 1999 and 2000 and increases in volume of overdraft fees.

Technology services revenues were flat in 2001 as compared to the prior year. Increases in core data processing revenues were largely offset by decreases in item processing revenues. Technology services revenues increased 22.9% to $10.2 million in 2000 from $8.3 million in 1999. Approximately 29% of this increase resulted from the addition of one new customer during the fourth quarter of 1999. The remaining increase is primarily due to increases in the number of customers using the Company's back-room processing services and higher ATM transaction volumes combined with greater numbers of ATMs supported by the Company's ATM network.

Other service charges, commission and fees primarily include origination and processing fees on real estate loans held for resale, loan servicing fee income, credit card fees, brokerage revenues, debit card interchange fees and ATM service charge revenue. Other service charges, commissions and fees increased 43.9% to $16.7 million in 2001 from $11.6 million in 2000. Origination and processing fees on real estate loans sold in the secondary market increased $4.0 million in 2001 as compared to the prior year principally due to increased refinancing activity resulting from decreases in residential lending rates. The remaining increase is primarily attributable to loan servicing fee income generated through internal growth and the acquisition of loan servicing rights in December 2000 and increases in debit card interchange fees resulting from higher transaction volumes. Other service charges, commissions and fees increased 9.1% to $11.6 million in 2000 from $10.6 million in 1999 primarily due to loan servicing income generated through internal growth and increases in ATM fee income resulting from higher debit card and foreign ATM transaction volumes combined with increases in fees for foreign ATM transactions.

Revenues from fiduciary activities are largely dependent on the fair value of assets under trust management. As a result of stock market value declines in 2001, revenues from fiduciary activities decreased 4.2% to $4.7 million in 2001 from $4.9 million in 2000. Revenues from fiduciary activities increased 9.2% to $4.9 million in 2000 from $4.5 million in 1999 primarily due to growth in customer assets, including mineral rights, under trust management and increases in fees charged for trust services.

The Company recorded net OREO expense of $130,000 in 2001 as compared to net OREO income of $689,000 in 2000 and $366,000 in 1999. Variations in net OREO income or expense during the periods is primarily the result of fluctuations in gains and losses on sales of OREO. OREO income or expense is directly related to prevailing economic conditions, and such income could decrease significantly should an unfavorable shift occur in the economic conditions of the Company's markets.

Other income increased 41.6% to $5.7 million in 2001 from $4.0 million in 2000 primarily due to premium revenues of $1.3 million related to reinsurance of credit-related life and disability insurance (see discussion of increases in other operating expenses herein). In addition, during 2001, the Company recorded non-recurring revenue related to the demutualization of life insurance company stock and the partial recovery of three previously recorded non-credit losses. Other income increased 61.3% to $4.0 million in 2000 from $2.5 million in 1999 principally due to non-recurring fourth quarter adjustments to record life insurance company demutualization stocks and the recognition of the Company's share of undistributed earnings in an unconsolidated joint venture partnership. The remaining increase was primarily due to the gain recognized on the sale of an aircraft and the partial recovery of a prior year non-credit loss.

Noninterest Expense

Noninterest expense increased 18.7% to $120.2 million in 2001 from $101.3 million in 2000 and increased 10.7% to $101.3 million in 2000 from $91.5 million in 1999. Significant components of these increases are discussed below.

Salaries, wages and employee benefits expense increased 18.9% to $61.6 million in 2001 from $51.8 million in 2000. Approximately 28% of the increase is directly attributable to new banking offices opened or acquired since June 2000. In addition, $1.1 million of the increase is due to compensation expense related to outstanding stock options. The remaining increase is primarily due to increases in administrative staffing levels to support the Company's expanding number of banking offices, increases in group health insurance premiums and inflationary wage increases. Salaries, wages and employee benefits expense increased 7.9% to $51.8 million in 2000 from $48.0 million in 1999. Approximately $2.1 million of the increase is directly attributable to new banking offices opened or acquired in 2000 and 1999. The remaining increase is primarily due to inflationary wage increases, increases in administrative staffing levels to support the Company's expanding number of banking offices and growth in the brokerage services division. Increases in salaries, wages and employee benefits expense in 2000 were partially offset by a $3.1 million decrease resulting from the remeasurement of compensation expense related to outstanding stock options. For additional information relating to the Company's Stock Option Plan, see "Notes to Consolidated Financial Statements - Employee Benefit Plans" included in Part IV, Item 14.

Occupancy expense increased 18.6% to $9.6 million in 2001 from $8.1

million in 2000 and 13.8% to $8.1 million in 2000 from $7.1 million in 1999. These increases are primarily due to additional rent and depreciation expenses associated with internal growth, bank acquisitions and the remodeling of existing facilities.

Furniture and equipment expenses increased 14.7% to $12.3 million in 2001 from $10.7 million in 2000. Approximately 26% of this increase is directly attributable to new banking offices opened or acquired since June 2000. The remaining increase is largely due to maintenance and depreciation expenses associated with the Company's continued upgrade of facilities and depreciation expense associated with furnishing the Company's new item proof and capture facilities in Colorado and Idaho. Furniture and equipment expense increased 4.6% to $10.7 million in 2000 from $10.2 million in 1999 primarily due to new banking offices opened or acquired in 2000 and 1999 and increased depreciation expense associated technology upgrades.

FDIC insurance premiums of $442,000 remained stable in 2001 compared to $438,000 in 2000. FDIC insurance premiums of $438,000 in 2000 increased 88.0% from $233,000 in 1999 due to an increase in the FDIC FICO bond assessment effective January 1, 2000. FDIC insurance rates in 2001, 2000 and 1999 reflect the Company's well-capitalized rating by the FDIC.

Goodwill amortization expense increased 9.0% to $2.2 million in 2001 from $2.0 million in 2000 and 20.0% to $2.0 million in 2000 from $1.7 million in 1999 due to acquisitions during the third quarters of 2000 and 1999. For additional information regarding goodwill, see "Critical Accounting Policies" included herein and "Notes to Consolidated Financial Statements - Summary of Significant Accounting Policies" included n Part IV, Item 14.

Core deposit intangibles amortization expense of $1.4 million in 2001 and 2000 increased 32.2% from $1.1 million in 1999 primarily due to acquisitions in 1999 and 2000.

Other expenses primarily include advertising and public relations costs; legal, audit and other professional fees; office supply, postage, freight and telephone expenses; and loan servicing rights amortization and impairment charges. Other expenses increased 21.8% to $32.7 million in 2001 from $26.9 million in 2000. Approximately 22% of this increase is attributable to new banking offices opened or acquired since June 2000. In addition, the Company recorded insurance reserves and claims of $1.1 million related to its reinsurance of credit-related life and disability insurance and impairment of capitalized loan servicing rights of $1.1 million. The remaining increase is primarily due to employee education, professional fees related to regulatory reporting and increases in ATM, postage, express mail, supply and telephone expenses. Other expenses increased 16.0% to $26.9 million in 2000 from $23.2 million in 1999 principally due to new banking offices opened or acquired in 2000 and 1999, two non-credit losses aggregating $863,000, net of recoveries, and increases in advertising, public relations, ATM and loan servicing intangible amortization expenses.

Income Tax Expense

The Company's effective federal tax rate was 30.7%, 31.3% and 31.3% for the years ended December 31, 2001, 2000 and 1999, respectively. State income tax applies only to pretax earnings of entities operating within Montana, Colorado and Idaho. The Company's effective state tax rate was 4.8%, 4.2% and 5.3% for years ended December 31, 2001, 2000 and 1999, respectively.

Lines of Business

The Company is managed along two primary business lines, community banking and technology services. The community banking line encompasses commercial and consumer banking services provided to individual customers, businesses and municipalities. These services primarily include the acceptance of deposits, extension of credit, fee-based investment services and mortgage servicing.

The technology services line encompasses technology services provided by i_Tech to affiliated and non-affiliated financial institutions including ATM processing support, item proof and capture, wide area network services and system support.

Additional information regarding the Company's business segments, see "Notes to Consolidated Financial Statements - Business Line Reporting" included in Part IV, Item 14.

The following table summarizes the Company's business line results, for the years indicated:

BUSINESS LINE RESULTS

	Net Income (Loss)		
Year ended December 31,	2001	2000	1999
Community Banking	37,673	34,125	33,297
Technology Services	3,050	2,954	1,999
Other	(9,540)	(6,699)	(7,568)
Consolidated	31,183	30,380	27,728

Community banking net income increased 10.4% to $37.7 million in 2001 from $34.1 million in 2000. This increase is primarily due to internally generated growth in net interest income and increases in processing and origination fees on residential real estate loans resold in the secondary market. These increases were partially offset by net losses incurred by new banking offices opened or acquired since June, 2000 and increases in administrative staffing levels to support the Company's expanding number of banking offices. Community banking net income increased 2.5% to $34.1 million in 2000 from $33.3 million in 1999 primarily due to growth in net interest income resulting from a combination of acquisitions and internal growth. In addition, the Company experienced growth in investment services revenues and earnings in unconsolidated joint ventures. These increases were partially offset by net losses incurred by new banking offices opened or acquired since 1999 and increases in administrative staffing levels to support the Company's expanding number of banking offices.

Technology services revenues increased 3.2% to $3.1 million in 2001 from $3.0 million in 2000 primarily due to increases in core data processing revenues from affiliates. Technology services revenues increased 47.8% to $3.0 million in 2000 from $2.0 million in 1999 primarily due to the addition of one new customer during the fourth quarter of 1999 and higher ATM transaction volumes combined with increases in the number of ATMs supported by the Company's ATM network.

Other includes the net funding cost of the Parent Company, compensation expense or benefit related to outstanding stock options, the operating results of non-bank subsidiaries except i_Tech and intercompany eliminations. Other net losses increased 42.4% to $9.5 million in 2001 from $6.7 million in 2000 primarily due to increases in compensation expense related to outstanding stock options, increases in interest expense primarily due to borrowings used to fund acquisitions in 2000, increases in salaries, wages and employee benefits expenses and the establishment of an allowance for loan losses by the Parent Company. Other net losses decreased 11.5% to $6.7 million in 2000 from $7.6 million in 1999 primarily due to compensation benefit related to outstanding stock options.

FINANCIAL CONDITION

Total assets increased 13.0% to $3,315 million as of December 31, 2001 from $2,933 million as of December 31, 2000. This increase was due to internal growth in loans and increases in investment securities and cash equivalents funded primarily by customer deposits.

Loans

Total loans increased 9.4% to $2,158 million as of December 31, 2001 from $1,973 million as of December 31, 2000. All major categories of loans increased from December 31, 2000 with the exception of consumer loans, which decreased slightly. The most significant growth occurred in loans secured by residential real estate. During 2001, the Company continued to expand its market presence through a combination of marketing activities and opening new banking offices. Total loans increased 14.5% to $1,973 million as of December 31, 2000 from $1,723 million as of December 31, 1999 primarily due to acquisitions and the opening of new banking offices combined with generally strong loan demand in the Company's market areas.

The Company's loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities served by the Company. Thus, the Company's borrowers could be adversely impacted by a downturn in these sectors of the economy that could have a material adverse effect on the borrowers' abilities to repay their loans.

The following tables present the composition of the Company's loan portfolio as of the dates indicated:

LOANS OUTSTANDING

	As of December 31,					
(Dollars in thousands)	2001	Percent	2000	Percent	1999	Perc
Loans						
Real estate	$1,137,160	52.8%	$ 954,933	48.5%	$ 806,320	46
Consumer	483,636	22.4	495,445	25.1	463,414	26
Commercial	434,330	20.1	420,706	21.3	344,371	20
Agricultural	95,513	4.4	95,387	4.8	106,887	6

Other loans	7,329	0.3	5,852	0.3	1,969	0
Total loans	2,157,968	100.0%	1,972,323	100.0%	1,722,961	100
Less allowance for loan losses	34,091		32,820		29,599	
Net loans	$2,123,877		$1,939,503		$1,693,362	
Ratio of allowance to total loans	1.58%		1.66%		1.72%	

	As of December 31,			
(Dollars in thousands)	1998	Percent	1997	Percent
Loans				
Real estate	$ 681,670	45.9%	$ 683,212	46.5%
Consumer	379,197	25.5	412,231	28.0
Commercial	311,040	21.0	261,513	17.8
Agricultural	106,707	7.2	107,649	7.3
Other loans	5,845	0.4	5,809	0.4
Total loans	1,484,459	100.0%	1,470,414	100.0%
Less allowance for loan losses	28,803		28,180	
Net loans	$1,455,656		$1,442,234	
Ratio of allowance to total loans	1.94%		1.92%	

The following table presents the maturity distribution of the Company's loan portfolio and the sensitivity of the loans to changes in interest rates as of December 31, 2001:

MATURITIES AND INTEREST RATE SENSITIVITIES

(Dollars in thousands)	Within One Year	One Year to Five Years	After Five Years	Total
Real estate	$ 515,729	500,386	121,045	1,137,160
Consumer	239,290	235,346	9,000	483,636

Commercial	244,116	155,974	34,240	434,330
Agriculture	78,927	15,447	1,139	95,513
Other loans	7,329	--	--	7,329
	$1,085,391	907,153	165,424	2,157,968
Loans at fixed interest rates	$ 670,420	654,158	18,384	1,342,962
Loans at variable interest rates	396,698	252,995	147,040	796,733
Nonaccrual loans	18,273	--	--	18,273
	$1,085,391	907,153	165,424	2,157,968

For additional information concerning the Company's loan portfolio and its credit administration policies, see Part I, Item 1, "Business-Lending Activities."

Investment Securities

The Company's investment portfolio is managed to attempt to obtain the highest yield while meeting the Company's risk tolerance and liquidity needs and to satisfy pledging requirements for deposits of state and political subdivisions and securities sold under repurchase agreements. The portfolio is comprised of U.S. Treasury securities, U.S. government agency securities, tax exempt securities, corporate securities, other mortgage-backed securities and other equity securities. Federal funds sold are additional investments that are classified as cash equivalents rather than as investment securities. Investment securities classified as available-for-sale are recorded at fair value, while investment securities classified as held-to-maturity are recorded at amortized cost. Unrealized gains or losses, net of the deferred tax effect, on available-for-sale securities are reported as increases or decreases in accumulated other comprehensive income or loss, a component of stockholders' equity.

Investment securities increased 12.9% to $693 million as of December 31, 2001 from $614 million as of December 31, 2000 primarily due to investment of funds generated through internal deposit growth. Mortgage backed securities comprised 51.1% of the total investment portfolio as of December 31, 2001 as compared to 30.2% in 2000. In attempting to obtain the Company's investment portfolio objectives, mortgage backed securities are currently the primary reinvestment selection for maturing and prepaying investments. Investment securities increased 6.1% to $614 million as of December 31, 2000 from $578 million as of December 31, 1999. The majority of this increase occurred in U.S. Government agencies and corporate securities.

On January 1, 2001, the Company adopted the provision of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In conjunction with the initial application of SFAS No. 133, the Company transferred held-to-maturity investment securities with amortized costs and fair values of $104 million and $103 million, respectively, to available-for-sale investment securities to better conform to the Company's investment objectives. Upon adoption of SFAS No. 133, the Company recorded net unrealized holding losses of $569,000, net of tax, related to the transferred securities.

The following table sets forth the book value, percentage of total investment securities and average yield for the Company's investment securities as of December 31, 2001:

SECURITIES MATURITIES AND YIELD

(Dollars in thousands)	Book Value	% of Total Investment Securities
U.S. Treasury securities		
Maturing within one year	$ 21,499	3.1%
Maturing after ten years	517	0.1
Mark-to-market adjustments on securities available-for-sale	548	
Total	22,564	3.3
U.S. Government agency securities		
Maturing within one year	$ 19,920	2.9
Maturing in one to five years	145,107	20.9
Mark-to-market adjustments on securities available-for-sale	4,898	
Total	169,925	24.5
Tax exempt securities		
Maturing within one year	2,292	0.3
Maturing in one to five years	18,518	2.7
Maturing in five to ten years	53,798	7.8
Maturing after ten years	8,719	1.3
Mark-to-market adjustments on securities available-for-sale	--	
Total	83,327	12.0
Corporate securities		
Maturing within one year	16,690	2.4
Maturing in one to five years	57	0.0
Mark-to-market adjustments on securities available-for-sale	--	
Total	16,747	2.4

SECURITIES MATURITIES AND YIELD, CONTINUED

(Dollars in thousands)	Book Value	% of Total Investment Securities
Mortgage-backed securities		
Maturing within one year	130,312	18.8
Maturing in one to five years	147,938	21.3
Maturing in five to ten years	24,655	3.6
Maturing after ten years	49,314	7.1
Mark-to-market adjustments on securities available-for-sale	2,091	
Total	354,310	51.1
Other securities		
Maturing after ten years	175	0.0
Mark-to-market adjustments on securities available-for-sale	--	
Total	175	0.0
Mutual funds with no stated maturity	46,130	6.7
Mark-to-market adjustments on securities available-for-sale	--	
Total	46,130	6.7
Total	$693,178	100.0%

(1) Average yields have been calculated on a fully-taxable basis.

The maturities noted above reflect $89,045 of investment securities at their final maturities although they have call provisions within the next year. Mortgage backed securities, and to a limited extent, other securities have uncertain cash flow characteristics that present additional risk to the Company in the form of prepayment or extension risk primarily caused by changes in market interest rates. This additional risk is generally rewarded in the form of higher yields. Mortgage backed securities presented above are based on current prepayment assumptions.

As of December 31, 2000, the Company had U.S. Treasury securities, U.S. Government agency securities, tax exempt securities, corporate securities, other mortgage-backed securities and equity securities with carrying values of $66,377, $240,972, $78,640, $41,970, $185,549 and $200, respectively.

As of December 31, 1999, the Company had U.S. Treasury securities, U.S. Government agency securities, tax exempt securities, corporate securities, other mortgage-backed securities and equity securities with carrying values of $121,051, $172,234, $76,835, $30,564, $177,713 and $12,112, respectively.

For additional information concerning investment securities, see "Notes to Consolidated Financial Statements - Investment Securities" included in Part IV, Item 14.

Deposits

The Company emphasizes developing total client relationships with its customers in order to increase its core deposit base, which is the Company's primary funding source. The Company's deposits consist primarily of noninterest bearing demand and interest bearing demand, saving, IRA and time deposit accounts. For additional information concerning the Company's deposits, including its use of repurchase agreements, as discussed below, see Part I, Item 1, "Business - Funding Sources."

Deposits increased 14.5% to $2,709 million as of December 31, 2001 from $2,365 million as of December 31, 2000 due to internal growth. The most significant growth occurred in noninterest bearing demand and savings deposits. Deposits increased 11.7% to $2,365 million as of December 31, 2000 as compared to $2,118 million as of December 31, 1999. Approximately $80 million of this increase is attributable to acquisitions in 2000. The remaining increase is the result of internal growth. For additional information concerning customer deposits as of December 31, 2000 and 1999, see "Notes to Consolidated Financial Statements - Deposits" included in Part IV, Item 14.

Other Borrowed Funds

In addition to deposits, the Company also uses other traditional funding sources to support its earning asset portfolio including other borrowed funds consisting primarily of short-term borrowings from the Federal Home Loan Bank of Seattle; repurchase agreements with commercial depositors; and, on a seasonal basis, Federal funds purchased.

Other borrowed funds decreased 27.3% to $8 million as of December 31, 2001 from $11 million as of December 31, 2000 primarily due to timing of tax deposits made by customers and the subsequent withdrawal of funds by the Federal government. Other borrowed funds decreased 73.8% to $11 million as of December 31, 2000 from $42 million as of December 31, 1999 primarily due to a $30 million, 90 day note payable to the Federal Home Loan Bank of Seattle obtained in 1999 and repaid in 2000.

For additional information on other borrowed funds as of December 31, 2001 and 2000, see "Notes to Consolidated Financial Statements - Long-Term Debt and Other Borrowed Funds" included in Part IV, Item 14.

Federal Funds Purchased and Securities Sold Under Repurchase Agreements

The following table sets forth certain information regarding Federal funds purchased and repurchase agreements as of the dates indicated:

FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

As of and for the years ended December 31,	2001	2000	1999
(Dollars in thousands)			

Federal funds purchased:			
Balance at period end	$ 625	19,535	900
Average balance	2,116	25,735	32,405
Maximum amount outstanding at any month-end	13,765	48,110	69,260
Average interest rate:			
During the year	3.78%	6.24%	5.06%
At period end	1.42%	5.35%	4.74%
Securities sold under repurchase agreements:			
Balance at period end	$271,952	229,078	188,024
Average balance	240,069	206,595	163,974
Maximum amount outstanding at any month-end	271,952	240,751	209,464
Average interest rate:			
During the year	3.15%	5.24%	4.29%
At period end	1.41%	5.17%	4.80%

Long-Term Debt

The Company's long-term debt is comprised principally of an unsecured revolving term loan and unsecured subordinated notes. Long-term debt decreased 7.2% to $34 million as of December 31, 2001 from $37 million as of December 31, 2000 primarily due to paydowns. Long-term debt increased 60.9% to $37 million as of December 31, 2000 from $23 million as of December 31, 1999. Additional borrowings in 2000 were used to fund acquisitions.

For additional information on long-term debt as of December 31, 2001 and 2000, see "Notes to Consolidated Financial Statements - Long-Term Debt and Other Borrowed Funds" included in Part IV, Item 14.

Trust Preferred Securities

The Company had trust preferred securities of $40 million at December 31, 2001 and 2000. For additional information on trust preferred securities, see "Notes to Consolidated Financial Statements - Trust Preferred Securities" included in Part IV, Item 14.

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Non-Performing Assets

Non-performing assets include loans past due 90 days or more and still accruing interest, non-accrual loans, restructured loans and OREO. Management generally places loans on non-accrual when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not collected is reversed from income. Approximately $1,688,000, $1,943,000 and $1,424,000, $1,062,000 and $763,000 of gross interest income would have been accrued if all loans on non-accrual had been current in accordance with their original terms for the years ended December 31, 2001, 2000, 1999, 1998 and 1997, respectively.

Restructured loans are those where the Company has granted a concession on the interest rate or original repayment terms due to financial difficulties of the borrower.

OREO consists of real property acquired through foreclosure on the related collateral underlying defaulted loans. The Company initially records OREO at the lower of carrying value or fair value less estimated costs to sell by a charge against the allowance for loan losses, if necessary. Estimated losses that result from the ongoing periodic valuation of these properties are charged to earnings with a provision for losses on foreclosed property in the period in which they are identified.

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

NON-PERFORMING ASSETS

As of December 31,	2001	2000	1999	1
(Dollars in thousands)				
Non-performing loans:				
Nonaccrual loans	$18,273	19,619	22,854	10
Accruing loans past due 90 days or more	7,200	5,158	4,695	4
Restructured loans	921	2,635	3,660	3
Total non-performing loans	26,394	27,412	31,209	18
OREO	414	3,028	1,445	1
Total non-performing assets	$26,808	30,440	32,654	19
Non-performing assets to total loans and OREO	1.24%	1.54%	1.89%	

Non-performing assets decreased 11.9% to $27 million as of December 31, 2001 compared to $30 million as of December 31, 2000 primarily due to decreases in nonaccrual loans and sales of OREO. Loans past due 90 days or more and still accruing interest as of December 31, 2001 includes one matured commercial loan of $2 million in the process of being renewed. Non-performing assets decreased 6.8% to $30 million as of December 31, 2000, compared to $33 million as of December 31, 1999 primarily due to loan paydowns by one commercial borrower.

In addition to the non-performing loans included in the table above, management has identified certain performing loans for which management has serious doubts as to the ability of the borrowers to comply with the present loan repayment terms and which may result in future non-performing loans. There can be no assurance that the Company has identified all of its potential non-performing loans. Furthermore, management cannot predict the extent to which economic conditions in the Company's market areas may worsen or the full impact such conditions may have on the Company's loan portfolio. Accordingly, there can be no assurances that other loans will not become 90 days or more past due, be placed on non-accrual or become restructured loans or OREO in the future.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of known and inherent risk in its loan portfolio. See "Provision for Loan Losses" herein. The allowance for loan losses is increased by provisions charged against earnings and reduced by net loan charge-offs. Loans are charged-off when management determines that collection has become unlikely. Consumer loans are generally charged off when they become 120 days past due. Other loans, or portions thereof, are charged off when they become 180 days past due unless they are well-secured and in the process of collection. Recoveries are recorded only when cash payments are received.

The allowance for loan losses is maintained at an amount to sufficiently provide for estimated losses based on management's evaluation of known and inherent risks in its loan portfolio at each balance sheet date. The allowance for loan losses is determined by applying estimated loss factors to the credit exposures from outstanding loans. For commercial, agriculture and real estate loans, loss factors are applied based on internal risk classifications of these loans. For certain consumer loans, loss factors are applied on a portfolio basis. Loss factors are based on peer and industry loss data which are comparable to the Company's historical loss experience, and are reviewed on a quarterly basis, along with other factors affecting the collectibility of the loan portfolio such as changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions and detailed analyses of individual loans for which full collectibility may not be assured.

Specific allowances are established for loans where management has determined that the probability of a loss exists and will exceed the historical loss factors specifically identified based on the internal risk classification of the loans. The unallocated component of the allowance for loan losses recognizes estimates of losses inherent in the portfolio that are not fully captured in the specific allowances that may result from model imprecision, changes in the nature and volume of the loan portfolio, overall portfolio quality, industry concentrations, current economic factors and the estimated impact of current economic conditions on historical loss rates used in the allocated model.

Management has assessed, and will continue to assess on an on-going basis, the impact of slowing national, regional and local economies on credit risk in the loan portfolio. As of December 31, 2001, delinquency trends and classified loan levels relative to prior periods do not indicate any material deterioration in the loan portfolio. Management continues to closely monitor credit quality and to focus on identifying potential non-performing loans and loss exposure in a timely manner.

The following table sets forth information concerning the Company's allowance for loan losses as of the dates and for the years indicated.

ALLOWANCE FOR LOAN LOSSES

As of and for the years ended December 31,	2001	2000	1999
(Dollars in thousands)			
Balance at the beginning of period	$ 32,820	29,599	28,803
Allowance of acquired banking offices	--	1,019	1,574
Charge-offs:			
Real estate	204	81	278
Consumer	5,661	4,369	4,192
Commercial	2,502	1,192	2,753
Agricultural	195	164	386
Total charge-offs	8,562	5,806	7,609
Recoveries:			
Real estate	32	20	51

Consumer	1,452	1,485	1,429	
Commercial	462	1,138	1,464	
Agricultural	44	85	324	
Total recoveries	1,990	2,728	3,268	
Net charge-offs	6,572	3,078	4,341	
Provision for loan losses	7,843	5,280	3,563	
Balance at end of period	$ 34,091	32,820	29,599	
Period end loans	$2,157,968	1,972,323	1,722,961	1
Average loans	2,056,179	1,865,125	1,598,594	1
Net charge-offs to average loans	0.32%	0.17%	0.27%	
Allowance to period end loans	1.58%	1.66%	1.72%	

The allowance for loan losses was $34 million, or 1.58% of average loans, at December 31, 2001 as compared to $33 million, or 1.66% of average loans, at December 31, 2000 and $30 million, or 1.72% of average loans, at December 31, 1999. Net charge-offs of $6.6 million in 2001 increased from $3.1 million in 2000 and $4.3 million in 1999. The current year increase occurred primarily in consumer and commercial loans. Increases in net charge-offs of consumer loans are primarily due to a slight deterioration in the portfolio, while increases in net charge-offs of commercial loans are largely related to six borrowers.

Although management believes that it has established its allowance for loan losses in accordance with accounting principles generally accepted in the United States and that the allowance for loan losses is adequate to provide for known and inherent losses in the portfolio at each balance sheet date, future provisions will be subject to on-going evaluations of the risk in the portfolio. If the economy declines or asset quality deteriorates, material additional provisions could be required.

The allowance for loan losses is allocated to loan categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan portfolio. Management has reviewed the allocations and believes the allowance for loan losses was adequate at all times during the five-year period ended December 31, 2001. The following table provides a summary of the allocation of the allowance for loan losses for specific loan categories as of the dates indicated. The allocations presented should not be interpreted as an indication that charges to the allowance for loan losses will be incurred in these amounts or proportions, or that the portion of the allowance allocated to each loan category represents the total amount available for future losses that may occur within these categories. The unallocated portion of the allowance for loan losses and the total allowance is applicable to the entire loan portfolio.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES
(Dollars in thousands)

As of December 31,	2001	2000	1999	1

	Allocated Reserves	% Of Loan Category to Total Loans	Allocated Reserves	% Of Loan Category to Total Loans	Allocated Reserves	% Of Loan Category to Total Loans	Allocated Reserves
Real estate	$11,490	52.8%	$11,645	48.5%	$ 8,268	46.8%	$ 4,443
Consumer	5,108	22.4	4,632	25.1	4,460	26.9	3,874
Commercial	7,018	20.1	5,360	21.3	5,655	20.0	4,748
Agricultural	2,678	4.4	2,194	4.8	2,214	6.2	1,942
Other loans	37	0.3	29	0.3	10	0.1	29
Unallocated	7,760	NA	8,960	NA	8,992	NA	13,767
Totals	$34,091	100.0%	$32,820	100.0%	$29,599	100.0%	$28,803

(1) Allocated reserves presented above for 1997 and prior years have not been restated to reflect reclassifications of loans secured by real estate, which are included in other categories of loans in those years. Management does not believe that the impact on trends presented without such reclassification is significant.

The allocated reserve for consumer loans increased 10.3% to $5.1 million in 2001 from $4.6 million in 2000 primarily due to improved tracking and monitoring of credit card losses. Prior to 2001, credit card reserves were included in the unallocated reserve. The allocated reserve for commercial loans increased 30.9% to $7.0 million in 2001 from $5.4 million in 2000. Approximately 80% of this increase is the result of five large commercial loans downgraded in 2001. The unallocated reserve decreased 13.4% to $7.8 million in 2001 from $9.0 million in 2000 primarily due to the allocation of credit card reserves to consumer loans and additional amounts allocated to loan categories resulting from application of loss factors to the portfolio. The allocated reserve for real estate loans increased 40.8% to $11.6 million as of December 31, 2000 from $8.3 million as of December 31, 1999 primarily due to increases in the allocation amount for certain loans.

Liquidity and Cash Flow

The objective of liquidity management is to maintain the Company's ability to meet the day-to-day cash flow requirements of its customers who either wish to withdraw funds or require funds to meet their credit needs. The Company manages its liquidity position to meet the needs of its customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of its stockholders. The Company monitors

the sources and uses of funds on a daily basis to maintain an acceptable liquidity position, principally through deposit receipts and check payments; loan originations, extensions and repayments; and management of investment securities.

The Company's current liquidity position is also supported by the management of its investment portfolio, which provides a structured flow of maturing and reinvestable funds that could be converted to cash, should the need arise. Maturing balances in the Company's loan portfolio also provide options for cash flow management. The ability to redeploy these funds is an important source of immediate to long-term liquidity. Additional sources of liquidity include customer deposits, Federal funds lines, borrowings and access to capital markets. The Company does not rely on off-balance sheet arrangements to provide financing, liquidity or market or credit risk support nor does it engage in derivatives and related hedging activities.

Net cash provided by operating activities, primarily net income, totaled $48 million for 2001, $47 million for 2000 and $39 million in 1999. Net cash used for investing activities totaled $274 million in 2001, $236 million in 2000 and $129 million in 1999. Investing activities principally include investment security transactions and net extensions of credit to customers. Net cash provided by financing activities, primarily generated through increases in customer deposits, borrowing advances or issuance of securities or stock, totaled $350 million in 2001, $195 million in 2000 and $49 million in 1999. For additional information concerning cash flows, see the "Consolidated Statements of Cash Flows" included in Part IV, Item 14.

As a holding company, FIBS is a corporation separate and apart from the Bank, and therefore, provides for its own liquidity. Substantially all of FIBS's revenues are obtained from management fees and dividends declared and paid by the Bank. As of December 31, 2001, the Bank had approximately $40.2 million available to be paid as dividends to FIBS. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to FIBS. See Part I, Item 1, "Business-Regulation and Supervision." Management of FIBS believes that such restrictions will not have an impact on the ability of FIBS to meet its ongoing cash obligations.

In connection with acquisitions in 1996, the Company issued subordinated notes. The subordinated notes are held by an institutional investor, bear interest at 7.5% per annum, are unsecured and mature in increasing annual payments during the period from October 2002 to October 2006. For additional information concerning the revolving term loan and the subordinated notes, see "Notes to Consolidated Financial Statements - Long Term Debt and Other Borrowed Funds" included in Part IV, Item 14.

The trust preferred securities are unsecured, bear interest at a rate of 8.625%, and mature on December 1, 2027. Interest distributions are payable quarterly, however, the Company may defer interest payments at any time for a period not exceeding 20 consecutive quarters. The trust preferred securities may be redeemed prior to maturity at the Company's option on or after December 1, 2002 or at any time in the event of unfavorable changes in tax laws or regulations in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. The Company has guaranteed the payment of distributions and payments for redemption or liquidation of the trust preferred securities to the extent of funds held by FIB Capital. For additional information concerning the trust preferred securities see "Notes to Consolidated Financial Statements - Trust Preferred Securities" included in Part IV, Item 14.

Capital Resources

Stockholders' equity increased 12.2% to $222 million as of December 31, 2001 from $198 million as of December 31, 2000 and 13.8% to $198 million as of December 31, 2000 from $174 million as of December 31, 1999 primarily due to increases in retained earnings. Stockholders' equity is influenced primarily by earnings, dividends and, to a lesser extent, sales and redemptions of common stock involving employees of the Company and changes in the unrealized holding gains or losses, net of taxes, on available-for-sale investment securities. For the years ended December 31, 2001, 2000 and 1999, the Company paid aggregate cash dividends to stockholders of approximately $9 million during each year.

Pursuant to FDICIA, the Federal Reserve and the FDIC have adopted regulations setting forth a five-tier system for measuring the capital adequacy of the financial institutions they supervise. At December 31, 2001, the Bank had a capital level that exceeded the well-capitalized guidelines. For additional information concerning the capital levels of the Company, see "Notes to Consolidated Financial Statements - Regulatory Matters" contained in Part IV, Item 14.

Interest Rate Risk Management

The Company's primary earnings source is the net interest margin, which is affected by changes in the level of interest rates, the relationship between rates, the impact of interest rate fluctuations on asset prepayments and the mix of interest bearing assets and liabilities.

The ability to optimize the net interest margin is largely dependent upon the achievement of an interest rate spread that can be managed during periods of fluctuating interest rates. Interest sensitivity is a measure of the extent to which net interest income will be affected by market interest rates over a period of time. Interest rate sensitivity is related to the difference between amounts of interest earning assets and interest bearing liabilities which either reprice or mature within a given period of time. The difference is known as interest rate sensitivity gap.

The following table shows interest rate sensitivity gaps for different intervals as of December 31, 2001:

INTEREST RATE SENSITIVITY GAPS

(Dollars in thousands)	Three Months or Less	Three Months to One Year	Y Fiv
Interest earning assets:			
Loans(1)	$ 997,471	343,818	
Investment securities(2)	142,443	186,025	
Interest bearing deposits in banks	58,242	--	
Federal funds sold	82,185	--	
Total interest earning assets	$1,280,341	529,843	1,
Interest bearing liabilities and trust preferred securities:			
Interest bearing demand accounts(3)	$ 34,080	102,239	
Savings deposits(3)	553,150	34,211	
Time deposits, $100 or more(4)	101,896	156,544	
Other time deposits	156,523	315,703	
Federal funds purchased	625	--	
Securities sold under repurchase agreements	271,952	--	
Other borrowed funds	8,095	--	
Long-term debt	10,358	4,023	
Trust preferred securities	--	--	
Total interest bearing liabilities			

and trust preferred securities	$1,136,679	612,720
Rate gap	$ 143,662	(82,877)
Cumulative rate gap	143,662	60,785
Cumulative rate gap as a percentage of total interest earning assets	4.83%	2.04%

Assumptions used:

(1) Does not include nonaccrual loans of $18,273.

(2) Adjusted to reflect: (a) expected shorter maturities based upon the Company's historical experience of early prepayments of principal, and (b) the redemption of callable securities on their next call date.

(3) Includes savings deposits paying interest at market rates in the three month or less category. All other deposit categories, while technically subject to immediate withdrawal, actually display sensitivity characteristics that generally fall within one and five years. Their allocation is presented based on that historical analysis.

(4) Included in the three month to one year category are deposits of $77,204 maturing in three to six months.

As noted in footnote 3 above, interest bearing demand accounts and savings deposits are allocated based on historical analysis of their interest sensitivity characteristics although they are technically subject to immediate withdrawal. If these deposits were included in the three month or less category, the above table would reflect a negative three month gap of $417 million, a negative cumulative one year gap of $364 million and a positive cumulative one to five year gap of $369 million.

The balance sheet structure is primarily short-term in nature with most assets and liabilities repricing or maturing in less than five years. Management monitors the sensitivity of net interest margin by utilizing income simulation models and traditional interest rate gap analysis. The income simulation model involves a degree of estimation based on certain assumptions management believes to be reasonable including estimated cash flows, prepayments, repricing characteristics, actual maturities, deposit growth and retention, and the relative sensitivity of assets and liabilities to change in market interest rates. The relative sensitivity is important to consider since the Company's deposit base is not subject to the same degree of interest sensitivity as its assets. The Company attempts to maintain a mix of interest earning assets and deposits such that no more than 5% of the net interest margin will be at risk over a one year period should interest rates vary one percent. However, there can be no assurance as to the actual effect changes in interest rates will have on the Company's net interest margin.

At December 31, 2001, the Company's one year cumulative asset sensitive gap totaled $61 million representing 2.04% of total interest earning assets. This position gradually changed from year end 2000 when the Company's gap position was liability sensitive by $439 million or 17.02% of total interest earning assets primarily due to investment of excess liquidity in short term investments and increases in real estate loans held for resale included on the 0-3 month category. In evaluating exposure to interest rate risk, management does not view the gap amounts in the preceding table as presenting an unusually high risk potential. However, no assurances can be given that the Company is not at risk in the event of rate increases or decreases.

Critical Accounting Policies

The Company's financial statements are based upon the selection and application of critical accounting policies requiring management to make subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain. The Company considers one of its more critical accounting policies to be the allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged against earnings. The balance of allowance for loan losses is maintained at the amount management believes will be adequate to absorb known and inherent losses in the loan portfolio. The appropriate balance of allowance for loan losses is determined by applying estimated loss factors to the credit exposure from outstanding loans. Estimated loss factors are based on subjective measurements including management's assessment of the internal risk classifications of loans, changes in the nature of the loan portfolio, industry concentrations 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 reasonably possible and may have a material impact on the Company's consolidated financial statements, results of operations or liquidity. For additional information regarding the allowance for loan losses, its relation to the provision for loan losses and risk related to asset quality, see "Business - Risk Factors - Asset Quality" included in Part 1, Item 1; "Management's Discussion and Analysis of Financial Condition and Results of Operations - Provision for Loan Losses" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Allowance for Loan Losses" included in Part II, Item 7; and, "Notes to Consolidated Financial Statements - Summary of Significant Accounting Policies - Allowance for Loan Losses" included in Part IV, Item 14.

On January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under the provisions of SFAS No. 142, goodwill is no longer amortized but rather is reviewed for impairment at least annually, or more frequently if impairment indicators arise. Goodwill is assigned to the Company's business units based on the expected benefits from the synergies of the combination. The evaluation of goodwill for potential impairment involves comparing the implied fair value of the goodwill of a business unit with the carrying amount of that goodwill. In the absence of quoted market prices, fair value may be estimated based on the best information available, including prices of similar assets and liabilities, the use of present value valuation techniques, multiples of earnings or revenues or other performance measurement techniques. Changes in any of the subjective factors used in determining implied fair value or in management's assessment of the synergies of the combination could result in the impairment of goodwill and may have a material impact on the Company's consolidated financial statements, results of operations or liquidity.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. The business of the Company and the composition of its balance sheet consists of investments in interest earning assets (primarily loans and investment securities) which are primarily funded by interest bearing liabilities (deposits and indebtedness). Such financial instruments have varying levels of sensitivity to changes in market interest rates. Interest rate risk results when, due to different maturity dates and repricing intervals, interest rate indices for interest earning assets decrease relative to interest bearing liabilities, thereby creating a risk of decreased net earnings and cash flow.

The following tables provide information about the Company's market sensitive financial instruments, categorized by maturity and the instruments' fair values at December 31, 2001 and 2000. The table constitutes a "forward-looking statement." For a description of the Company's policies with respect to managing risks associated with changing interest rates, see Part I, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation-Financial Condition-Interest Rate Risk Management."

Although the Company characterizes some of its interest-sensitive assets as securities available-for-sale, such securities are not purchased with a view to sell in the near term. Rather, such securities may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk. Thus, all interest-sensitive assets described below are non-trading. See "Notes to Consolidated Financial Statements-Summary of Significant Accounting Policies" included in Part IV, Item 14.

MARKET SENSITIVE FINANCIAL INSTRUMENTS MATURITIES

	December 31, 2001 Expected Maturity/P				
(Dollars in thousands)	2002	2003	2004	2005	20
Interest-sensitive assets:					
Cash and short-term investments	$ 293,036	--	--	--	
Net loans	1,150,216	378,799	283,889	168,907	140
Securities available-for-sale	307,812	82,873	60,258	43,598	23
Securities held-to-maturity	20,934	3,209	6,845	8,731	11
Loan servicing rights	1,020	1,026	897	731	
Total interest-sensitive assets	$1,773,018	465,907	351,889	221,967	175
Interest-sensitive liabilities and trust preferred securities:					
Total deposits excluding time deposits	895,246	176,749	176,749	471,332	
Time deposits	743,052	173,422	37,330	24,959	11
Federal funds purchased	625	--	--	--	
Securities sold under repurchase agreements	271,952	--	--	--	
Other borrowed funds	8,095	--	--	--	
Long-term debt	5,574	5,415	5,243	15,025	4
Trust preferred securities	--	--	--	--	
Total interest-sensitive liabilities and trust preferred securities	$1,924,544	355,586	219,322	511,316	16

December 31, 2001 Expected Maturity/P

(Dollars in thousands)	2001	2002	2003	2004	20
Interest-sensitive assets:					
Cash and short-term investments	$ 169,245	--	--	--	
Net loans	959,896	338,884	217,052	158,056	102
Securities available-for-sale	47,827	76,149	68,552	99,747	28
Securities held-to-maturity	74,198	37,299	16,335	17,285	6
Loan servicing rights	698	735	673	597	
Total interest-sensitive assets	$1,251,864	453,067	302,612	275,685	138

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MARKET SENSITIVE FINANCIAL INSTRUMENTS MATURITIES, CONTINUED

	December 31, 2000 Expected Maturity/P				
(Dollars in thousands)	2001	2002	2003	2004	200
Interest-sensitive liabilities and trust preferred securities:					
Total deposits excluding time deposits	728,589	144,174	144,174	384,464	
Time deposits	782,403	119,651	31,418	9,183	19,
Federal funds purchased	19,535	--	--	--	
Securities sold under repurchase agreements	229,078	--	--	--	
Other borrowed funds	11,138	--	--	--	
Long-term debt	10,503	5,284	5,082	4,880	7,
Trust preferred securities	--	--	--	--	
Total interest-sensitive liabilities and trust preferred securities	$1,781,246	269,109	180,674	398,527	26,

The prepayment projections of net loans are based on experience and do not take into account any allowance for loan losses. The expected maturities of securities are based upon contractual maturities adjusted for projected prepayments of principal and assumes no reinvestment of proceeds. The actual maturities of these instruments could vary substantially if future prepayments differ from the Company's historical experience. All other financial instruments are stated at contractual maturities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements of FIBS and subsidiaries are contained elsewhere herein [see Item 14(a)1]:

Report of Ernst & Young LLP, Independent Auditors
Report of KPMG LLP, Independent Auditors
Consolidated Balance Sheets - December 31, 2001 and 2000

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During 2001, the Company did not reappoint KPMG LLP and appointed Ernst & Young LLP as the Company's principal accountants. The Company's Board of Directors approved the action upon recommendation of the Company's Audit Committee. KPMG LLP's reports on the Company's consolidated financial statements as of and for the audit years ended December 31, 2000 and 1999 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. In connection with the audits of the Company's consolidated financial statement for the two years ended December 31, 2000, there were no disagreements with KPMG LLP on any matters of accounting principles or practices, financial statement disclosure, or audit scope or procedures which, if not resolved to the satisfaction of KPMG LLP, would have caused them to make reference to the matter in their report.

The Company had no consultations or communications, written or oral, with Ernst & Young LLP regarding the application of accounting principles to specified transactions, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements during the two years ended December 31, 2000 or in the period subsequent to their appointment as the Company's principal accountants on July 17, 2001. There have been no disagreements with Ernst & Young LLP regarding accounting principles or practices, financial statement disclosures, or audit scope or procedures.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

The following table sets forth information concerning each of the directors and executive officers of the Company:

DIRECTORS AND EXECUTIVE OFFICERS

Name	Age	Position
Homer A. Scott, Jr.	67	Chairman of the Board
James R. Scott	52	Vice Chairman of the Board
Thomas W. Scott	58	Chief Executive Officer and Director
Lyle R. Knight	56	President, Chief Operating Officer and Director
Terrill R. Moore	49	Senior Vice President and Chief Financial Officer
Edward Garding	52	Senior Vice President and Chief Credit Officer
Gary E. Crum	42	Senior Vice President and Branch Administration Officer
Robert A. Jones	55	Senior Vice President and Director of Human Asset Management Group

Neil W. Klusmann	50	Senior Vice President and Director of Marketing
Richard D. Smith	52	Senior Vice President and Chief Information Officer
Elouise C. Cobell	56	Director
David H. Crum	57	Director
Richard A. Dorn	49	Director
William B. Ebzery	51	Director
James W. Haugh	64	Director
John M. Heyneman, Jr.	34	Director
C. Gary Jennings	63	Director
Joel T. Long	61	Director
Robert L. Nance	65	Director
Terry W. Payne	60	Director
Dan S. Scott	70	Director
Larry F. Suchor	57	Director
Sandra A. Scott Suzor	42	Director
Robert H. Waller	73	Director(1)

(1) Term expires May 17, 2002. Not a nominee for reelection.

BUSINESS BIOGRAPHIES

Homer A. Scott, Jr. has been a director of FIBS since 1971 and the Chairman of the FIBS Board since 1988. Mr. Scott has served as a director of Montana-Dakota Utilities Resources Group, Inc. since 1983. Mr. Scott is the majority owner and developer of Powder Horn Golf Course and real estate development. Mr. Scott is the brother of James R. Scott, Thomas W. Scott and Dan S. Scott, the uncle of John M. Heyneman, Jr., and the father of Sandra A. Scott Suzor.

James R. Scott has been a director of FIBS since 1972 and the Vice Chairman of the Board since 1990. Currently, Mr. Scott is Chairman of First Interstate BancSystem Foundation and Padlock Ranch Co. Mr. Scott is the brother of Homer A. Scott, Jr., Thomas W. Scott and Dan S. Scott, and the uncle of John M. Heyneman, Jr. and Sandra A. Scott Suzor.

Thomas W. Scott has been a director of FIBS since 1971, has served as Chief Executive Officer of FIBS since 1978 and has been Chairman of the Board of First Interstate Bank "(FIB") since January, 2002. Mr. Scott is the brother of Homer A. Scott, Jr., James R. Scott and Dan S. Scott, and the uncle of John M. Heyneman, Jr. and Sandra A. Scott Suzor.

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Lyle R. Knight has been a director of FIBS and has served as President and Chief Operating Officer of FIBS since 1998. Mr. Knight has also been the President and Chief Operating Officer of FIB since January 2002. Prior to FIBS, Mr. Knight has 28 years of bank management experience with multi-branch banks in Arizona and Nevada, most recently as President of a large Arizona-based bank. From 1995 to 1997 Mr. Knight was a bank consultant responsible for business and community development, strategic planning and other special projects for a large Arizona-based bank.

Terrill R. Moore has been a Senior Vice President and Chief Financial Officer of FIBS since 1989. Prior to joining the FIBS management team, Mr. Moore served in various finance and accounting positions within the Company since 1979.

Edward Garding has been a Senior Vice President of FIBS since 1996 and

Chief Credit Officer since 1999. In addition, Mr. Garding served as President of FIB from 1998 to 2001 and President of the Sheridan branch of FIB from 1988 to 1996. Prior to joining the FIBS management team in 1996, Mr. Garding served in various management positions within the Company since 1971.

Gary E. Crum has been a Senior Vice President of FIBS since 2000 and Branch Administration Officer since 1999. Prior to his appointment as Branch Administration Officer, Mr. Crum served as President of the Laramie branch of FIB from 1996 to 1998.

Robert A. Jones has been a Senior Vice President and Director of the Human Asset Management Group of FIBS since 1996. Prior to this appointment, Mr. Jones was the General Auditor of FIBS since 1980.

Neil W. Klusmann has been a Senior Vice President of FIBS since 2001 and the Director of Marketing since 1983. Prior to joining the FIBS management team in 1983, Mr. Klusmann served in various marketing positions within the Company since 1977.

Richard D. Smith has been a Senior Vice President since 1997 and Chief Information Officer of FIBS since 2000. In addition, Mr. Smith has been the President of i_Tech Corporation, the Company's technology subsidiary since 1997. Prior to FIBS, Mr. Smith has 27 years of operation and information system management with a bank headquartered in Iowa.

Elouise C. Cobell has been a director of the Company since 2001. Ms. Cobell has been the Director of the Blackfeet Reservation Development Fund, Inc. since 1991 and the Project Director of the Individual Monies Trust Correction and Recovery Project since 1996. In addition, Ms. Cobell has served as Chairman of the Board of Directors of Blackfeet National Bank since 1987.

David H. Crum has been a director of the Company since 2000. Mr. Crum founded Crum Electric Supply, a distributor of electrical equipment, in 1976 and has acted as President and Chief Executive Officer of that company since its inception.

Richard A. Dorn has been a director of the Company since 2001. Mr. Dorn has owned and operated Richard A. Dorn Farms since 1973. In addition, Mr. Dorn formed Dorn Property X-change, a real estate holding, investment, construction and rental management company, in 1978 and has been President of Murdock Realty, P.C. since 1981. Mr. Dorn is a licensed real estate broker.

William B. Ebzery has been a director of the Company since 2001. Mr. Ebzery is a certified public accountant and has been a partner in the certified public accounting firm of Pradere, Ebzery, Mohatt & Rinaldo since 1975. Mr. Ebzery is also a registered investment advisor and stockbroker.

James W. Haugh has been a director of the Company since 1997. Mr. Haugh formed American Capital LLC, a financial consulting firm, in 1994 and has operated this firm since its inception. Prior to forming American Capital LLC, Mr. Haugh was a partner in KPMG LLP, a certified public accounting firm.

John M. Heyneman, Jr. has been a director of the Company since 1998. Mr. Heyneman has been the Assistant Manager for Padlock Ranch Co. since 1999. Prior to his employment with Padlock Ranch Co., Mr. Heyneman attended Montana State University from 1995 through 1998 when he graduated with a masters of science degree. Mr. Heyneman is the nephew of Homer A. Scott, Jr., James R. Scott, Thomas W. Scott and Dan S. Scott, and the cousin of Sandra A. Scott Suzor.

C. Gary Jennings has been a director of the Company since 2001. Mr. Jennings has served as President of Jennings Farms, Inc., a farming and ranching operation located in Wyoming, since 1970.

Joel T. Long has been a director of FIBS since 1996. Mr. Long has been the majority owner and Chairman of the Board of JTL Group, Inc., a construction firm doing business in Montana and Wyoming, since 1990. In 1999, Mr. Long sold his interest in JTL Group, Inc. but continues as President of that company.

Robert L. Nance has been a director of the Company since 2001. Mr. Nance has been the owner and President of Nance Petroleum Corporation, an oil and gas exploration and production company, since 1969. In 1999, Mr. Nance sold his interest in Nance Petroleum Corporation but continues as President and Chief Executive Officer of the Company.

Terry W. Payne has been a director of the Company since 2000. Mr. Payne has served as President and Chief Executive Officer of Terry Payne & Co., Inc., an insurance agency, since its inception in 1972. Mr. Payne has also been part-owner and Chairman of the Board of Directors of Payne Financial Group, Inc. since 1993.

Dan S. Scott has been a director of the Company since 1971. Mr. Scott has served as President and General Manager of Padlock Ranch Co. since 1970. Mr. Scott is the brother of Homer A. Scott, Jr., James R. Scott and Thomas W. Scott, and the uncle of John M. Heyneman, Jr. and Sandra A. Scott Suzor.

Larry F. Suchor has been a director of the Company since 2001. Mr. Suchor has been the owner and President of Larry's, Inc., a road construction and earth moving firm based in Wyoming, since 1976.

Sandra A. Scott Suzor has been a director of the Company since 2000. Ms. Suzor has been a partner and the Director of Sales and Marketing for Powder Horn Ranch and Golf Course since 1995. Ms. Suzor is the daughter of Homer A. Scott, Jr., the niece of James R. Scott, Thomas W. Scott and Dan S. Scott, and the cousin John M. Heyneman, Jr.

Information concerning "Compliance With Section 16(a) of the Securities and Exchange Act of 1934" is set forth under the heading "Compliance With Section 16(a) of the Securities and Exchange Act of 1934" (the "Exchange Act") in the Company's Proxy Statement and is herein incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning "Executive Compensation" is set forth under the heading "Director and Executive Compensation" in the Company's Proxy Statement and is herein incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning "Security Ownership of Certain Beneficial Owners and Management" is set forth under the heading "Security Ownership of Principal Shareholders and Management" in the Company's Proxy Statement and is herein incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning "Certain Relationships and Related Transactions" is set forth under the heading "Certain Relationships and Related Transactions" in the Company's Proxy Statement and is herein incorporated by reference. In addition, see "Notes to Consolidated Financial Statements - Related Party Transactions" included in Part IV, Item 14.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Following are the Company's audited consolidated financial statements.

REPORT OF ERNST & YOUNG LLP INDEPENDENT AUDITORS

The Board of Directors and Stockholders
First Interstate BancSystem, Inc.

We have audited the accompanying consolidated balance sheet of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2001, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of First Interstate BancSystem, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2000 and for each of the years in the two-year period ended December 31, 2000 were audited by other auditors whose report dated January 26, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Interstate BancSystem, Inc. and subsidiaries at December 31, 2001, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 4, 2002

KPMG LLP

Independent Auditors' Report

The Board of Directors and Stockholders
First Interstate BancSystem, Inc.:

We have audited the accompanying consolidated balance sheet of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2000 and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2000, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Billings, Montana
January 26, 2001

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

December 31,	2001
Assets	
Cash and due from banks	$ 152,609
Federal funds sold	82,185
Interest bearing deposits in banks	58,242
Investment securities:	
Available-for-sale	593,104
Held-to-maturity (estimated fair values of $100,883 and $228,240 at December 31, 2001 and 2000, respectively)	100,074
Total investment securities	693,178
Loans	2,157,968
Less allowance for loan losses	34,091
Net loans	2,123,877
Premises and equipment, net	91,346
Accrued interest receivable	24,804
Goodwill, net of accumulated amortization	33,171
Core deposit intangibles, net of accumulated amortization	5,679
Other real estate owned, net	414
Net deferred tax asset	2,751
Loan servicing rights, net of accumulated amortization and impairment reserve	6,322
Other assets	40,138
Total assets	$3,314,716
Liabilities and Stockholders' Equity	
Deposits:	
Noninterest bearing	$ 571,888
Interest bearing	2,136,725
Total deposits	2,708,613
Federal funds purchased	625
Securities sold under repurchase agreements	271,952
Accrued interest payable	16,209
Accounts payable and accrued expenses	12,822
Other borrowed funds	8,095
Long-term debt	34,331
Trust preferred securities	40,000
Total liabilities	3,092,647
Stockholders' equity:	
Nonvoting noncumulative preferred stock without par value; authorized	

100,000 shares, no shares issued or outstanding as of December 31, 2001 and 2000	--
Common stock without par value; authorized 20,000,000 shares; issued and outstanding 7,848,704 shares and 7,899,168 shares as of December 31, 2001 and 2000, respectively	5,184
Retained earnings	212,314
Accumulated other comprehensive income, net	4,571
Total stockholders' equity	222,069
Total liabilities and stockholders' equity	$3,314,716

See accompanying notes to consolidated financial statements.

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

Year Ended December 31,	2001	2000	19
Interest income:			
Interest and fees on loans	$ 180,865	175,964	144
Interest and dividends on investment securities:			
Taxable	31,417	30,730	33
Exempt from Federal taxes	3,669	3,591	3
Interest on deposits in banks	466	112	
Interest on Federal funds sold	2,709	1,400	1
Total interest income	219,126	211,797	183
Interest expense:			
Interest on deposits	79,642	80,205	67
Interest on Federal funds purchased	80	1,605	1
Interest on securities sold under repurchase agreements	7,556	10,836	7
Interest on other borrowed funds	333	3,084	1
Interest on long-term debt	2,844	2,530	1
Interest on trust preferred securities	3,529	3,529	3
Total interest expense	93,984	101,789	83
Net interest income	125,142	110,008	100
Provision for loan losses	7,843	5,280	3
Net interest income after provision for loan losses	117,299	104,728	96
Noninterest income:			
Income from fiduciary activities	4,702	4,910	4

Service charges on deposit accounts	14,631	12,590	11
Technology services	10,249	10,171	8
Other service charges, commissions and fees	16,718	11,620	10
Investment securities gains, net	145	133	
Other real estate income (expense), net	(130)	689	
Other income	5,719	4,038	2
Total noninterest income	52,034	44,151	37
Noninterest expense:			
Salaries, wages and employee benefits	61,617	51,814	48
Occupancy, net	9,561	8,063	7
Furniture and equipment	12,266	10,692	10
FDIC insurance	442	438	
Goodwill amortization expense	2,195	2,013	1
Core deposit intangible amortization expense	1,436	1,436	1
Other expenses	32,732	26,867	23
Total noninterest expense	120,249	101,323	91
Income before income taxes	49,084	47,556	42
Income tax expense	17,901	17,176	15
Net income	$ 31,183	30,380	27
Basic earnings per share	$ 3.97	3.83	
Diluted earnings per share	3.94	3.78	

See accompanying notes to consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands, except share and per share data)

	Common stock	Retained earnings	A
Balance at December 31, 1998	$ 10,468	149,639	
Comprehensive income:			
Net income	--	27,728	
Unrealized losses on available-for-sale investment securities, net of income tax benefit of $4,933	--	--	
Less reclassification adjustment for gains included in net income, net of income tax expense of $7	--	--	

Other comprehensive income		
Total comprehensive income		
Common stock transactions:		
87,201 shares retired	(3,271)	--
91,878 shares issued	3,634	--
Cash dividends declared:		
Common ($1.07 per share)	--	(8,530)
Balance at December 31, 1999	10,831	168,837
Comprehensive income:		
Net income	--	30,380
Unrealized gains on available-for-sale investment securities, net of income tax expense of $3,910	--	--
Less reclassification adjustment for gains included in net income, net of income tax expense of $52	--	--
Other comprehensive income		
Total comprehensive income		
Common stock transactions:		
124,718 shares retired	(4,904)	--
30,636 shares issued	1,174	--
Cash dividends declared:		
Common ($1.11 per share)	--	(8,807)
Balance at December 31, 2000	7,101	190,410
Comprehensive income:		
Net income	--	31,183
Unrealized gains on available-for-sale investment securities, net of income tax expense of $3,040	--	--
Less reclassification adjustment for gains included in net income, net of income tax expense of $57	--	--
Cumulative effect of adoption of SFAS No. 133, transfer of held-to-maturity securities to available-for-sale, net of income tax benefit of $364	--	--
Other comprehensive income		
Total comprehensive income		
Common stock transactions:		
107,230 shares retired	(4,200)	--
56,766 shares issued	2,283	--
Cash dividends declared:		
Common ($1.18 per share)	--	(9,279)
Balance at December 31, 2001	$ 5,184	212,314

See accompanying notes to consolidated financial statements.

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

Year Ended December 31,	2001
Cash flows from operating activities:	
Net income	$ 31,1
Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in undistributed earnings of joint ventures	(
Provisions for loan and other real estate losses	7,8
Depreciation	10,0
Amortization	3,6
Donation of land	
Net premium amortization on investment securities	
Net gain on sale of investments	(1
Gain on sale of other real estate owned	(
Gain on sale of loans	(2,1
Write down of bank premises	
Loss (gain) on sale of premises and equipment	1
Deferred income taxes	1,8
Changes in operating assets and liabilities:	
Increase (decrease) in accrued interest receivable	3,6
Increase in other assets	(4,1
Increase (decrease) in accrued interest payable	(2,8
Increase (decrease) in accounts payable and accrued expenses	(1,3
Net cash provided by operating activities	47,6
Cash flows from investing activities:	
Purchases of investment securities:	
Held-to-maturity	(8,3
Available-for-sale	(479,9
Proceeds from maturities and paydowns of investment securities:	
Held-to-maturity	36,2
Available-for-sale	361,9
Proceeds from sales of available-for-sale investment securities	17,6
Purchases and originations of mortgage servicing rights	(3,5
Extensions of credit to customers, net of repayments	(192,5
Recoveries on loans charged-off	1,9
Proceeds from sale of other real estate owned	3,3
Acquisitions of banking offices, net of cash and cash equivalents acquired	
Capital distribution from (contribution to) joint ventures	(3
Capital expenditures, net of sales	(10,6
Net cash used in investing activities	(274,2

Cash flows from financing activities:	
Net increase in deposits	343,3
Net increase in federal funds purchased and repurchase agreements	23,9
Net increase (decrease) in other borrowed funds	(3,0
Borrowings of long-term debt	81,6
Repayment of long-term debt	(84,2
Net decrease in debt issuance costs	
Proceeds from issuance of common stock	2,2
Purchase and retirement of common stock	(4,2
Dividends paid to stockholders	(9,2
Net cash provided by financing activities	350,4
Net increase (decrease) in cash and cash equivalents	123,7
Cash and cash equivalents at beginning of year	169,2
Cash and cash equivalents at end of year	$ 293,0
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 96,8
Cash paid during the year for taxes	17,6

See accompanying notes to consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION. First Interstate BancSystem, Inc. (the "Parent Company" and collectively with its subsidiaries, the "Company") is a financial holding company that, through the branch offices of its bank subsidiary, provides a full range of banking services to individual and corporate customers throughout the states of Montana and Wyoming. In addition to its primary emphasis on commercial and consumer banking services, the Company also offers trust and brokerage services and, through its technology subsidiary, technology services. The Company is subject to competition from other financial institutions, nonbank financial and technology service providers, and is also subject to the regulations of various government agencies and undergoes periodic examinations by those regulatory authorities.

In November 2001, the Company merged its two bank subsidiaries, First Interstate Bank in Montana and First Interstate Bank in Wyoming. First Interstate Bank in Montana is the surviving charter.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Parent Company and its operating subsidiaries: First Interstate Bank ("FIB"), Commerce Financial, Inc., FIB Capital Trust, FI Reinsurance, Ltd., and i_Tech Corporation. All material intercompany transactions have been eliminated in consolidation.

The Company has investments in joint ventures that are not consolidated because the Company does not own a majority voting interest or control the operations of the joint venture. These joint ventures are accounted for using the equity method of accounting. Under the equity method of accounting, the Company initially records its investments in joint ventures at cost. The carrying amounts of the joint ventures are adjusted to record the Company's proportionate share of distributions and earnings or losses of the joint ventures.

BASIS OF PRESENTATION. Preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and thus, actual results could differ from the amounts reported and discussed herein.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. Management relies on market evaluations and historical experience in determining the adequacy of the allowance for loan losses. Independent appraisals are obtained for significant properties in the process of foreclosure. Management believes that the allowances for loan losses and real estate owned are adequate for known and inherent losses at December 31, 2001. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowances for loan losses and real estate owned. While management uses available information to recognize losses on loans and real estate owned, future additions to the allowances may be necessary based on changes in economic conditions which may affect the borrowers' ability to pay or regulatory requirements.

In addition to purchasing and selling Federal funds for their own account, the Company purchases and sells Federal funds as an agent. These and other assets held in an agency or fiduciary capacity are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements.

CASH AND CASH EQUIVALENTS. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold for one day periods, and interest bearing deposits in banks with original maturities of less than three months.

At December 31, 2001, the Company was required to have aggregate reserves, exclusive of cash on hand, with the Federal Reserve Bank of approximately $2,758. Also, approximately $50,000 of additional compensating balance was maintained with the Federal Reserve Bank to mitigate the payment of service charges for check clearing services.

INVESTMENT SECURITIES. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortized cost. Debt securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, or other factors, and any marketable equity securities, are classified as available-for-sale and carried at fair value. The unrealized gains and losses on these securities are reported, net of applicable taxes, as accumulated other comprehensive income or loss, a separate component of stockholders' equity. The Company did not carry any trading account assets during 2001, 2000 or 1999. Management determines the appropriate classification of securities at the time of purchase and at each reporting date management reassesses the appropriateness of the classification.

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for accretion of discounts to maturity and amortization of premiums over the estimated average life of the security, or in the case of callable securities, through the first call date, using the effective yield method. Such amortization and accretion is included in interest income with interest and dividends. Realized gains and losses, and declines in value judged to be other-than-temporary, are included in investment securities gains (losses). The cost of securities sold is based on the specific identification method.

LOANS. Loans are reported at the principal amount outstanding. Interest is calculated by using the simple interest method on the daily balance of the principal amount outstanding.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal or when a loan becomes contractually past due by ninety days or more with respect to interest or principal, unless such past due loan is well secured and in the process of collection. When a loan is placed on nonaccrual status, interest previously accrued but not collected is reversed against current period interest income. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgement of management, the loans are estimated to be fully collectible as to both principal and interest.

Renegotiated loans are those loans on which concessions in terms have been granted because of a borrower's financial difficulty.

Significant loan origination fees and prepaid interest, net of related costs, are recognized over the expected lives of the related loans as an adjustment to interest income. Origination fees on loans sold to the secondary market are recognized as other income when the loan is originated. The amortization of deferred loan fees and costs and the accretion of unearned discounts on non-performing loans is discontinued during periods of non-performance.

ALLOWANCE FOR LOAN LOSSES. The allowance for loan losses is established through a provision for loan losses which is charged to expense. Loans, or portions thereof, are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance balance is an amount that management believes will be adequate to absorb known and inherent losses in the loan portfolio.

The Company's methodology for determining the allowance for loan losses establishes both an allocated and an unallocated component. The allocated component of the allowance for consumer loans is based principally on loan payment status and historical loss rates adjusted to reflect current conditions. The allocated component for all other loan categories is based principally on current loan grades and historical loan loss rates adjusted to

reflect current conditions, as well as analyses of other factors that may have affected the collectibility of loans in the portfolio. The unallocated component of the allowance for loan losses represents the results of analyses that estimate probable losses inherent in the portfolio that are not fully captured in the allocated allowance analyses. These analyses include changes in the nature and volume of the loan portfolio, overall portfolio quality, industry concentrations, current economic factors, model imprecision and the estimated impact of current economic conditions on certain on historical loss rates used in the allocated model.

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect, on a timely basis, all amounts due according to the contractual terms of the loan's original agreement. The amount of the impairment is measured using cash flows discounted at the loan's effective interest rate, except when it is determined that the primary source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current value of the collateral, reduced by anticipated selling costs, is used to measure impairment. The Company considers impaired loans to be those non-consumer loans which are non-accrual or a troubled debt restructuring. Interest income is recognized on impaired loans only to the extent that cash payments are received.

GOODWILL AND CORE DEPOSIT INTANGIBLES. The excess purchase price over the fair value of identifiable net assets from acquisitions is allocated between goodwill and the intangible value of depositor relationships resulting from deposit liabilities assumed in acquisitions ("core deposit intangibles"). Goodwill is amortized using the straight-line method over periods of primarily 15 to 25 years. Accumulated goodwill amortization was $14,633 as of December 31, 2001 and $12,438 as of December 31, 2000. Core deposit intangibles are amortized using an accelerated method based on the estimated useful lives of the related deposits of 10 years. Accumulated core deposit intangibles amortization was $6,161 as of December 31, 2001 and $4,725 as of December 31, 2000.

PREMISES AND EQUIPMENT. Buildings, furniture and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using straight-line methods over estimated useful lives of 5 to 50 years for buildings and improvements and 2.5 to 15 years for furniture and equipment using straight-line methods. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

LONG-LIVED ASSETS. Long-lived assets, including premises and equipment, enterprise goodwill and certain identifiable intangibles (e.g. excess purchase price, core deposit intangibles), are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An asset is deemed impaired if the sum of the expected future cash flows is less than the carrying amount of the asset. The amount of the impairment loss, if any, is based on the asset's fair value, which may be estimated by discounting the expected future cash flows. There were no impairment losses recognized during 2001, 2000, or 1999.

OTHER REAL ESTATE OWNED. Real estate acquired in satisfaction of loans is carried at the lower of the recorded investment in the property at the date of foreclosure or its current fair value less selling cost ("Net Realizable Value"). The value of the underlying loan is written down to the fair market value of the real estate acquired by a charge to the allowance for loan losses, if necessary, at the date of foreclosure. A provision to the real estate owned valuation allowance is charged against other real estate expense for any current or subsequent write-downs to Net Realizable Value. Operating expenses of such properties, net of related income, and gains on sales are included in other real estate income, net.

LOAN SERVICING RIGHTS. The Company recognizes the rights to service mortgage loans for others, whether acquired or internally originated. Loan servicing rights are initially recorded at fair value based on comparable market quotes and are amortized as other expense in proportion to and over the period of estimated net servicing income. Loan servicing rights are evaluated quarterly for impairment by discounting the expected

future cash flows, taking into consideration the estimated level of prepayments based on current industry expectations and the predominant risk characteristics of the underlying loans including loan type, note rate and loan term. Impairment adjustments, if any, are recorded through a valuation allowance.

RESTRICTED EQUITY SECURITIES. Restricted equity securities of the Federal Reserve Bank and the Federal Home Loan Bank are included in other assets at amortized cost.

INCOME FROM FIDUCIARY ACTIVITIES. Consistent with industry practice, income for trust services is recognized on the basis of cash received. However, use of this method in lieu of accrual basis accounting does not materially affect reported earnings.

INCOME TAXES. The Parent Company and its subsidiaries have elected to be included in a consolidated Federal income tax return. For state income tax purposes, the combined taxable income of the Parent Company and its subsidiaries is apportioned between the states in which operations take place. Federal and state income taxes attributable to the subsidiaries, computed on a separate return basis, are paid to or received from the Parent Company.

The Company accounts for income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are determined based on enacted income tax rates which will be in effect when the differences between the financial statements carrying value and tax basis of existing assets and liabilities are expected to be reported in the Parent Company income tax return.

PER SHARE DATA. Basic earnings per share is calculated by dividing net income less preferred stock dividends by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income less preferred stock dividends by the weighted average number of common shares and potential common stock outstanding during the period.

STOCK-BASED COMPENSATION. The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Accordingly, the Company measures compensation cost for stock-based employee compensation plans based on the intrinsic value of the award at the date of grant. Intrinsic value is the excess of the fair value of the underlying stock over the amount an employee must pay to acquire the stock. The Company provides fair value disclosures as required by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation".

COMPREHENSIVE INCOME. Comprehensive income includes net income, as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company's only significant element of other comprehensive income is unrealized gains and losses on available-for-sale securities.

BUSINESS LINES. The Company has two significant lines of business, Community Banking and Technology Services. The Community Banking line of business encompasses commercial and consumer banking services offered to individual customers, businesses and municipalities. Services provided primarily include the acceptance of deposits, extensions of credit and fee-based services including trust, brokerage and mortgage servicing.

The Technology Services line of business encompasses technology services provided through i_Tech to affiliated and non-affiliated financial institutions including system support of general ledger, investment security, loan, deposit, web banking, imaging, management reporting, cash management and e-mail systems, wide-area and ATM network management and item proof and capture services.

Other is comprised of the Parent Company, non-bank subsidiaries except i_Tech and intercompany eliminations. Expenses for centrally provided services are allocated to the business lines based primarily upon estimated usage of services.

ADVERTISING COSTS. Advertising costs are expensed as incurred. Advertising expense was $1,783, $1,652 and $1,209 in 2001, 2000 and 1999, respectively.

RECLASSIFICATIONS. Certain reclassifications have been made to the 2000 and 1999 amounts to conform to the 2001 presentation. The effects of the reclassifications are not considered to be significant.

RECENT ACCOUNTING PRONOUNCEMENTS. In June 1998, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 2000, FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FSAB Statement No. 133," addressing a limited number of implementation issues in applying SFAS No. 133. SFAS No. 133, as amended by SFAS No. 138 ("SFAS No. 133") is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The adoption of SFAS No. 133 on January 1, 2001 did not have a material effect on the consolidated financial statements, results of operations or liquidity of the Company. As of December 31, 2001 and 2000, the Company was not engaged in hedging activities nor did it hold any derivative instruments which required adjustments to carrying values under SFAS No. 133. As permitted by the provisions of SFAS No. 133, the Company transferred held-to-maturity investment securities with amortized costs and fair values of $104,011 and $103,442, respectively, to available-for-sale investment securities on January 1, 2001. Net unrealized holding losses of $569, net of tax, on the transferred securities are reported as a cumulative effect of change in accounting principle within accumulated other comprehensive income.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125". SFAS No. 140 revises accounting standards for securitizations and transfers of financial assets and collateral and requires certain disclosures, but carries forward most of SFAS No. 125's provisions without change. SFAS No. 140 is effective for recognition and reclassification of collateral and disclosures relating to securitization transactions and collateral for fiscal years ended after December 15, 2000 and for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adoption of the provisions of SFAS No. 140 on April 1, 2001 did not have a material effect on the consolidated financial statements, results of operations or liquidity of the Company. Securities sold under repurchase agreements as of December 31, 2001 and 2000, did not require physical transfer of securities nor did the counterparty have the right to sell or repledge any security used as collateral; therefore, no reclassification was required.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," addressing financial accounting and reporting for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually using a fair value approach for impairment, or more frequently if impairment indicators arise. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. SFAS No. 142 requires disclosure of changes in the carrying amount of goodwill from period to period, the carrying amount of intangible assets by major intangible asset class and the estimated intangible asset amortization expense for the next five years. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001 and are required to be applied to all goodwill and other intangible assets recognized in the financial statements at the date of adoption, with the exception of goodwill and intangible assets acquired after June 30, 2001, which will be subject immediately to the provisions of SFAS No. 142. Impairment losses for goodwill and indefinite-lived intangible assets arising due to the initial application of SFAS No. 142 are to be reported as resulting from a change in accounting principle. SFAS No. 142 became effective on January 1, 2002. The adoption of SFAS No. 142 is expected to reduce the Company's amortization expense by approximately $2,000 annually beginning in 2002 due to the discontinuation of goodwill amortization. No impairment losses were recorded upon the initial adoption of the provisions of SFAS No. 142.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," addressing accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of;" however, SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for the recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within. Management does not expect adoption of the provisions of SFAS No. 144 to have a material impact on the consolidated financial statements, results of operations or liquidity of the Company.

(2) REGULATORY CAPITAL

The Company is subject to the regulatory capital requirements administered by the Federal Reserve Bank. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets, as defined in the regulations. As of December 31, 2001, the Company exceeded all capital adequacy requirements to which it is subject.

As of December 31, 2001, the most recent notification from the Federal Reserve Bank categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company must maintain minimum total risk-based, Tier 1 risk-based, and leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's actual capital amounts and ratios and selected minimum regulatory thresholds as of December 31, 2001 and 2000 are presented in the following table:

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

	Actual		Adequately Capitalized		Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Rati
As of December 31, 2001:						
Total risk-based capital:						
Consolidated	$258,585	10.3%	$200,334	8.0%	$250,418	10.
FIB	272,934	11.0	199,256	8.0	249,070	10.
Tier 1 risk-based capital:						
Consolidated	218,648	8.7	100,167	4.0	150,251	6.
FIB	241,769	9.7	99,628	4.0	149,442	6.
Leverage capital ratio:						
Consolidated	218,648	6.8	129,099	4.0	161,374	5.
FIB	241,769	7.5	128,715	4.0	160,894	5.

	Actual		Adequately Capitalized		Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Rati
As of December 31, 2000:						
Total risk-based capital:						
Consolidated	$235,731	10.4%	$182,019	8.0%	$227,524	10.
FIB	158,209	11.1	181,266	8.0	226,582	10.
Tier 1 risk-based capital:						
Consolidated	194,533	8.6	91,009	4.0	136,514	6.
FIB	140,347	9.8	90,633	4.0	135,949	6.
Leverage capital ratio:						
Consolidated	194,533	6.8	114,736	4.0	143,420	5.
FIB	140,347	7.8	114,279	4.0	142,848	5.

(3) INVESTMENT SECURITIES

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

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

Available-for-Sale December 31, 2001	Amortized cost	Gross unrealized gains	Gross unrealized losses	E
U.S. Treasury securities	$ 22,016	548	--	
Obligations of U.S. Government agencies	165,027	4,898	--	
Other mortgage-backed securities	352,219	2,849	(758)	
Mutual funds	46,130	--	--	
Other securities	175	--	--	
Total	$585,567	8,295	(758)	

Held-to-Maturity December 31, 2001	Amortized cost	Gross unrealized gains	Gross unrealized losses	E
States, county and municipal securities	$ 83,327	968	(393)	
Corporate securities	16,747	234	--	
Total	$100,074	1,202	(393)	

Gross gains of $145 and gross losses of $0 were realized on the sale of available-for-sale securities in 2001.

Available-for-Sale December 31, 2000	Amortized cost	Gross unrealized gains	Gross unrealized losses	E
U.S. Treasury securities	$ 19,469	373	--	
Obligations of U.S. Government agencies	213,779	1,658	(361)	
States, county and municipal securities	4,692	99	--	
Other mortgage-backed securities	146,231	117	(1,375)	
Other securities	200	--	--	
Total	$384,371	2,247	(1,736)	

Held-to-Maturity December 31, 2001	Amortized cost	Gross unrealized gains	Gross unrealized losses	E
U.S. Treasury securities	$ 46,535	221	(1)	
Obligations of U.S. Government agencies	25,896	135	(76)	
States, county and municipal securities	73,849	694	(381)	
Corporate securities	41,970	10	(335)	
Other mortgage-backed securities	40,576	3	(856)	
Total	$228,826	1,063	(1,649)	

Gross gains of $138 and gross losses of $5 were realized on the sale of available-for-sale securities in 2000.

Maturities of investment securities at December 31, 2001 are shown below. Maturities of mortgage-backed securities have been adjusted to reflect shorter maturities based upon estimated prepayments of principal.

December 31, 2001	Available-for-Sale		Held-to-Maturi	
	Amortized cost	Estimated fair value	Amortized cost	Est fai
Within one year	$171,731	173,547	18,982	
After one but within five years	293,045	298,146	18,575	
After five years but within ten years	24,656	24,801	53,797	
After ten years	50,005	50,480	8,720	
Total	$539,437	546,974	100,074	1
Mutual funds with no stated maturity	46,130	46,130	--	
Total	$585,567	593,104	100,074	1

At December 31, 2001, the Company had investment securities callable within one year with amortized costs and estimated fair values of $89,045 and $89,854, respectively. These investment securities are classified as available-for-sale and are primarily included in the after one but within five years category in the table above.

Maturities of securities do not reflect rate repricing opportunities present in adjustable rate mortgage-backed and corporate securities. At December 31, 2001 and 2000, the Company had variable rate securities with amortized costs of $2,800 and $4,120, respectively.

There are no significant concentrations of investments at December 31, 2001 (greater than 10 percent of stockholders' equity) in any individual security issuer, except for U.S. Government or agency-backed securities.

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

Investment securities with amortized cost of $525,379 and $466,946 at December 31, 2001 and 2000, respectively, were pledged to secure public deposits and securities sold under repurchase agreements. The approximate fair value of securities pledged at December 31, 2001 and 2000 was $532,318 and $466,413, respectively. All securities sold under repurchase agreements are with customers and mature on the next banking day. The Company retains possession of the underlying securities sold under repurchase agreements.

(4) LOANS

Major categories and balances of loans included in the loan portfolios are as follows:

December 31,	2001	2000
Real estate (1)	$1,137,160	954,933
Consumer (2)	483,636	495,445
Commercial	434,330	420,706
Agricultural	95,513	95,387
Other loans, including overdrafts	7,329	5,852
Total loans	$2,157,968	1,972,323

(1) Includes residential, agricultural, commercial and construction loans and loans held for resale secured by real estate of $263,318, $94,697, $595,034, $93,209, and $91,002, respectively, as of December 31, 2001 and $253,910, $96,019, $529,035, $66,010, and $9,959, respectively, as of December 31, 2000.

(2) Includes indirect loans of $281,242 and $319,224 at December 31, 2001 and 2000, respectively.

At December 31, 2001, the Company had no concentrations of loans which exceeded 10% of total loans other than the categories disclosed above.

Nonaccrual loans amounted to $18,273 and $19,619 at December 31, 2001 and 2000, respectively. If interest on nonaccrual loans had been accrued, such income would have approximated $1,688 and $1,943 during the years ended December 31, 2001 and 2000, respectively. Loans contractually past due ninety days or more aggregating $7,200 on December 31, 2001 and $5,158 on December 31, 2000 were on accrual status. Such loans are deemed adequately secured and in the process of collection.

Impaired loans at December 31, 2001 and 2000 are $18,272 and $20,675, respectively. Included in impaired loans at December 31, 2001 and 2000 are $3,382 and $2,249, respectively, of loans which have an impairment allowance of $1,641 and $1,092, respectively, included in the Company's allowance for loan losses. The average recorded investment in impaired loans for the years ended December 31, 2001, 2000 and 1999 was approximately $18,524, $22,324, and $17,494, respectively. If interest on impaired loans had been accrued, the amount of interest income on impaired loans during 2001, 2000 and 1999 would have been approximately $1,565, $2,043, and $1,536, respectively.

Also included in impaired loans at December 31, 2001 and 2000 are loans with a carrying value of $921 and $2,635, respectively, the terms of which have been modified in troubled debt restructurings. Restructured debt includes nonaccrual loans of $921 and $650 at December 31, 2001 and 2000, respectively. The interest income recognized on restructured loans approximated $90, $176, and $192 during the years ended December 31, 2001, 2000 and 1999, respectively. At December 31, 2001, there were no material commitments to lend additional funds to borrowers whose existing loans have been restructured or are classified as nonaccrual.

Most of the Company's business activity is with customers within the states of Montana and Wyoming. Loans where the customers or related collateral are out of the Company's trade area are not significant and management's anticipated credit losses arising from these transactions compare favorably with the Company's credit loss experience on its loan portfolio as a whole.

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

(5) ALLOWANCE FOR LOAN LOSSES

A summary of changes in the allowance for loan losses follows:

Years ended December 31,	2001	2000
Balance at beginning of year	$ 32,820	29,599
Allowance of acquired banking offices	--	1,019
Provision charged to operating expense	7,843	5,280
Less loans charged-off	(8,562)	(5,806)
Add back recoveries of loans previously charged-off	1,990	2,728
Balance at end of year	$ 34,091	32,820

(6) PREMISES AND EQUIPMENT

Premises and equipment and related accumulated depreciation are as follows:

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

December 31,	2001
Land	$ 11,265
Buildings and improvements	78,512
Furniture and equipment	47,585
	137,362
Less accumulated depreciation	(46,016)
Premises and equipment, net	$ 91,346

The Parent Company and a branch office lease premises from an affiliated partnership (see note 24).

(7) OTHER REAL ESTATE OWNED

Other real estate owned (OREO) consists of the following:

December 31,	2001
OREO	$ 414
Less allowance for OREO losses	--
	$ 414

A summary of changes in the allowance for OREO losses follows:

Years ended December 31,	2001	2000
Balance at beginning of year	$ 10	20
Provision during the year	--	--
Property write downs	(10)	(10)
Balance at end of year	$ --	10

(8) LOAN SERVICING RIGHTS

The Company is a servicer of residential mortgage loans and is compensated for loan administrative services performed in conjunction with mortgage servicing rights purchased in the secondary market and originated by the Company's bank subsidiary, FIB.

Information with respect to the Company's loan servicing rights follows:

Years ended December 31,	2001	2000	1999
Balance at beginning of year	$ 4,964	3,673	1,787
Purchase of loan servicing rights	247	1,143	981
Origination of loan servicing rights	3,340	1,038	1,565
Amortization expense	(1,086)	(890)	(660)
Reserve for impairment	(1,143)	--	--
Balance at end of year	$ 6,322	4,964	3,673

At December 31, 2001, the estimated fair value of the Company's servicing assets was $7,019. The fair value of servicing assets was determined using discount rates ranging from 9.0% to 17.0% and monthly prepayment speeds ranging from 0.6% to 3.4% depending upon the risk characteristics of the underlying loans. Impairment losses of $1,143 were recognized as other expense in 2001. No impairment losses were recorded in 2000 or 1999.

The principal balance of mortgage loans serviced for others are not included in the accompanying financial statements. The unpaid balances of these loans were approximately $807,939 and $619,538 at December 31, 2001 and 2000, respectively.

(9) CASH SURRENDER VALUE OF LIFE INSURANCE

The Company maintains key-executive life insurance policies on certain principal shareholders. Under these policies, the Company receives the cash surrender value if the policy is terminated, or receives all benefits payable upon the death of the insured. The aggregate face amount of the key-executive insurance was $7,000 at December 31, 2001 and 2000. Cash surrender values are recorded net of outstanding policy loans, since the Company has no current plans for repayment. Outstanding policy loans at December 31, 2001 and 2000 are $2,871 and $2,811, respectively. The net cash surrender value of key-executive insurance policies included in other assets is $716 and $626 at December 31, 2001 and 2000, respectively.

The Company has also obtained life insurance policies covering selected other key officers. The net cash surrender value of these policies is $2,777 and $2,460 at December 31, 2001 and 2000, respectively, and is included in other assets. Under these policies, the Company receives the net cash surrender value if the policy is terminated, or receives all benefits payable upon death of the insured. An endorsement split dollar agreement has been executed with each of the selected key officers whereby a portion of the policy death benefit is payable to their designated beneficiary. The endorsement split dollar agreement will provide post retirement coverage for those selected key officers meeting specified retirement qualifications. The Company accrues the earned portion of the post-employment benefit through the specified vesting date.

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

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(10) OTHER ASSETS

At December 31, 2001 and 2000, other assets consisted of the following:

	2001	2000
Restricted equity securities of government agencies	$ 15,766	13,099
Cash surrender value of life insurance, net	3,493	3,086
Other	20,879	17,349
	$ 40,138	33,534

(11) DEPOSITS

Deposits are summarized as follows:

December 31,	2001	2000
Noninterest bearing demand	$ 571,888	441,563
Interest bearing:		
Demand	454,394	384,070
Savings	693,794	575,768
Time, $100 and over	312,543	283,599
Time, other	675,994	680,225
Total interest bearing	2,136,725	1,923,662
	$2,708,613	2,365,225

Maturities of time deposits at December 31, 2001 are as follows:

	Time, $100 and Over	Total Time
2002	$ 258,440	730,666

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

2003	39,458	177,297
2004	7,868	38,380
2005	3,225	27,714
2006	3,552	14,415
Thereafter	--	65
	$ 312,543	988,537

Interest expense on time deposits of $100 or more was $17,047, $13,889, and $11,087 for the years ended December 31, 2001, 2000 and 1999, respectively.

(12) INCOME TAXES

Income tax expense (benefit) consists of the following:

Year ended December 31,	2001	2000	1999
Current:			
Federal	$13,490	14,668	13,873
State	2,585	2,222	1,950
	$16,075	16,890	15,823

Year ended December 31,	2001	2000	1
Deferred:			
Federal	$ 1,557	226	
State	269	60	
	1,826	286	
	$17,901	17,176	15

Total income tax expense differs from the amount computed by applying the Federal income tax rate of 35 percent in 2001, 2000 and 1999 to income before income taxes as a result of the following:

Year ended December 31,	2001	2000	1
Tax expense at the statutory tax rate	$17,179	16,645	15
Increase (decrease) in tax resulting from:			
Tax-exempt income	(1,902)	(1,749)	(1
State income tax, net of Federal income tax benefit	1,853	1,483	1
Amortization of nondeductible goodwill	436	452	
Other, net	335	345	
	$17,901	17,176	15

The tax effects of temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of the net deferred tax asset relate to the following:

December 31,	2001	2
Deferred tax assets:		
Loans, principally due to allowance for loan losses	$ 11,980	11,
Other real estate owned, principally due to differences in bases	32	
Employee benefits	1,211	2,
Other	403	
Deferred tax assets	13,626	14,
Deferred tax liabilities:		
Fixed assets, principally differences in bases and depreciation	(1,446)	(
Investment in joint venture partnership, principally due to differences in depreciation of partnership assets	(1,024)	(
Prepaid amounts	(647)	(
Government agency stock dividends	(1,516)	(1,
Investment securities, unrealized gains	(2,971)	(
Goodwill and core deposit intangibles	(2,165)	(2,
Mortgage servicing rights	(833)	(
Other	(273)	(
Deferred tax liabilities	(10,875)	(7,
Net deferred tax asset	$ 2,751	7,

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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the existence of, or generation of, taxable income in the periods which those temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in carryback years, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, at December 31, 2001 management continues to believe it is more likely than not that the Company will realize the benefits of these deductible differences.

The Company had current income taxes receivable of $1,610 and $174 at December 31, 2001 and 2000, respectively.

(13) LONG-TERM DEBT AND OTHER BORROWED FUNDS

A summary of long-term debt follows:

December 31,	2001
Parent Company:	
Unsecured revolving term loan due June 30, 2005, interest payable quarterly at variable interest rates (3.84% weighted average rate at December 31, 2001)	$10,150
7.50% subordinated notes, unsecured, interest payable semi-annually, due in increasing annual principal payments beginning October 1, 2002 in the amount of $3,400 with final maturity on October 1, 2006	20,000
Variable rate equipment note, principal and interest payable quarterly through March 30, 2005 (4.09% rate at December 31, 2001)	2,032
Various unsecured notes paid in 2001payable to former stockholders	--
Subsidiaries:	
Various notes payable to FHLB, interest due monthly at various rates and maturities (weighted average rate of 6.36% at December 31, 2001)	2,149
10% note payable on repossessed property paid in 2001	--
	$34,331

Maturities of long-term debt at December 31, 2001 are as follows:

2002	$ 4,155
2003	4,460
2004	4,785

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

2005	15,058
2006	4,807
Thereafter	1,066
	$34,331

In connection with its borrowings, the Company has agreed to certain restrictions dealing with, among other things, minimum capital ratios, the sale or issuance of capital stock and the maximum amount of dividends.

The Company has a $25,000 unsecured revolving term loan with its primary lender. As of December 31, 2001, $10,150 was advanced on the loan. The revolving facility requires an annual commitment fee of

0.10% on the unadvanced amount and an annual commitment fee of 0.05% on the total amount of the commitment. At various dates, the Company may elect either prime or a Eurodollar rate which varies depending on the Company's capital ratios.

The variable rate equipment note is secured by a Cessna Citation aircraft. The notes payable to FHLB are secured by FHLB stock, unencumbered residential real estate mortgages and certain mortgage-backed securities.

The following is a summary of other borrowed funds, all of which mature within one year:

December 31,	2001	
Interest bearing demand notes issued to the United States Treasury, secured by investment securities (1.41% weighted average rate at December 31, 2001)	$ 8,095	1
	$ 8,095	1

The Company has Federal funds lines of credit with third parties amounting to $90,000, subject to funds availability. These lines are subject to cancellation without notice. The Company has available lines of credit with the FHLB of approximately $222,000.

(14) TRUST PREFERRED SECURITIES

On October 1, 1997, the Company established FIB Capital Trust ("Trust"), a wholly-owned statutory business trust. The Trust was created for the exclusive purpose of issuing 30-year capital trust preferred securities

("Trust Preferred Securities") in the aggregate amount of $40,000 and using the proceeds to purchase junior subordinated debentures ("Subordinated Debentures") issued by the Parent Company. The sole assets of the Trust are the Subordinated Debentures.

The Trust Preferred Securities bear a cumulative fixed interest rate of 8.625% and mature on December 1, 2027. Interest distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. The Company guaranteed the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the Trust. The obligations of the Company under the Subordinated Debentures together with the guarantee and other back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of the Trust under the Trust Preferred Securities.

The Subordinated Debentures are unsecured, bear interest at a rate of 8.625% per annum and mature on December 1, 2027. Interest is payable quarterly. The Company may defer the payment of interest at any time from time to time for a period not exceeding 20 consecutive quarters provided that deferral period does not extend past the stated maturity. During any such deferral period, distributions on the Trust Preferred Securities will also be deferred and the Company's ability to pay dividends on its common shares will be restricted.

Subject to approval by the Federal Reserve Bank, the Trust Preferred Securities may be redeemed prior to maturity at the Company's option on or after December 1, 2002 at par. The Trust Preferred Securities may also be redeemed at any time in whole (but not in part) in the event of unfavorable changes in laws or regulations that result in (1) FIB Capital becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by Parent Company on the Subordinated Debentures becoming non-deductible for federal tax purposes, (3) the requirement for FIB Capital to register under the Investment Company Act of 1940, as amended, or (4) loss of the ability to treat the Trust Preferred Securities as "Tier 1 capital" under the Federal Reserve capital adequacy guidelines.

The Trust Preferred Securities qualify as Tier 1 capital under regulatory definitions. Issuance costs consisting primarily of underwriting discounts and professional fees of $2,363 were capitalized and are being amortized through maturity to interest expense using the straight-line method.

(15) EMPLOYEE BENEFIT PLANS

PROFIT SHARING PLAN. The Company has a noncontributory profit sharing plan. All non-temporary employees working 20 hours or more per week are eligible to participate in the profit sharing plan. Quarterly contributions are determined by the Company's Board of Directors, but are not to exceed, on an individual basis, the lesser of 25% of compensation or $30. Vesting in contributions occurs pro rata over a three-year period. Company contributions to this plan of $1,267, $1,186 and $1,150 were expensed in 2001, 2000 and 1999, respectively.

SAVINGS PLAN. In addition, the Company has a contributory employee savings plan. Eligibility requirements for this plan are the same as those for the profit sharing plan discussed in the preceding paragraph. Employee participation in the plan is at the option of the employee. The Company contributes $1.25 for each $1.00 of employee contributions up to 4% of the participating employee's compensation. Company contributions to this plan of $1,868, $1,490, and $1,321 were expensed in 2001, 2000 and 1999, respectively.

STOCK OPTION PLANS. The Company has two nonqualified stock option plans, the 2001 Stock Option Plan ("New Stock Option Plan") and the Stock Option and Stock Appreciation Rights Plan ("Old Option Plan"). Stock options and stock appreciation rights ("SARs") awards were granted to certain officers and directors of the Company at the discretion of the Company's Board of Directors. Subsequent to May 2001, the Company discontinued stock option awards under the Old Option Plan.

During 2001, the Company adopted the New Stock Option Plan. All options granted under the New Stock Option Plan have an exercise price equal to fair value at the date of grant. Options granted under the New Stock Option Plan may be subject to vesting as determined by the Compensation Committee of the Company's Board of Directors ("Compensation Committee") and can be exercised for periods of up to ten years from the date of grant. Options granted in 2001 vest over a three-year period. Stock issued upon exercise of options is subject to a shareholder agreement granting the Company the right to repurchase all or some of the stock at any time. During 2001, the Company awarded 2,450 options under the New Stock Option Plan with a weighted average exercise price of $41.35 and a weighted average remaining life of 9.85 years at December 31, 2001.

The Company accounts for the New Stock Option Plan as a fixed plan in accordance with APB No. 25. APB No. 25 does not require a company to recognize compensation expense, under fixed plan accounting, if the exercise price of the option is equal to the fair value of the common stock at the date of grant. If compensation expense had been determined based on an estimate of fair value of the option at the date of grant, consistent with SFAS No. 123, fair value method of accounting for stock options, the Company's pro forma net income for 2001 would have been $31,174. Pro forma basic and diluted earnings per share would not be different from that reported. The fair value of the options was estimated at the grant date using a Black-Scholes option pricing model, which requires the input of subjective assumptions. Because the Company's common stock and stock options have characteristics significantly different from listed securities and traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. The weighted average fair values of options granted during 2001 was $5.84. Weighted average assumptions used in the valuation model include risk-free interest rate of 4.93%, dividend yield of 2.86% and an expected life of options of 10 years. The effect of stock price volatility was not considered in the valuation model as there is no active market for the Company's common stock.

Under the Old Option Plan, stock options and SARs granted prior to 1993 have a per share exercise price equal to the book value of the underlying common shares at the date of grant. Stock options and SARs granted in

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1993 and thereafter have a per share exercise price equal to fair value at the date of grant. Each option granted under the Old Option Plan was subject to vesting as determined by the Compensation Committee and can be exercised for a period of up to ten years from the date of grant. Options outstanding under the Old Option Plan were 100% vested as of December 31, 2001. Stock issued upon exercise of options is subject to a shareholder agreement granting the Company a right of first refusal to repurchase the stock.

During 2001, the Company offered all option holders under the Old Stock Plan an opportunity to exercise outstanding options with the intention of issuing, after six months, a similar number of options with similar terms under the New Stock Option Plan. As a result, 344,053 options granted under the Old Option Plan were exercised and 98,006 options were cancelled in 2001.

During 1998, the Company determined that it would discontinue the issuance of SARs. In conjunction with that decision, grantees with outstanding SARs were allowed to convert the SARs to stock options with similar terms in a one-for-one exchange. In January 1999, 106,300 SARs were exchanged for stock options under the Old Option Plan.

The Company accounts for the Old Option Plan as a variable plan, in accordance with APB No. 25, with compensation cost or benefit recorded each period from the date of grant to the measurement date based on the fair value of the Company's common stock at the end of the period. The recorded expense (benefit) related to this plan was $503, ($593) and $2,505 in 2001, 2000 and 1999, respectively. At December 31, 2001 and 2000, the Company had liabilities related to obligations under this plan of $444 and $4,129, respectively.

Information with respect to stock options and SARs granted under the Old Option Plan follows:

	2001		2000		
Year ended December 31,	Options	SARs	Options	SARs	Opt
Outstanding, beginning of year	386,256	4,400	322,300	6,000	169
Granted	112,173	--	101,456	--	90
Exercised	(378,003)	(1,400)	(35,000)	(1,600)	(43
Cancelled	(98,706)	--	(2,500)	--	
Conversion of SARs to options	--	--	--	--	106
Outstanding, end of year	21,720	3,000	386,256	4,400	322

Information with respect to the weighted-average stock option exercise prices for options granted under the Old Option Plan follows:

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

Year ended December 31,	2001	2000	1999
Granted during year	$ 38.10	$ 39.95	$ 33.14
Exercised during year	27.87	14.54	12.01
Cancelled during year	39.98	38.60	--
SARs converted during year	--	--	17.16
Outstanding, end of year	24.73	27.82	22.64

Stratification and additional detail regarding the exercisable options outstanding under the Old Option Plan at December 31, 2001 follows:

Exercise price range	Number outstanding	Weighted-average remaining life	Weighted-average exercise price
$7.61 - $15.80	8,550	0.92 years	$ 9.75
$17.85 - $20.05	3,000	4.57 years	19.02
$39.00 - $39.00	10,170	9.38 years	39.00

(16) COMMITMENTS AND CONTINGENCIES

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

The Company had commitments to sell loans of $91,002 and $9,959 as of December 31, 2001 and 2000, respectively.

The Company leases certain premises and equipment from third parties under operating leases. Total rental expense to third parties was $2,737 in 2001, $2,119 in 2000 and $1,691 in 1999.

The total future minimum rental commitments, exclusive of maintenance and operating costs, required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2001 are as follows:

Related

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

	Third parties	Partnership (See Note 24)	Total
For the year ending December 31:			
2002	$ 2,220	988	3,208
2003	2,230	980	3,210
2004	2,042	958	3,000
2005	1,883	718	2,601
2006	1,609	--	1,609
Thereafter	6,352	--	6,352
	$16,336	3,644	19,980

(17) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recorded in the consolidated balance sheet.

Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Most commitments extend less than two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various collateral supporting those commitments for which collateral is deemed necessary.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. Generally, all standby letters of credit and commitments to extend credit are subject to annual renewal. At December 31, 2001 and 2000, stand-by letters of credit in the amount of $36,915 and $34,506 respectively, were outstanding. Commitments to extend credit to existing and new borrowers approximated $482,632 at December 31, 2001, which includes $84,499 on unused credit card lines and $79,905 with commitment maturities beyond one year. Commitments to extend credit to existing and new borrowers approximated $433,304 at December 31, 2000, which includes $70,245 on unused credit card lines and $80,824 with commitment maturities beyond one year.

(18) CAPITAL STOCK

At December 31, 2001, 91.73% of the common stock held by stockholders are subject to shareholder's agreements (Agreements). Under the Agreements, the Company has a right of first refusal to repurchase shares from the stockholder at fair value in the event of a proposed sale or transfer of shares to a third party. Additionally, shares purchased by officers, directors and employees are subject to repurchase at the Company's discretion.

(19) CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Following is condensed financial information of First Interstate BancSystem, Inc. During 2000 the Company incorporated its technology services division into a separate non-bank subsidiary. Prior to incorporation, the technology services division was a department of the parent company.

December 31,	2001	2000
Condensed balance sheets:		
Cash and cash equivalents	$ 246	254
Investment in subsidiaries, at equity:		
Bank subsidiary	283,868	265,913
Non-bank subsidiaries	8,286	6,569
Total investment in subsidiaries	292,154	272,482
Goodwill, net of accumulated amortization	1,322	1,467
Property and equipment	3,785	4,204
Other assets	7,828	7,575
Total assets	$305,335	285,982
Other liabilities	$ 8,149	10,559
Long-term debt	33,880	36,200
Subordinated debentures - FIB Capital Trust	41,237	41,237
Total liabilities	83,266	87,996
Stockholders' equity	222,069	197,986
Total liabilities and stockholders' equity	$305,335	285,982

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Year ended December 31,	2001	2000	1
Condensed statements of income:			
Dividends from subsidiary banks	$ 26,207	22,107	23
Other interest income	35	98	
Other income, primarily management fees from subsidiaries	3,993	4,235	3
Total income	30,235	26,440	27
Salaries and benefits	6,993	4,958	6
Interest expense	6,465	6,209	5
Other operating expenses, net	5,800	4,421	4
Total expenses	19,258	15,588	16
Technology services income, net of direct operating expenses	--	--	3
Earnings before income tax benefit	10,977	10,852	14
Income tax benefit	5,475	3,992	3
Income before undistributed earnings of subsidiaries	16,452	14,844	17
Undistributed earnings of subsidiaries	14,731	15,536	9
Net income	$ 31,183	30,380	27

Year ended December 31,	2001	2000	1
Condensed statements of cash flows:			
Cash flows from operating activities:			
Net income	$ 31,183	30,380	27
Adjustments to reconcile net income to cash provided by operating activities:			
Undistributed earnings of subsidiaries	(14,731)	(15,536)	(9
Net loss (gain) on sale of equipment	35	(200)	
Depreciation and amortization	303	414	
Provision for deferred income taxes	(13)	334	
Other, net	(2,793)	(97)	
Net cash provided by operating activities	13,984	15,295	18

Cash flows from investing activities:			
Net increase in advances to non-bank subsidiary	124	625	
Capital expenditures, net of sales	226	(2,282)	
Capitalization of subsidiaries	(846)	(1,000)	
Acquisitions of banking offices, net of cash acquired	--	(20,152)	(11
Net cash used in investing activities	(496)	(22,809)	(11
Cash flows from financing activities:			
Borrowings of long-term debt	81,600	30,921	5
Repayments of long-term debt	(83,920)	(15,616)	(5
Debt issuance costs	95	95	
Dividends paid on common stock	(9,279)	(8,807)	(8
Payments to retire common stock	(4,200)	(4,904)	(3
Issuance of common stock	2,208	1,100	3
Net cash provided by (used in) financing activities	(13,496)	2,789	(8
Net change in cash and cash equivalents	(8)	(4,725)	(1
Cash and cash equivalents, beginning of year	254	4,979	6
Cash and cash equivalents, end of year	$ 246	254	4

Noncash Investing and Financing Activities - In conjunction with the exercise of stock options, the Company transferred $75, $74, and $324 in 2001, 2000, and 1999, respectively, from accrued liabilities to common stock.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)

(20) DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular instrument. Because no market exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding comparable market interest rates, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

For financial instruments bearing a variable interest rate, it is presumed that recorded book values are reasonable estimates of fair value. The methods and significant assumptions used to estimate fair values for the various financial instruments are set forth below.

FINANCIAL ASSETS. Due to the liquid and/or short-term nature of cash, cash equivalents and interest bearing deposits in bank, carrying value of these instruments approximates market value. Fair values of investment securities are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Fair value of fixed rate loans is calculated by discounting scheduled cash flows adjusted for prepayment estimates using discount rates based on secondary market sources, if available, or based on estimated market discount rates that reflect the credit and interest rate risk inherent in the loan category. The fair value of adjustable rate loans approximates the carrying value of these instruments due to the frequent repricing, provided there have been no changes in credit quality since origination. The fair value of loan servicing rights is based on a pricing model using prevailing financial market information.

FINANCIAL LIABILITIES AND TRUST PREFERRED SECURITIES. The fair value of demand deposits, savings accounts, federal funds purchased and securities sold under repurchase agreements is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using external market rates currently offered for deposits with similar remaining maturities. The carrying value of the interest bearing demand notes to the United States Treasury is deemed an approximation of fair value due to the frequent repayment and repricing at market rates. The revolving term loan, equipment note and unsecured demand notes bear interest at floating market rates and, as such, carrying amounts are deemed to reflect fair value. The fair value of the subordinated notes and notes payable to the FHLB were estimated by discounting future cash flows using current rates for advances with similar characteristics. Fair value of the Trust Preferred Securities is based on quoted market price.

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT. It is not practicable to estimate the fair value of commitments to extend credit because information necessary to support fair value estimations is not readily available and amounts are not anticipated to be significant.

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

	2001	
As of December 31,	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash and short-term investments	$ 293,036	293,036
Securities available-for-sale	593,104	593,104
Securities held-to-maturity	100,074	100,883
Net loans	2,123,877	2,251,002
Loan servicing rights, net	6,322	7,019

Total financial assets	$3,116,413	3,245,044

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)

	2001	
As of December 31,	Carrying Amount	Estimated Fair Value
Financial liabilities and trust preferred securities:		
Total deposits, excluding time deposits	$1,720,076	1,720,076
Time deposits	988,537	990,753
Federal funds purchased	625	625
Securities sold under repurchase agreements	271,952	271,952
Other borrowed funds	8,095	8,095
Long-term debt	34,331	36,394
Trust Preferred Securities	40,000	40,000
Total financial liabilities and trust preferred securities	$3,063,616	3,067,895

(21) EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

For the year ended December 31,	2001	2000	1999
Net income basic and diluted	$ 31,183	30,380	27,728
Average outstanding shares - basic	7,854,576	7,924,589	7,967,953
Add: effect of dilutive stock options	67,118	119,942	143,363
Average outstanding shares - diluted	7,921,694	8,044,531	8,111,316
Basic earnings per share	$ 3.97	3.83	3.48

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

Diluted earnings per share	$ 3.94	3.78	3.42

Stock options to purchase 100,206 and 750 shares for the years ended December 31, 2000 and 1999, respectively, were outstanding but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the fair value of the shares and, therefore, the effect would have been antidilutive. There were no antidilutive stock options outstanding for the year ended December 31, 2001.

(22) ACQUISITIONS

EQUALITY BANKSHARES, INC. On August 1, 2000, the Company purchased all of the outstanding stock of Equality Bankshares, Inc. (EBSI) and its bank subsidiary, The Equality State Bank (ESB). The total cash purchase price paid at closing of $20,301 was funded through available cash on hand and a $19,000 advance on the Company's revolving term note. At the purchase date, EBSI had gross loans of approximately $64,000 and deposits of approximately $80,000. The transaction was accounted for as a purchase and, accordingly, the consolidated statement of income for the year ended December 31, 2000 includes EBSI's results of operations since the date of purchase. EBSI was subsequently dissolved and ESB was merged with FIB. The premium paid and estimated fair value adjustments have been pushed down to FIB. The premium paid over the fair value of the assets and liabilities acquired amounted to $13,295 which was allocated to core deposit intangibles of $1,867 and goodwill of $11,428. Core deposit intangibles are being amortized using an accelerated method over 10 years. Goodwill is being amortized using the straight-line method over 20 years.

(23) NONCASH INVESTING AND FINANCING ACTIVITIES

The Company transferred loans of $485 and property of $175 to other real estate owned in 2001. The Company transferred loans of $1,841 and $524 to other real estate owned in 2000 and 1999, respectively.

In conjunction with the adoption of SFAS No. 133, the Company transferred investment securities of $3,165 from the available-for-sale category to the held-to-maturity category during 2001.

In conjunction with the exercise of stock options, the Company transferred $75, $74, and $324 in 2001, 2000 and 1999, respectively, from accrued liabilities to common stock.

In conjunction with acquisitions during 2000 and 1999, the Company received assets with fair values of $103.2 million and $76.6 million, respectively, and assumed liabilities of $82.9 million and $64.7 million, respectively. During 1999, the Company transferred other assets of $342 to premises and equipment.

(24) RELATED PARTY TRANSACTIONS

The Company has banking transactions in the ordinary course of business with related parties, including business with directors, officers, stockholders and their associates, on the same terms as those prevailing at the same time for comparable transactions with unrelated persons and that did not involve more than a normal risk of collectibility or present other unfavorable features.

Certain executive officers and directors of the Company and certain corporations and individuals related to such persons, incurred indebtedness in the form of loans, as customers, of $22,478 at December 31, 2001 and $28,629 at December 31, 2000. During 2001, new loans and advances on existing loans of $57,576 were funded and repayments totaled $63,727. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable risk loans.

The Parent Company and the Billings office of FIB are the anchor tenants in a building owned by a partnership in which FIB is one of the two partners, and has a 50% partnership interest. The other 50% is owned by a company in which a director of the Company owns beneficially an equity interest of approximately 33%. At December 31, 2001, the partnership has indebtedness of $8,280 which is full recourse to the partners. Total rents, including maintenance, paid to the partnership were $1,493 in 2001, $1,503 in 2000 and $1,445 in 1999.

The Company purchases property and casualty insurance from an agency owned by a director of the Company. The Company paid insurance premiums to the agency of $279, $194 and $0 in 2001, 2000 and 1999, respectively.

(25) BUSINESS LINE REPORTING

During the fourth quarter 2001, management reassessed the Company's business lines and made the determination that certain operational and mortgage servicing activities previously reported as Other more closely aligned with the objectives of Community Banking. Accordingly, these activities are included in the Community Banking line of business consistent with the Company's internal management structure. The presentation of prior year amounts conforms to current year except as noted below.

On January 1, 2001, the Company transferred IP services from FIB, its banking subsidiary, to i_Tech, its technology services subsidiary. Because expenses associated with IP services prior to 2001 cannot be separately distinguished from other operational expenses, the 2000 and 1999 amounts reported have not been reclassified to reflect the transfer. Increases in the revenues and non-interest expenses of the Technology Services business line during 2001 as compared to 2000 and 1999 are primarily due to the transfer of IP services.

Selected business line information for the years ended December 31, 2001, 2000 and 1999 follows:

For the Year Ended December 31, 2001	Community Banking	Technology Services	Other	
Net interest income (expense)	$ 131,311	106	(6,275)	
Provision for loan losses	7,443	--	400	
Net interest income after provision	123,868	106	(6,675)	
Non-interest income				
External sources	40,065	10,255	1,714	
Internal sources	--	11,874	(11,874)	
Total non-interest income	40,065	22,129	(10,160)	
Non-interest expenses	104,947	17,183	(1,881)	
Income (loss) before taxes	58,986	5,052	(14,954)	
Income tax expense (benefit)	21,313	2,002	(5,414)	
Net income (loss)	$ 37,673	3,050	(9,540)	
Depreciation & amortization	$ 13,346	15	302	
Total assets	$3,299,812	5,508	9,396	3,
Investment in equity method investees	$ 1,621	--	314	

For the Year Ended December 31, 2000	Community Banking	Technology Services	Other
Net interest income (expense)	$ 115,803	119	(5,914)
Provision for loan losses	5,280	--	--
Net interest income after provision	110,523	119	(5,914)
Non-interest income			
External sources	33,887	8,927	1,337
Internal sources	--	6,615	(6,615)
Total non-interest income	33,887	15,542	(5,278)
Non-interest expenses	91,361	10,761	(799)
Income (loss) before taxes	53,049	4,900	(10,393)
Income tax expense (benefit)	18,924	1,946	(3,694)
Net income (loss)	$ 34,125	2,954	(6,699)

Depreciation & amortization	$ 12,014	4	414	
Total assets	$2,919,064	4,373	9,825	2,
Investment in equity method investees	$ 1,562	--	--	

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)

For the Year Ended December 31, 1999	Community Banking	Technology Services	Other	
Net interest income (expense)	$ 105,462	--	(5,115)	
Provision for loan losses	3,563	--	--	
Net interest income after provision	101,899	--	(5,115)	
Non-interest income				
External sources	29,832	7,289	555	
Internal sources	--	5,359	(5,359)	
Total non-interest income	29,832	12,648	(4,804)	
Non-interest expenses	79,677	9,332	2,494	
Income (loss) before taxes	52,054	3,316	(12,413)	
Income tax expense (benefit)	18,757	1,317	(4,845)	
Net income (loss)	$ 33,297	1,999	(7,568)	
Depreciation & amortization	$ 10,726	1	298	
Total assets	$2,596,758	--	15,905	2,
Investment in equity method investees	$ 1,125	--	--	

(a) 2. Financial statement schedules

All other schedules to the consolidated financial statements of the Registrant are omitted since the required information is either not applicable, deemed immaterial, or is shown in the respective financial statements or in notes thereto.

(a) 3. Exhibits

3.1(1)	Restated Articles of Incorporation dated February 27, 1986
3.2(2)	Articles of Amendment to Restated Articles of Incorporation dated September 26, 1996
3.3(2)	Articles of Amendment to Restated Articles of Incorporation dated September 26, 1996
3.4(6)	Articles of Amendment to Restated Articles of Incorporation dated October 7, 1997
3.5(3)	Bylaws of First Interstate BancSystem, Inc.
3.6(10)	Amendment to Bylaws of First Interstate BancSystem, Inc. dated March 18, 1999
3.7(11)	Amendment to Bylaws of First Interstate BancSystem, Inc. dated May 18, 2001
4.1(4)	Specimen of common stock certificate of First Interstate BancSystem, Inc.
4.2(1)	Stockholder's Agreement for non-Scott family members
4.3(12)	Shareholder's Agreement for non-Scott family members dated August 24, 2001
4.4(9)	First Interstate Stockholders' Agreements with Scott family members dated January 11, 1999
4.5(9)	Specimen of Charity Shareholder's Agreement with Charitable Shareholders
4.6(7)	Junior Subordinated Indenture dated November 7, 1997 entered into between First Interstate and Wilmington Trust Company, as Indenture Trustee
4.7(6)	Certificate of Trust of FIB Capital Trust dated as of October 1, 1997
4.8(6)	Trust Agreement of FIB Capital dated as of October 1, 1997
4.9(7)	Amended and Restated Trust Agreement of FIB Capital Trust
4.10(7)	Trust Preferred Certificate of FIB Capital Trust (included as an exhibit to Exhibit 4.6)
4.11(7)	Common Securities Certificate of FIB Capital Trust (included as an exhibit to Exhibit 4.6)
4.12(7)	Guarantee Agreement between First Interstate BancSystem, Inc. and Wilmington Trust Company
4.13(7)	Agreement as to Expenses and Liabilities (included as an exhibit to Exhibit 4.6)
10.1(2)	Loan Agreement dated October 1, 1996, between First Interstate BancSystem, Inc., as borrower, and First Security Bank, N.A., Colorado National Bank, N.A. and Wells Fargo Bank, N.A.
10.2(10)	First Amendment to Loan Agreement between First Interstate BancSystem, Inc., as borrower, and First Security Bank, N.A. dated August 20, 1999
10.3(13)	Second Amendment to Loan Agreement between First Interstate BancSystem, Inc., as borrower, and First Security Bank, N.A. dated August 1, 2000
10.4(2)	Note Purchase Agreement dated August 30, 1996, between First Interstate BancSystem, Inc. and the Montana Board of Investments
10.5(1)	Lease Agreement Between Billings 401 Joint Venture and First Interstate Bank Montana and addendum thereto

10.6(5)	Credit Agreement between Billings 401 Joint Venture and Colorado National Bank dated as of September 26, 1995
10.7(1)+	Stock Option and Stock Appreciation Rights Plan of First Interstate BancSystem, Inc., as amended
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10.14+	First Interstate BancSystem, Inc. Executive Non-Qualified Deferred Compensation Plan dated November 20, 1998
12.1	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of First Interstate BancSystem, Inc.
23.1	Consent of Ernst & Young LLP, Independent Auditors
23.2	Consent of KPMG LLP, Independent Auditors

+ Management contract or compensatory plan.

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1, No. 333-84540.

(2) Incorporated by reference to the Registrant's Form 8-K dated October 1, 1996.

(3) Incorporated by reference to the Registrant's Registration Statement on Form S-1, No. 333-25633.

(4) Incorporated by reference to the Registrant's Registration Statement on Form S-1, No. 333-3250.

(5) Incorporated by reference to the Post-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-1, No. 33-84540.

(6) Incorporated by reference to the Registrant's Registration Statement on Form S-1, No. 333-37847.

(7) Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 1997, No. 33-64304.

(8) Incorporated by reference to the Registrant's Registration Statement on Form S-8, No. 333-53011.

(9) Incorporated by reference to the Registrant's Registration Statement on Form S-8, No. 333-76825.

(10) Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 1999, No. 033-64304.

(11) Incorporated by reference to the Registrant's Registration Statement on Form S-8, No. 333-69490.

(12) Incorporated by reference to the Registrant's Post-Effective Amendment No. 1 to Registration Statement on Form S-8, No. 333-76825.

(13) Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2000, No. 033-64304.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of 2001.

(c) Exhibits

See Item 14(a)3 above.

(d) Financial Statements Schedules

See Item 14(a)2 above.

EXHIBIT INDEX

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(11)	Incorporated by reference to the Registrant's Registration Statement on Form S-8, No. 333-69490.
(12)	Incorporated by reference to the Registrant's Post-Effective

Amendment No. 1 to Registration Statement on Form S-8, No. 333-76825.

(13) Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2000, No. 033-64304.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Billings, State of Montana.

First Interstate BancSystem, Inc.

By: /s/ LYLE R. KNIGHT	MARCH 25, 2002
Lyle R. Knight President and Chief Operating Officer	Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the dates indicated.

By: /s/ HOMER A. SCOTT, JR.	MARCH 25, 2002
Homer A. Scott, Jr. Chairman	Date
By: /s/ DAN S. SCOTT	MARCH 25, 2002
Dan S. Scott, Director	Date
By: /s/ JAMES R. SCOTT	MARCH 25, 2002
James R. Scott, Vice Chairman of the Board	Date
By: /s/ SANDRA A. SCOTT SUZOR	MARCH 25, 2002
Sandra A. Scott Suzor, Director	Date
By: /s/ JOHN M. HEYNEMAN, JR.	MARCH 25, 2002
John M. Heyneman, Jr., Director	Date
By: /s/ JOEL T. LONG	MARCH 25, 2002
Joel T. Long, Director	Date
By: /s/ JAMES W. HAUGH	MARCH 25, 2002
James W. Haugh, Director	Date

By: /s/ DAVID H. CRUM	MARCH 25, 2002
David H. Crum, Director	Date
By: /s/ TERRY W. PAYNE	MARCH 25, 2002
Terry W. Payne, Director	Date
By: /s/ C. GARY JENNINGS	MARCH 25, 2002
C. Gary Jennings, Director	Date
By: /s/ ROBERT L. NANCE	MARCH 25, 2002
Robert L. Nance, Director	Date
By: /s/ ROBERT H. WALLER	MARCH 25, 2002
Robert H. Waller, Director	Date
By:	
Elouise C. Cobell, Director	Date
By: /s/ RICHARD A. DORN	MARCH 25, 2002
Richard A. Dorn, Director	Date
By: /s/ LARRY F. SUCHOR	MARCH 25, 2002
Larry F. Suchor, Director	Date
By: /s/ WILLIAM B. EBZERY	MARCH 25, 2002
William B. Ebzery, Director	Date
By: /s/ THOMAS W. SCOTT	MARCH 25, 2002
Thomas W. Scott Chief Executive Officer and Director (Principal executive officer)	Date
By: /s/ LYLE R. KNIGHT	MARCH 25, 2002
Lyle R. Knight President, Chief Operating Officer and Director	Date
By: /s/ TERRILL R. MOORE	MARCH 25, 2002

Terrill R. Moore Senior Vice President and Chief Financial Officer (Principal financial and accounting officer)	Date

SUPPLEMENTAL INFORMATION TO BE FURNISHED
WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF
THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED
SECURITIES PURSUANT TO SECTION 12 OF THE ACT

The Registrant has not yet provided any annual report to security holders covering the 2001 fiscal year, nor has any proxy statement, form of proxy or other proxy soliciting material been sent to any security holder of the Registrant with respect to the Registrant's 2002 annual meeting of shareholders. If any such annual report or proxy material is sent to security holders subsequent to the filing of this Annual Report on Form 10-K, the Registrant shall furnish copies of such report and material to the Commission when it is sent to security holders.