UMB FINANCIAL CORP
Form 10-Q
October 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number001-38481

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Missouri	43-0903811
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1010 Grand Boulevard, Kansas City, Missouri	64106
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code): (816) 860-7000

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

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

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

Large accelerated filer		Accelerated filer
Non- accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

As of October 25, 2018, UMB Financial Corporation had 49,876,231 shares of common stock outstanding.

UMB FINANCIAL CORPORATION

FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(unaudited, dollars in thousands, except share and per share data)

	September 30, 2018	December 31, 2017
ASSETS		
Loans	$ 11,964,724	$ 11,280,513
Allowance for loan losses	(101,302)	(100,604)
Net loans	11,863,422	11,179,909
Loans held for sale	2,222	1,460
Securities:		
Available for sale	5,932,741	6,258,577
Held to maturity (fair value of $1,091,640 and $1,207,447, respectively)	1,199,114	1,261,014
Trading securities	81,159	54,055
Other securities	65,252	65,897
Total investment securities	7,278,266	7,639,543
Federal funds sold and securities purchased under agreements to resell	206,412	191,601
Interest-bearing due from banks	668,990	1,351,760
Cash and due from banks	348,700	392,723
Premises and equipment, net	277,123	275,942
Accrued income	104,012	98,863
Goodwill	180,867	180,867
Other intangibles, net	16,335	20,257
Other assets	516,011	438,658
Total assets	$ 21,462,360	$ 21,771,583
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 5,757,353	$ 6,839,171
Interest-bearing demand and savings	10,938,839	9,903,565
Time deposits under $250,000	594,705	547,990
Time deposits of $250,000 or more	445,807	732,274
Total deposits	17,736,704	18,023,000
Federal funds purchased and repurchase agreements	1,192,985	1,260,704
Long-term debt	78,523	79,281
Accrued expenses and taxes	171,548	191,464
Other liabilities	79,136	35,603
Total liabilities	19,258,896	19,590,052
SHAREHOLDERS' EQUITY		

Common stock, $1.00 par value; 80,000,000 shares authorized; 55,056,730		
shares issued; and 49,847,139 and 49,894,990 shares outstanding, respectively	55,057	55,057
Capital surplus	1,054,801	1,046,095
Retained earnings	1,477,732	1,338,110
Accumulated other comprehensive loss, net	(155,641)	(45,525)
Treasury stock, 5,209,591 and 5,161,740 shares, at cost, respectively	(228,485)	(212,206)
Total shareholders' equity	2,203,464	2,181,531
Total liabilities and shareholders' equity	$ 21,462,360	$ 21,771,583

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(unaudited, dollars in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME				
Loans	$143,947	$119,132	$405,231	$338,416
Securities:				
Taxable interest	20,263	17,720	60,566	55,351
Tax-exempt interest	18,281	18,893	55,274	54,372
Total securities income	38,544	36,613	115,840	109,723
Federal funds and resell agreements	665	1,008	2,455	2,638
Interest-bearing due from banks	1,513	753	4,149	1,884
Trading securities	428	389	1,567	1,135
Total interest income	185,097	157,895	529,242	453,796
INTEREST EXPENSE				
Deposits	25,792	10,181	57,961	23,982
Federal funds and repurchase agreements	7,524	5,811	18,922	14,274
Other	1,291	1,045	3,721	2,973
Total interest expense	34,607	17,037	80,604	41,229
Net interest income	150,490	140,858	448,638	412,567
Provision for loan losses	5,750	11,500	22,750	35,000
Net interest income after provision for loan losses	144,740	129,358	425,888	377,567
NONINTEREST INCOME				
Trust and securities processing	43,425	45,060	130,272	132,412
Trading and investment banking	3,711	4,453	12,465	18,168
Service charges on deposit accounts	20,927	21,510	63,554	66,316
Insurance fees and commissions	339	425	980	1,584
Brokerage fees	6,402	5,815	19,046	17,081
Bankcard fees	16,838	17,427	52,145	55,413
Gain on sales of securities available for sale, net	211	2,390	578	4,138
Other	9,032	7,226	27,659	22,417
Total noninterest income	100,885	104,306	306,699	317,529
NONINTEREST EXPENSE				
Salaries and employee benefits	102,956	99,749	315,099	306,174
Occupancy, net	11,628	11,285	33,394	33,314
Equipment	18,533	17,880	56,201	53,318
Supplies and services	4,528	4,076	12,434	12,962
Marketing and business development	6,671	5,056	17,889	14,929
Processing fees	12,331	11,151	35,029	31,093
Legal and consulting	8,470	5,844	18,774	17,361
Bankcard	4,407	5,130	13,198	15,066
Amortization of other intangible assets	1,385	1,715	4,432	5,685

Regulatory fees	3,337	3,798	10,014	11,702
Other	6,139	6,137	17,015	20,966
Total noninterest expense	180,385	171,821	533,479	522,570
Income before income taxes	65,240	61,843	199,108	172,526
Income tax expense	7,391	12,971	28,302	36,907
Income from continuing operations	57,849	48,872	170,806	135,619
Discontinued Operations				
Loss from discontinued operations before income taxes	—	(1,030)	(917)	(722)
Income tax benefit	—	(300)	(170)	(247)
Loss from discontinued operations	—	(730)	(747)	(475)
NET INCOME	$57,849	$48,142	$170,059	$135,144

PER SHARE DATA				
Basic:				
Income from continuing operations	$1.17	$0.99	$3.45	$2.76
Loss from discontinued operations	—	(0.01)	(0.01)	(0.01)
Net income – basic	1.17	0.98	3.44	2.75
Diluted:				
Income from continuing operations	1.16	0.98	3.41	2.72
Loss from discontinued operations	—	(0.01)	(0.01)	(0.01)
Net income - diluted	1.16	0.97	3.40	2.71
Dividends	0.290	0.255	0.870	0.765
Weighted average shares outstanding - basic	49,473,157	49,283,322	49,482,087	49,221,629
Weighted average shares outstanding - diluted	49,912,084	49,833,141	49,952,984	49,838,619

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$57,849	$48,142	$170,059	$135,144
Other comprehensive (loss) income, net of tax:				
Unrealized gains and losses on debt securities:				
Change in unrealized holding gains and losses, net	(36,331)	5,064	(133,013)	62,646
Less: Reclassification adjustment for gains included in net income	(211)	(2,390)	(578)	(4,138)
Change in unrealized gains and losses on debt securities during the period	(36,542)	2,674	(133,591)	58,508
Change in unrealized gains and losses on derivative hedges	1,162	(169)	4,274	(1,080)
Income tax benefit (expense)	8,698	(1,548)	32,250	(22,554)
Other comprehensive (loss) income before reclassifications	(26,682)	957	(97,067)	34,874
Amounts reclassified from accumulated other comprehensive income[(1)(2)]	—	—	(13,049)	—
Net current-period other comprehensive (loss) income	(26,682)	957	(110,116)	34,874
Comprehensive income	$31,167	$49,099	$59,943	$170,018

(1) See Note 3, “New Accounting Pronouncements,” for discussion of the Company’s adoption of Accounting Standards Update (ASU) No. 2016-01.

(2) See Note 3, “New Accounting Pronouncements,” for discussion of the Company’s adoption of ASU No. 2018-02.

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, dollars in thousands, except per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance - January 1, 2017	$55,057	$1,033,419	$1,142,887	$(57,542)	$(211,437)	$1,962,384
Total comprehensive income	—	—	135,144	34,874	—	170,018
Dividends ($0.765 per share)	—	—	(38,166)	—	—	(38,166)
Purchase of treasury stock	—	—	—	—	(14,369)	(14,369)
Issuance of equity awards	—	(3,364)	—	—	3,835	471
Recognition of equity-based compensation	—	9,576	—	—	—	9,576
Sale of treasury stock	—	468	—	—	381	849
Exercise of stock options	—	1,923	—	—	8,857	10,780
Balance - September 30, 2017	$55,057	$1,042,022	$1,239,865	$(22,668)	$(212,733)	$2,101,543
Balance - January 1, 2018	$55,057	$1,046,095	$1,338,110	$(45,525)	$(212,206)	$2,181,531
Total comprehensive income (loss)	—	—	170,059	(110,116)	—	59,943
Reclassification of certain tax effects[1]	—	—	12,917	—	—	12,917
Dividends ($0.870 per share)	—	—	(43,499)	—	—	(43,499)
Purchase of treasury stock	—	—	—	—	(26,417)	(26,417)
Issuance of equity awards	—	(2,004)	—	—	2,499	495
Recognition of equity-based compensation	—	8,469	—	—	—	8,469
Sale of treasury stock	—	409	—	—	406	815
Exercise of stock options	—	1,832	—	—	7,233	9,065
Cumulative effect adjustments[2]	—	—	145	—	—	145
Balance - September 30, 2018	$55,057	$1,054,801	$1,477,732	$(155,641)	$(228,485)	$2,203,464

(1) Related to the adoption of ASU No. 2018-02. See Note 3, “New Accounting Pronouncements,” for further detail.

(2) Related to the adoption of ASU Nos. 2016-01 and 2017-12. See Note 3, “New Accounting Pronouncements,” for further detail.

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	For the Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$170,059	$135,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	22,750	35,000
Net accretion of premiums and discounts from acquisition	(193)	(1,810)
Depreciation and amortization	39,781	41,538
Deferred income tax (benefit) expense	(22,535)	1,555
Net increase in trading securities and other earning assets	(29,583)	(17,680)
Gains on sales of securities available for sale, net	(578)	(4,138)
Gains on sales of assets	(157)	(484)
Amortization of securities premiums, net of discount accretion	33,906	36,571
Originations of loans held for sale	(40,836)	(53,207)
Gains on sales of loans held for sale, net	(966)	(1,188)
Proceeds from sales of loans held for sale	41,040	55,149
Equity-based compensation	8,964	10,047
Net tax benefit related to equity compensation plans	2,241	3,149
Changes in:		
Accrued income	(5,149)	(4,031)
Accrued expenses and taxes	(19,916)	21,011
Other assets and liabilities, net	25,258	(12,336)
Net cash provided by operating activities	224,086	244,290
INVESTING ACTIVITIES		
Proceeds from maturities of securities held to maturity	81,670	64,079
Proceeds from sales of securities available for sale	95,525	573,062
Proceeds from maturities of securities available for sale	825,504	1,005,585
Purchases of securities held to maturity	(20,159)	(225,445)
Purchases of securities available for sale	(760,205)	(1,107,842)
Net increase in loans	(708,880)	(481,593)
Net (increase) decrease in fed funds sold and resell agreements	(14,811)	79,891
Net cash activity from acquisitions and divestitures	2,364	(2,532)
Net (increase) decrease in interest bearing balances due from other financial institutions	(4,776)	34,164
Purchases of premises and equipment	(36,731)	(24,748)
Proceeds from sales of premises and equipment	463	1,650
Increase in COLI/BOLI cash surrender value	—	(62,800)
Proceeds from bank-owned life insurance death benefit	16	—
Net cash used in investing activities	(540,020)	(146,529)
FINANCING ACTIVITIES		

Net decrease in demand and savings deposits	(46,544)	(559,697)
Net decrease in time deposits	(239,752)	(11,313)
Net decrease in fed funds purchased and repurchase agreements	(67,719)	(100)
Repayment of long-term debt	(1,554)	(1,491)
Cash dividends paid	(43,529)	(38,171)
Proceeds from exercise of stock options and sales of treasury shares	9,880	11,629
Purchases of treasury stock	(26,417)	(14,369)
Net cash used in financing activities	(415,635)	(613,512)
Decrease in cash and cash equivalents	(731,569)	(515,751)
Cash and cash equivalents at beginning of period	1,716,262	1,063,967
Cash and cash equivalents at end of period	$984,693	$548,216
Supplemental Disclosures:		
Income taxes paid	$62,776	$37,109
Total interest paid	76,066	40,245

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 (UNAUDITED)

1. Financial Statement Presentation

The Consolidated Financial Statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after the elimination of all intercompany transactions. In the opinion of management of the Company, all adjustments relating to items that are of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year ending December 31, 2018. The financial statements should be read in conjunction with "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" within this Quarterly Report on Form 10-Q (the Form 10-Q) and in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission (SEC) on February 22, 2018 (the Form 10-K).

The Company is a financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices. The Company's national bank, UMB Bank, National Association (the Bank), has its principal office in Missouri and also has branches in Arizona, Colorado, Illinois, Kansas, Nebraska, Oklahoma, and Texas. The Company also has offices in Pennsylvania, South Dakota, Indiana, Utah, Minnesota, California, and Wisconsin.

Until November 17, 2017, the Company owned Scout Investments, Inc. (Scout), an institutional asset-management company that offered domestic and international equity strategies. On November 17, 2017, the Company closed on the sale of Scout to Carillon Tower Advisers, Inc., a Florida corporation, for a purchase price of approximately $172.5 million, after giving effect to customary purchase price adjustments. In accordance with Accounting Standards Codification (ASC) Topic 205-20, Discontinued Operations, the results of Scout have been presented separately as (Loss) income from discontinued operations in the Company's Consolidated Statements of Income.

2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies to assist the reader in understanding the financial presentation is provided in the Notes to Consolidated Financial Statements in the Form 10-K.

Cash and cash equivalents

Cash and cash equivalents includes Cash and due from banks and amounts due from the Federal Reserve Bank (FRB). Cash on hand, cash items in the process of collection, and amounts due from correspondent banks are included in Cash and due from banks. Amounts due from the FRB are interest-bearing for all periods presented and are included in the Interest-bearing due from banks line on the Company's Consolidated Balance Sheets.

This table provides a summary of cash and cash equivalents as presented on the Consolidated Statements of Cash Flows as of September 30, 2018 and September 30, 2017 (in thousands):

	September 30,	
	2018	2017
Due from the FRB	$635,993	$182,047
Cash and due from banks	348,700	366,169
Cash and cash equivalents at end of period	$984,693	$548,216

Also included in the Interest-bearing due from banks, but not considered cash and cash equivalents, are interest-bearing accounts held at other financial institutions, which totaled $33.0 million and $39.8 million at September 30, 2018 and September 30, 2017, respectively.

Per Share Data

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted quarter-to-date net income per share includes the dilutive effect of 438,927 and 549,819 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2018 and 2017, respectively. Diluted year-to-date net income per share includes the dilutive effect of 470,897 and 616,990 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2018 and 2017, respectively.

Options issued under employee benefits plans to purchase 135,157 and 150,739 shares of common stock were outstanding at September 30, 2018 and 2017, respectively, but were not included in the computation of quarter-to-date and year-to-date diluted earnings per share because the options were anti-dilutive.

Derivatives

The Company records all derivatives on the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Currently, three of the Company's derivatives are designated in qualifying hedging relationships. However, the remainder of the Company's derivatives are not designated in qualifying hedging relationships, as the derivatives are not used to manage risks within the Company's assets or liabilities. All changes in fair value of the Company's non-designated derivatives are recognized directly in earnings. Changes in fair value of the Company's fair value hedges are recognized directly in earnings. Changes in fair value of the Company's cash flow hedges are recognized in accumulated other comprehensive income (AOCI).

3. New Accounting Pronouncements

Revenue Recognition In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, "Revenue from Contracts with Customers." The ASU replaced most existing revenue recognition guidance in U.S. GAAP when it became effective. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU No. 2014-09 to annual reporting periods that begin after December 15, 2017. In March, April, and May 2016, the FASB issued implementation amendments to the May 2014 ASU (collectively, the amended guidance). The amended guidance affects any entity that enters into contracts with customers to transfer goods and services, unless those contracts are within the scope of other standards. The amended guidance specifically excludes interest income, as well as other revenues associated with financial assets and liabilities, including loans, leases, securities, and derivatives. The amended guidance permits the use of either the full retrospective approach or a modified retrospective approach. The Company adopted the amended guidance using the modified retrospective approach on January 1, 2018. The adoption of this guidance had no impact on the Company's Consolidated Financial Statements, except for additional financial statement disclosures. See Note 9, "Revenue Recognition" for related disclosures.

Financial Instruments In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." The amendment is intended to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update were adopted on January 1, 2018. Upon adoption, the Company recorded a cumulative effect adjustment to the Company's Consolidated Balance Sheets of $132 thousand as an increase to the opening balance of total shareholders' equity.

Leases In February 2016, the FASB issued ASU No. 2016-02, “Leases.” In January and July 2018, the FASB issued implementation amendments to the February 2016 ASU (collectively, the amended guidance). The amended guidance changes the accounting treatment of leases, in that lessees will recognize most leases on-balance sheet.

This will increase reported assets and liabilities, as lessees will be required to recognize a right-of-use asset along with a lease liability, measured on a discounted basis. Lessees are allowed to account for short-term leases (those with a term of twelve months or less) off-balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amended guidance allows an entity to choose either the effective date, or the beginning of the earliest comparative period presented in the financial statements, as its date of initial application. Early adoption is permitted. The Company expects to adopt the amended guidance on January 1, 2019 and use the effective date as the date of initial application. The Company has reviewed all existing lease agreements for which the amended guidance is to be applied, and is in the process of determining which practical expedients will be elected for transition and ongoing accounting. The most significant effects of the adoption of this guidance will be additional financial statement disclosures.

Extinguishments of Liabilities In March 2016, the FASB issued ASU No. 2016-04, "Recognition of Breakage for Certain Prepaid Stored-Value Products." The amendment is intended to reduce the diversity in practice related to the recognition of breakage. Breakage refers to the portion of a prepaid stored-value product, such as a gift card, that goes unused wholly or partially for an indefinite period of time. This amendment requires that breakage be accounted for consistent with the breakage guidance within ASU No. 2014-09, "Revenue from Contracts with Customers." The amendments in this update were adopted January 1, 2018 in conjunction with the adoption of ASU 2014-09, and the adoption had no impact on the Company's Consolidated Financial Statements.

Credit Losses In September 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This update replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption in fiscal years beginning after December 15, 2018 is permitted. The amendment requires the use of the modified retrospective approach for adoption. The Company is currently evaluating the impact that this standard will have on its Consolidated Financial Statements.

Statement of Cash Flows In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Receipts and Cash Payments." This amendment adds to and clarifies existing guidance regarding the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice with respect to eight types of cash flows. The amendments in this update require full retrospective adoption. The amendments in this update were adopted on January 1, 2018 and did not have an impact on the Company's Consolidated Financial Statements.

Derivatives and Hedging In August 2017, the FASB issued ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities." The purpose of this updated guidance is to better align financial reporting for hedging activities with the economic objectives of those activities. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted, and require the modified retrospective transition approach as of the date of adoption. The Company early adopted ASU 2017-12 with an effective date of January 1, 2018. Upon adoption, the Company recorded a cumulative effect

adjustment to the Company's Consolidated Balance Sheets of $13 thousand as an increase to the opening balance of total shareholders' equity.

Comprehensive Income In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." Under existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in AOCI are adjusted, certain tax effects become stranded in AOCI. This amendment allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the Tax Act), and requires certain disclosures about

stranded tax effects. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption, including adoption in any interim period, is permitted. The Company early adopted ASU 2018-02 using a security-by-security approach with an effective date of January 1, 2018. Upon adoption, the Company reclassified stranded tax effects totaling $12.9 million from AOCI to retained earnings.

4. Loans and Allowance for Loan Losses

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to minimize the level of risk within the loan portfolio. Diversification of the loan portfolio manages the risk associated with fluctuations in economic conditions. Authority levels are established for the extension of credit to ensure consistency throughout the Company. It is necessary that policies, processes and practices implemented to control the risks of individual credit transactions and portfolio segments are sound and adhered to. The Company maintains an independent loan review department that reviews and validates the risk assessment on a continual basis. Management regularly evaluates the results of the loan reviews. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Commercial loans are made based on the identified cash flows of the borrower and on the underlying collateral provided by the borrower. The cash flows of the borrower, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts from its customers. Commercial credit cards are generally unsecured and are underwritten with criteria similar to commercial loans including an analysis of the borrower's cash flow, available business capital, and overall credit-worthiness of the borrower.

Asset-based loans are offered primarily in the form of revolving lines of credit to commercial borrowers that do not generally qualify for traditional bank financing. Asset-based loans are underwritten based primarily upon the value of the collateral pledged to secure the loan, rather than on the borrower's general financial condition. The Company utilizes pre-loan due diligence techniques, monitoring disciplines, and loan management practices common within the asset-based lending industry to underwrite loans to these borrowers.

Factoring loans provide working capital through the purchase and/or financing of accounts receivable to borrowers in the transportation industry and to commercial borrowers that do not generally qualify for traditional bank financing.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The Company requires that an appraisal of the collateral be made at origination and on an as-needed basis, in conformity with current market conditions and regulatory requirements. The underwriting standards address both owner and non-owner occupied real estate.

Construction loans are underwritten using feasibility studies, independent appraisal reviews, sensitivity analysis or absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are based upon estimates of costs and value associated with the complete project. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their repayment being sensitive to interest rate changes, governmental regulation of real property, economic conditions, and the availability of long-term financing.

Underwriting standards for residential real estate and home equity loans are based on the borrower's loan-to-value percentage, collection remedies, and overall credit history.

Consumer loans are underwritten based on the borrower's repayment ability. The Company monitors delinquencies on all of its consumer loans and leases and periodically reviews the distribution of FICO scores relative to historical periods to monitor credit risk on its credit card loans. The underwriting and review practices combined with the relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Consumer loans and leases that are 90 days past due or more are considered non-performing.

Credit risk is a potential loss resulting from nonpayment of either the primary or secondary exposure. Credit risk is mitigated with formal risk management practices and a thorough initial credit-granting process including consistent underwriting standards and approval process. Control factors or techniques to minimize credit risk include knowing the client, understanding total exposure, analyzing the client and debtor's financial capacity, and monitoring the client's activities. Credit risk and portions of the portfolio risk are managed through concentration considerations, average risk ratings, and other aggregate characteristics.

Loan Aging Analysis

This table provides a summary of loan classes and an aging of past due loans at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Loans						
Commercial:						
Commercial	$8,419	$ 30	$31,532	$39,981	$4,867,218	$4,907,199
Asset-based	—	—	—	—	391,875	391,875
Factoring	—	—	—	—	287,352	287,352
Commercial – credit card	396	36	—	432	199,854	200,286
Real estate:						
Real estate – construction	—	—	—	—	828,033	828,033
Real estate – commercial	2,226	—	14,284	16,510	3,700,644	3,717,154
Real estate – residential	100	—	802	902	687,511	688,413
Real estate – HELOC	717	—	3,435	4,152	559,399	563,551
Consumer:						
Consumer – credit card	1,884	1,861	462	4,207	212,250	216,457
Consumer – other	475	—	53	528	158,265	158,793
Leases	—	—	—	—	5,611	5,611
Total loans	$14,217	$ 1,927	$50,568	$66,712	$11,898,012	$11,964,724

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	December 31, 2017					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Loans						
Commercial:						
Commercial	$11,216	$ 672	$38,644	$50,532	$4,502,508	$4,553,040
Asset-based	—	—	—	—	336,614	336,614
Factoring	—	—	—	—	221,672	221,672
Commercial – credit card	387	79	—	466	171,825	172,291
Real estate:						
Real estate – construction	6,666	243	93	7,002	710,847	717,849
Real estate – commercial	832	—	16,115	16,947	3,546,683	3,563,630
Real estate – residential	791	—	929	1,720	636,871	638,591
Real estate – HELOC	1,254	—	3,013	4,267	644,112	648,379
Consumer:						
Consumer – credit card	2,155	2,057	312	4,524	248,173	252,697
Consumer – other	835	40	36	911	150,872	151,783
Leases	—	—	—	—	23,967	23,967
Total loans	$24,136	$ 3,091	$59,142	$86,369	$11,194,144	$11,280,513

The Company sold residential real estate loans with proceeds of $41.0 million and $55.1 million in the secondary market without recourse during the nine months ended September 30, 2018 and September 30, 2017, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of $50.6 million and $59.1 million at September 30, 2018 and December 31, 2017, respectively. Restructured loans totaled $20.5 million and $41.0 million at September 30, 2018 and December 31, 2017, respectively. Loans 90 days past due and still accruing interest amounted to $1.9 million and $3.1 million at September 30, 2018 and December 31, 2017, respectively. There was an insignificant amount of interest recognized on impaired loans during 2018 and 2017.

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grading of specified classes of loans, net charge-offs, non-performing loans, and general economic conditions.

The Company utilizes a risk grading matrix to assign a rating to each of its commercial, commercial real estate, and construction real estate loans. The loan ratings are summarized into the following categories: Non-watch list, Watch, Special Mention, and Substandard. Any loan not classified in one of the categories described below is considered to be a Non-watch list loan. A description of the general characteristics of the loan rating categories is as follows:

- Watch – This rating represents credit exposure that presents higher than average risk and warrants greater than routine attention by Company personnel due to conditions affecting the borrower, the borrower's industry or the economic environment. These conditions have resulted in some degree of uncertainty that results in higher than average credit risk.
- Special Mention – This rating reflects a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the borrower's credit position at some future date. The rating

is not adversely classified and does not expose an institution to sufficient risk to warrant adverse classification.

- Substandard – This rating represents an asset inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans in this category are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified as substandard. This category may include loans where the collection of full principal is doubtful or remote.

All other classes of loans are generally evaluated and monitored based on payment activity. Non-performing loans include restructured loans on non-accrual and all other non-accrual loans.

This table provides an analysis of the credit risk profile of each loan class excluded from ASC 310-30, Loans and Debt Securities Purchased with Deteriorated Credit Quality, at September 30, 2018 and December 31, 2017 (in thousands):

Credit Exposure

Credit Risk Profile by Risk Rating

	Commercial		Asset-based		Factoring	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Non-watch list	$4,447,646	$ 4,048,238	$329,986	$ 306,899	$245,248	$ 220,795
Watch	158,164	162,788	—	—	—	—
Special Mention	68,591	106,638	59,396	29,715	42,104	47
Substandard	232,798	235,376	2,493	—	—	830
Total	$4,907,199	$ 4,553,040	$391,875	$ 336,614	$287,352	$ 221,672

	Real estate – construction		Real estate – commercial	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Non-watch list	$827,835	$ 716,830	$3,581,155	$ 3,434,982
Watch	—	631	48,567	50,715
Special Mention	—	—	20,869	35,940
Substandard	198	388	66,563	41,993
Total	$828,033	$ 717,849	$3,717,154	$ 3,563,630

Credit Exposure

Credit Risk Profile Based on Payment Activity

Commercial – credit card		Real estate – residential		Real estate – HELOC	
September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017

Performing	$200,286	$ 172,291	$687,611	$ 637,662	$560,116	$ 645,366
Non-performing	—	—	802	929	3,435	3,013
Total	$200,286	$ 172,291	$688,413	$ 638,591	$563,551	$ 648,379

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	Consumer – credit card		Consumer – other		Leases	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Performing	$215,995	$ 252,385	$158,740	$ 151,747	$5,611	$ 23,967
Non-performing	462	312	53	36	—	—
Total	$216,457	$ 252,697	$158,793	$ 151,783	$5,611	$ 23,967

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's judgment of inherent probable losses within the Company's loan portfolio as of the balance sheet date. The allowance is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. Accordingly, the methodology is based on historical loss trends. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for probable loan losses reflects loan quality trends, including the levels of, and trends related to, non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and estimated losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific loans; however, the entire allowance is available for any loan that, in management's judgment, should be charged off. While management utilizes its best judgment and information available at the time, the adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates, and changes in the regulatory environment.

The Company's allowance for loan losses consists of specific valuation allowances and general valuation allowances based on historical loan loss experience for similar loans with similar characteristics and trends, general economic conditions, and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of impaired loans. Loans are classified based on an internal risk grading process that evaluates the obligor's ability to repay, the underlying collateral, if any, and the economic environment and industry in which the borrower operates. When a loan is considered impaired, the loan is analyzed to determine the need, if any, to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk rating of the loan, and economic conditions affecting the borrower's industry.

General valuation allowances are calculated based on the historical loss experience of specific types of loans including an evaluation of the time span and volume of the actual charge-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are updated based on actual charge-off experience. A valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio, time span to charge-off, and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial loans, commercial real estate loans, commercial credit card, home equity loans, consumer real estate loans and consumer and other loans. The Company also considers a loan migration

analysis for criticized loans. This analysis includes an assessment of the probability that a loan will move to a loss position based on its risk rating. The consumer credit card pool is evaluated based on delinquencies and credit scores. In addition, a portion of the allowance is determined by a review of qualitative factors by management.

Generally, the unsecured portion of a commercial or commercial real estate loan is charged off when, after analyzing the borrower's financial condition, it is determined that the borrower is incapable of servicing the debt, little or no prospect for near term improvement exists, and no realistic and significant strengthening action is pending. For collateral dependent commercial or commercial real estate loans, an analysis is completed regarding the Company's collateral position to determine if the amounts due from the borrower are in excess of the calculated current fair value of the collateral. Specific allocations of the allowance for loan losses are made for any collateral deficiency. If a collateral deficiency is ultimately deemed to be uncollectible, the amount is charged off. Revolving commercial loans (such as commercial credit cards) which are past due 90 cumulative days are classified as a loss and charged off.

Generally, a consumer loan, or a portion thereof, is charged off in accordance with regulatory guidelines which provide that such loans be charged off when the Company becomes aware of the loss, such as from a triggering event that may include, but is not limited to, new information about a borrower's intent and ability to repay the loan, bankruptcy, fraud, or death. However, the charge-off timeframe should not exceed the specified delinquency time frames, which state that closed-end retail loans (such as real estate mortgages, home equity loans and consumer installment loans) that become past due 120 cumulative days and open-end retail loans (such as home equity lines of credit and consumer credit cards) that become past due 180 cumulative days are classified as a loss and charged off.

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2018 (in thousands):

	Three Months Ended September 30, 2018				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$77,091	$12,226	$ 8,940	$ 41	$98,298
Charge-offs	(1,252)	(462)	(2,250)	—	(3,964)
Recoveries	628	54	536	—	1,218
Provision	4,090	236	1,453	(29)	5,750
Ending balance	$80,557	$12,054	$ 8,679	$ 12	$101,302

	Nine Months Ended September 30, 2018				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$81,156	$9,312	$10,083	$53	$100,604
Charge-offs	(15,186)	(3,312)	(7,503)	—	(26,001)
Recoveries	1,578	357	2,014	—	3,949
Provision	13,009	5,697	4,085	(41)	22,750
Ending balance	$80,557	$12,054	$8,679	$12	$101,302
Ending balance: individually evaluated for impairment	$4,454	$156	$—	$—	$4,610
Ending balance: collectively evaluated for impairment	76,103	11,898	8,679	12	96,692
Loans:					
Ending balance: loans	$5,786,712	$5,797,151	$375,250	$5,611	$11,964,724
Ending balance: individually evaluated for impairment	35,474	10,865	—	—	46,339
Ending balance: collectively evaluated for impairment	5,751,238	5,786,286	375,250	5,611	11,918,385

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2017 (in thousands):

	Three Months Ended September 30, 2017				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$76,858	$11,905	$ 8,961	$ 73	$97,797
Charge-offs	(9,151)	(439)	(2,281)	—	(11,871)
Recoveries	190	201	572	—	963
Provision	8,166	1,844	1,495	(5)	11,500
Ending balance	$76,063	$13,511	$ 8,747	$ 68	$98,389

	Nine Months Ended September 30, 2017				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$71,657	$10,569	$9,311	$112	$91,649
Charge-offs	(24,734)	(888)	(7,442)	—	(33,064)
Recoveries	2,519	620	1,665	—	4,804
Provision	26,621	3,210	5,213	(44)	35,000
Ending balance	$76,063	$13,511	$8,747	$68	$98,389
Ending balance: individually evaluated for impairment	$3,060	$125	$—	$—	$3,185
Ending balance: collectively evaluated for impairment	73,003	13,386	8,747	68	95,204
Loans:					
Ending balance: loans	$5,102,259	$5,447,874	$422,450	$24,445	$10,997,028
Ending balance: individually evaluated for impairment	62,872	8,310	—	—	71,182
Ending balance: collectively evaluated for impairment	5,039,387	5,439,564	422,450	24,445	10,925,846

Impaired Loans

This table provides an analysis of impaired loans by class at September 30, 2018 and December 31, 2017 (in thousands):

As of September 30, 2018					
Unpaid Principal	Recorded Investment with No	Recorded Investment	Total Recorded	Related Allowance	Average Recorded

	Balance	Allowance	with Allowance	Investment		Investment
Commercial:						
Commercial	$46,484	$ 20,731	$ 14,743	$ 35,474	$ 4,454	$ 46,417
Asset-based	—	—	—	—	—	—
Factoring	—	—	—	—	—	343
Commercial – credit card	—	—	—	—	—	—
Real estate:						
Real estate – construction	—	—	—	—	—	70
Real estate – commercial	13,406	10,184	386	10,570	79	12,113
Real estate – residential	306	200	95	295	77	306
Real estate – HELOC	—	—	—	—	—	—
Consumer:						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	—	—	—	—	—	—
Leases	—	—	—	—	—	—
Total	$60,196	$ 31,115	$ 15,224	$ 46,339	$ 4,610	$ 59,249

	As of December 31, 2017					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	$84,749	$ 44,525	$ 16,465	$ 60,990	$ 6,299	$ 65,385
Asset-based	—	—	—	—	—	—
Factoring	830	—	830	830	306	207
Commercial – credit card	—	—	—	—	—	—
Real estate:						
Real estate – construction	108	93	—	93	—	148
Real estate – commercial	16,284	7,968	4,477	12,445	3	10,506
Real estate – residential	427	321	97	418	75	221
Real estate – HELOC	—	—	—	—	—	—
Consumer:						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	—	—	—	—	—	8
Leases	—	—	—	—	—	—
Total	$102,398	$ 52,907	$ 21,869	$ 74,776	$ 6,683	$ 76,475

Troubled Debt Restructurings

A loan modification is considered a troubled debt restructuring (TDR) when a concession has been granted to a debtor experiencing financial difficulties. The Company's modifications generally include interest rate adjustments, principal reductions, and amortization and maturity date extensions. These modifications allow the debtor short-term cash relief to allow them to improve their financial condition. The Company's restructured loans are individually evaluated for impairment and evaluated as part of the allowance for loan loss as described above in the Allowance for Loan Losses section of this note.

The Company had no outstanding commitments to lend to borrowers with loan modifications classified as TDRs as of September 30, 2018. As of September 30, 2017 the Company had $2.4 million in commitments to lend to borrowers with loan modifications classified as TDRs. The Company monitors loan payments on an on-going basis to determine if a loan is considered to have a payment default. Determination of payment default involves analyzing the economic conditions that exist for each customer and their ability to generate positive cash flows during the loan term.

The Company had no new TDR loan balances for the three month period ended September 30, 2018. For the nine month period ended September 30, 2018, the Company had one commercial TDR with a pre-modification loan balance of $6.2 million and a post-modification loan balance of $6.1 million, and one residential real estate TDR with a pre-modification loan balance of $93 thousand and a post-modification loan balance of $92 thousand. For the three month period ended September 30, 2017, the Company had one residential estate TDR with a pre-modification loan balance of $97 thousand and a post-modification loan balance of $98 thousand. For the nine month period ended September 30, 2017, the Company had one commercial TDR with a pre- and post-modification loan balance of $7.2 million, and one residential real estate TDR with a pre-modification loan balance of $97 thousand and a

post-modification loan balance of $98 thousand.

5. Securities

Securities Available for Sale

This table provides detailed information about securities available for sale at September 30, 2018 and December 31, 2017 (in thousands):

September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$40,101	$ —	$ (2,163)	$37,938
U.S. Agencies	200	—	(2)	198
Mortgage-backed	3,778,032	337	(157,991)	3,620,378
State and political subdivisions	2,323,440	1,419	(50,632)	2,274,227
Corporates	—	—	—	—
Total	$6,141,773	$ 1,756	$ (210,788)	$5,932,741

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$40,092	$ —	$ (1,449)	$38,643
U.S. Agencies	14,762	—	(10)	14,752
Mortgage-backed	3,719,369	1,914	(72,040)	3,649,243
State and political subdivisions	2,546,517	11,965	(15,809)	2,542,673
Corporates	13,278	—	(12)	13,266
Total	$6,334,018	$ 13,879	$ (89,320)	$6,258,577

The following table presents contractual maturity information for securities available for sale at September 30, 2018 (in thousands):

	Amortized Cost	Fair Value
Due in 1 year or less	$327,988	$327,198
Due after 1 year through 5 years	917,975	906,234
Due after 5 years through 10 years	733,789	708,373
Due after 10 years	383,989	370,558
Total	2,363,741	2,312,363
Mortgage-backed securities	3,778,032	3,620,378
Total securities available for sale	$6,141,773	$5,932,741

Securities may be disposed of before contractual maturities due to sales by the Company or because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

For the nine months ended September 30, 2018, proceeds from the sales of securities available for sale were $95.5 million compared to $573.1 million for the same period in 2017. Securities transactions resulted in gross realized gains of $581 thousand and $4.1 million for the nine months ended September 30, 2018 and 2017, respectively. Securities transactions resulted in gross realized losses of $3 thousand for the nine months ended September 30, 2018, and there were no gross realized losses for the nine months ended September 30, 2017.

Securities available for sale with a fair value of $4.8 billion at September 30, 2018 and $5.7 billion at December 31, 2017 were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, derivative transactions, and repurchase agreements. Of this amount, securities with a market value of $1.6 billion and $1.8 billion at September 30, 2018 and December 31, 2017, respectively, were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

The following table shows the Company's available for sale investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2018 and December 31, 2017 (in thousands):

	Less than 12 months		12 months or more		Total	
		Unrealized		Unrealized		Unrealized
September 30, 2018	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Description of Securities						
U.S. Treasury	$—	$—	$37,938	$(2,163)	$37,938	$(2,163)
U.S. Agencies	—	—	198	(2)	198	(2)
Mortgage-backed	1,700,611	(50,116)	1,889,126	(107,875)	3,589,737	(157,991)
State and political subdivisions	1,426,793	(22,319)	593,013	(28,313)	2,019,806	(50,632)
Corporates	—	—	—	—	—	—
Total temporarily-impaired debt securities available for sale	$3,127,404	$(72,435)	$2,520,275	$(138,353)	$5,647,679	$(210,788)

	Less than 12 months		12 months or more		Total	
		Unrealized		Unrealized		Unrealized
December 31, 2017	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Description of Securities						
U.S. Treasury	$9,851	$(64)	$28,792	$(1,385)	$38,643	$(1,449)
U.S. Agencies	14,553	(10)	—	—	14,553	(10)
Mortgage-backed	1,990,006	(19,980)	1,562,333	(52,060)	3,552,339	(72,040)
State and political subdivisions	1,076,930	(7,325)	376,560	(8,484)	1,453,490	(15,809)
Corporates	13,266	(12)	—	—	13,266	(12)
Total temporarily-impaired debt securities available for sale	$3,104,606	$(27,391)	$1,967,685	$(61,929)	$5,072,291	$(89,320)

The unrealized losses in the Company's investments in U.S. Treasury obligations, U.S. government agencies, Government Sponsored Entity (GSE) mortgage-backed securities, and municipal securities were caused by changes in interest rates. The Company does not have the intent to sell these securities and does not believe it is more likely than not that the Company will be required to sell these securities before a recovery of amortized cost. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at September 30, 2018.

Securities Held to Maturity

The following table shows the Company's held-to-maturity investments' amortized cost, fair value, and gross unrealized gains and losses at September 30, 2018 and December 31, 2017, respectively (in thousands):

September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions:				
Due in 1 year or less	$7,434	$ —	$(1,027)	$6,407
Due after 1 year through 5 years	101,824	237	(9,363)	92,698
Due after 5 years through 10 years	372,672	4,639	(23,328)	353,983
Due after 10 years	717,184	5,200	(83,832)	638,552
Total state and political subdivisions	$1,199,114	$ 10,076	$(117,550)	$1,091,640

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions:				
Due in 1 year or less	$2,275	$ 3	$ (24)	$2,254
Due after 1 year through 5 years	100,648	3,111	(2,834)	100,925
Due after 5 years through 10 years	372,234	5,006	(14,117)	363,123
Due after 10 years	785,857	6,952	(51,664)	741,145
Total state and political subdivisions	$1,261,014	$ 15,072	$ (68,639)	$1,207,447

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

There were no sales of securities held to maturity during the nine months ended September 30, 2018 or 2017.

Trading Securities

There were net unrealized losses on trading securities of $442 thousand and $214 thousand at September 30, 2018 and September 30, 2017, respectively. Net unrealized gains/losses are included in Trading and investment banking income on the Consolidated Statements of Income. Securities sold not yet purchased totaled $40.3 million and $4.1 million at September 30, 2018 and December 31, 2017, respectively, and are classified within the Other liabilities line of the Company's Consolidated Balance Sheets.

Other Securities

The table below provides detailed information for FRB stock and Federal Home Loan Bank (FHLB) stock and other securities at September 30, 2018 and December 31, 2017 (in thousands):

September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FRB and FHLB stock	$ 33,262	$ —	$ —	$33,262
Other securities – marketable	—	5,091	—	5,091
Other securities – non-marketable	23,987	2,914	(2)	26,899
Total Other securities	$ 57,249	$ 8,005	$ (2)	$65,252

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FRB and FHLB stock	$ 33,262	$ —	$ —	$33,262
Other securities – marketable	3	4,637	—	4,640
Other securities – non-marketable	26,606	1,389	—	27,995
Total Other securities	$ 59,871	$ 6,026	$ —	$65,897

Investment in FRB stock is based on the capital structure of the investing bank, and investment in FHLB stock is mainly tied to the level of borrowings from the FHLB. These holdings are carried at cost. Other marketable and non-marketable securities include Prairie Capital Management (PCM) alternative investments in hedge funds and private equity funds, which are accounted for as equity-method investments. The fair value of other marketable securities includes alternative investment securities of $5.1 million at September 30, 2018 and $4.6 million at December 31, 2017. The fair value of other non-marketable securities includes alternative investment securities of $4.6 million at September 30, 2018 and $3.4 million at December 31, 2017. Unrealized gains or losses on alternative investments are recognized in the Other noninterest income line on the Company’s Consolidated Statements of Income.

6. Goodwill and Other Intangibles

Changes in the carrying amount of goodwill for the periods ended September 30, 2018 and December 31, 2017 by reportable segment are as follows (in thousands):

	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Balances as of January 1, 2018	$ 59,419	$ 51,332	$ 70,116	$ —	$ 180,867
Balances as of September 30, 2018	$ 59,419	$ 51,332	$ 70,116	$ —	$ 180,867
Balances as of January 1, 2017	$ 59,419	$ 98,861	$ 70,116	$ —	$ 228,396
Discontinued assets goodwill and other intangibles, net	—	(47,529)	—	—	(47,529)
Balances as of December 31, 2017	$ 59,419	$ 51,332	$ 70,116	$ —	$ 180,867

The following table lists the finite-lived intangible assets that continue to be subject to amortization as of September 30, 2018 and December 31, 2017 (in thousands):

	As of September 30, 2018		
	Core Deposit Intangible Assets	Customer Relationships	Total
Gross carrying amount	$ 50,059	$ 71,852	$ 121,911
Accumulated amortization	44,375	61,201	105,576
Net carrying amount	$ 5,684	$ 10,651	$ 16,335

	As of December 31, 2017		
	Core Deposit Intangible Assets	Customer Relationships	Total
Gross carrying amount	$ 50,059	$ 71,342	$ 121,401
Accumulated amortization	42,209	58,935	101,144
Net carrying amount	$ 7,850	$ 12,407	$ 20,257

The following table has the aggregate amortization expense recognized in each period (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Aggregate amortization expense	$1,385	$1,715	$4,432	$5,685

The following table lists estimated amortization expense of intangible assets in future periods (in thousands):

For the three months ending December 31, 2018	$1,332
For the year ending December 31, 2019	4,785
For the year ending December 31, 2020	3,830
For the year ending December 31, 2021	2,825
For the year ending December 31, 2022	1,886
For the year ending December 31, 2023	1,167

7. Securities Sold Under Agreements to Repurchase

The Company utilizes repurchase agreements to facilitate the needs of customers and to facilitate secured short-term funding needs. Repurchase agreements are stated at the amount of cash received in connection with the transaction. The Company monitors collateral levels on a continuous basis and may be required to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with the Company's safekeeping agents.

The table below presents the remaining contractual maturities of repurchase agreements outstanding at September 30, 2018, in addition to the various types of marketable securities that have been pledged as collateral for these borrowings (in thousands):

	As of September 30, 2018 Remaining Contractual Maturities of the Agreements		
Repurchase agreements, secured by:	2-29 Days	Over 90 Days	Total
U.S. Treasury	$16,590	$ —	$16,590
U.S. Agencies	1,174,895	1,500	1,176,395
Total repurchase agreements	$1,191,485	$ 1,500	$1,192,985

8. Business Segment Reporting

The Company has strategically aligned its operations into the following four reportable segments: Commercial Banking, Institutional Banking, Personal Banking, and Healthcare Services (collectively, the Business Segments). Senior executive officers regularly evaluate Business Segment financial results produced by the Company's internal reporting system in deciding how to allocate resources and assess performance for individual Business Segments. Previously, the Company had the following three Business Segments: Bank, Institutional Investment Management, and Asset Servicing. During 2017, the Company sold all of the outstanding stock of Scout, its institutional investment management subsidiary. As the operations of Scout are included in discontinued operations, the Company no longer presents such operations as one of its business segments. The Company's reportable Business Segments include certain corporate overhead, technology and service costs that are allocated based on methodologies that are applied consistently between periods. For comparability purposes, amounts in all periods are based on methodologies in effect at September 30, 2018. Previously reported results have been reclassified in this filing to conform to the current organizational structure.

The following summaries provide information about the activities of each segment:

Commercial Banking serves the commercial lending and leasing, capital markets, and treasury management needs of the Company's mid-market businesses and governmental entities by offering various products and services. Such services include commercial loans, commercial credit cards, letters of credit, loan syndication services, consultative services, and a variety of financial options for companies that need non-traditional banking services. Capital markets services include asset-based financing, asset securitization, equity and mezzanine financing, factoring, private and public placement of senior debt, as well as merger and acquisition consulting. Treasury management services include depository services, account reconciliation services, electronic fund transfer services, controlled disbursements, lockbox services, and remote deposit capture services.

Institutional Banking is a combination of banking services, fund services, and asset management services provided to institutional clients. This segment also provides mutual fund cash management, international payments, corporate trust and escrow services, as well as correspondent banking and investment banking. Products and services include bond trading transactions, cash letter collections, investment portfolio accounting and safekeeping, reporting for asset/liability management, and Federal funds transactions. Institutional Banking also includes UMB Fund Services, which provides fund administration and accounting, investor services and transfer agency, marketing and distribution, custody, and alternative investment services.

Personal Banking combines consumer services and asset management provided to personal clients. This segment combines the Company's consumer bank with the individual investment and wealth management solutions. The range of services offered to UMB clients extends from a basic checking account to estate planning and trust services. Products and services include the Company's bank branches, call center, internet banking and ATM network, deposit accounts, retail credit cards, private banking, installment loans, home equity lines of credit, residential mortgages, small business loans, brokerage services, and insurance services in addition to a full spectrum of investment advisory, trust, and custody services.

Healthcare Services provides healthcare payment solutions including custodial services for health savings accounts (HSAs) and private label, multipurpose debit cards to insurance carriers, third-party administrators, software companies, employers, and financial institutions.

Business Segment Information

Business Segment financial results for the three and nine months ended September 30, 2018 and September 30, 2017 were as follows (in thousands):

	Three Months Ended September 30, 2018				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	$94,633	$15,293	$31,145	$9,419	$150,490
Provision for loan losses	4,062	355	1,333	—	5,750
Noninterest income	20,831	43,169	28,266	8,619	100,885
Noninterest expense	64,083	47,081	56,648	12,573	180,385
Income before taxes	47,319	11,026	1,430	5,465	65,240
Income tax expense	5,381	1,241	160	609	7,391
Income from continuing operations	$41,938	$9,785	$1,270	$4,856	$57,849
Average assets	$9,838,000	$3,920,000	$4,791,000	$2,201,000	$20,750,000

	Three Months Ended September 30, 2017				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	$89,386	$12,763	$30,675	$8,034	$140,858
Provision for loan losses	9,565	313	1,622	—	11,500
Noninterest income	21,094	46,405	28,261	8,546	104,306
Noninterest expense	60,620	44,727	56,127	10,347	171,821
Income before taxes	40,295	14,128	1,187	6,233	61,843
Income tax expense	8,454	2,965	244	1,308	12,971
Income from continuing operations	$31,841	$11,163	$943	$4,925	$48,872
Average assets	$9,710,000	$3,582,000	$5,072,000	$1,949,000	$20,313,000

	Nine Months Ended September 30, 2018				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	$279,521	$47,351	$93,220	$28,546	$448,638

Provision for loan losses	17,179	1,027	4,544	—	22,750
Noninterest income	60,606	131,999	87,700	26,394	306,699
Noninterest expense	189,096	141,499	165,945	36,939	533,479
Income before taxes	133,852	36,824	10,431	18,001	199,108
Income tax expense	19,032	5,227	1,484	2,559	28,302
Income from continuing operations	$114,820	$31,597	$8,947	$15,442	$170,806
Average assets	$9,788,000	$3,895,000	$4,853,000	$2,168,000	$20,704,000

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	Nine Months Ended September 30, 2017				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	$261,497	$36,731	$91,484	$22,855	$412,567
Provision for loan losses	28,500	1,101	5,399	—	35,000
Noninterest income	62,014	140,232	87,932	27,351	317,529
Noninterest expense	185,825	136,086	168,760	31,899	522,570
Income before taxes	109,186	39,776	5,257	18,307	172,526
Income tax expense	23,297	8,437	1,273	3,900	36,907
Income from continuing operations	$85,889	$31,339	$3,984	$14,407	$135,619
Average assets	$9,723,000	$3,457,000	$5,233,000	$1,875,000	$20,288,000

9. Revenue Recognition

As of January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers – ASC 606 and all subsequent ASUs that modified ASC 606. The Company has elected to apply the ASU and all related ASUs using the modified retrospective approach. The implementation of the guidance had no material impact on the measurement or recognition of revenue of either current or prior periods.

The following is a description of the principal activities from which the Company generates revenue that are within the scope of ASC 606:

Trust and securities processing - Trust and securities processing income consists of fees earned on personal and corporate trust accounts, custody of securities services, trust investments and wealth management services, and mutual fund and alternative asset servicing. The performance obligations related to this revenue include items such as performing full bond trustee service administration, investment advisory services, custody and record-keeping services, and fund administrative and accounting services. These fees are part of long-term contractual agreements and the performance obligations are satisfied upon completion of service and fees are generally a fixed flat monthly rate or based on a percentage of the account's market value per the contract with the customer. These fees are primarily recorded within the Company's Institutional and Personal Banking segments.

Trading and investment banking - Trading and investment banking income consists of income earned related to the Company's trading securities portfolio, including futures hedging, dividends, bond underwriting, and other securities incomes. The vast majority of this revenue is recognized in accordance with ASC 320, Debt and Equity Securities, and is out of the scope of ASC 606. A portion of trading and investment banking represents fees earned for management fees, commissions, and underwriting of corporate bond issuances. The performance obligations related to these fees include reviewing the credit worthiness of the customer, ensuring appropriate regulatory approval and participating in due diligence. The fees are fixed per the bond prospectus and the performance obligations are satisfied upon registration approval of the bonds by the applicable regulatory agencies. Revenue is recognized at the point in time upon completion of service and when approval is granted by the regulators.

Service charges on deposits - Service charges on deposit accounts represent monthly analysis fees recognized for the services related to customer deposit accounts, including account maintenance and depository transactions processing fees. Commercial Banking and Institutional Banking depository accounts charge fees in accordance with the customer's pricing schedule while Personal Banking account holders are generally charged a flat service fee per month. Deposit service charges for the Healthcare Services segment are priced according to either standard pricing schedules with individual account holders or according to service agreements between the Company and employer groups or third party administrators. The Company satisfies the performance obligation related to providing depository accounts monthly as transactions are processed and deposit service charge revenue is recorded monthly. These fees are recognized within all Business Segments.

Insurance fees and commissions – Insurance fees and commissions includes all insurance-related fees earned, including commissions for individual life, variable life, group life, health, group health, fixed annuity, and variable annuity insurance contracts. The performance obligations related to these revenues primarily represent the placement of insurance policies with the insurance company partners. The fees are based on the contracts with

insurance company partners and the performance obligations are satisfied when the terms of the policy have been agreed to and the insurance policy becomes effective.

Brokerage fees – Brokerage fees represent income earned related to providing brokerage transaction services, including commissions on equity and commodity trades, and fees for investment management, advisory and administration. The performance obligations related to transaction services are executing the specified trade and are priced according to the customer's fee schedule. Such income is recognized at a point in time as the trade occurs and the performance obligation is fulfilled. The performance obligations related to investment management, advisory and administration include allocating customer assets across a wide range of mutual funds and other investments, on-going account monitoring and re-balancing of the portfolio. These performance obligations are satisfied over time and the related revenue is calculated monthly based on the assets under management of each customer. All material performance obligations are satisfied as of the end of each accounting period.

Bankcard fees – Bankcard fees primarily represent income earned from interchange revenue from MasterCard and Visa for the Company's processing of debit, credit, HSA, and flexible spending account transactions. Additionally, the Company earns income and incentives related to various referrals of customers to card programs. The performance obligation for interchange revenue is the processing of each transaction through the Company's access to the banking system. This performance obligation is completed for each individual transaction and income is recognized per transaction in accordance with interchange rates established by MasterCard and Visa. The performance obligations for various referral and incentive programs include either referring customers to certain card products or issuing exclusively branded cards for certain customer segments. The pricing of these incentive and referral programs are in accordance with the agreement with the individual card partner. These performance obligations are completed as the referrals are made or over a period of time when the Company is exclusively issuing branded cards. For the three months ended September 30, 2018 and September 30, 2017, the Company also has approximately $9.5 million and $8.1 million of expense, respectively, recorded within the Bankcard fees line on the Company's Consolidated Income Statements related to rebates and rewards programs that are outside of the scope of ASC 606. For the nine months ended September 30, 2018 and September 30, 2017, the Company also has approximately $26.6 million and $20.2 million of expense, respectively, related to these rebates and rewards programs. All material performance obligations are satisfied as of the end of each accounting period.

Gains on sales of securities available for sale, net – In the regular course of business, the Company recognizes gains on the sale of available for sale securities. These gains are recognized in accordance with ASC 320, Debt and Equity Securities, and are outside of the scope of ASC 606.

Other income – The Company recognizes other miscellaneous income through a variety of other revenue streams, the most material of which include letter of credit fees, certain loan origination fees, gains on the sale of assets, gains and losses on equity-method investments, derivative income, and bank-owned and company-owned life insurance income. These revenue streams are outside of the scope of ASC 606 and are recognized in accordance with the applicable U.S. GAAP. The remainder of Other income is primarily earned through transactions with personal banking customers, including wire transfer service charges, stop payment charges, and fees for items like money orders and cashier's checks. The performance obligations of these types of fees are satisfied as transactions are

completed and revenue is recognized upon transaction execution according to established fee schedules with the customers.

The Company had no material contract assets, contract liabilities, or remaining performance obligations as of September 30, 2018. Total receivables from revenue recognized under the scope of ASC 606 were $50.5 million and $53.5 million as of September 30, 2018 and December 31, 2017, respectively. These receivables are included as part of the Other assets line on the Company's Consolidated Balance Sheets.

The following table depicts the disaggregation of revenue according to revenue stream and Business Segment for the three and nine months ended September 30, 2018 and September 30, 2017. As stated in Note 8, "Business Segment Reporting," for comparability purposes, amounts in all periods are based on methodologies in effect at September 30, 2018 and previously reported results have been reclassified in this filing to confirm to the current organizational structure. Disaggregated revenue is as follows (in thousands):

	Three Months Ended September 30, 2018					
NONINTEREST INCOME	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Revenue (Expense) out of Scope of ASC 606	Total
Trust and securities processing	$—	$ 27,013	$ 16,412	$ —	$ —	$ 43,425
Trading and investment banking	—	—	—	—	3,711	3,711
Service charges on deposit accounts	7,502	6,140	2,966	4,292	27	20,927
Insurance fees and commissions	—	—	339	—	—	339
Brokerage fees	49	4,300	2,053	—	—	6,402
Bankcard fees	15,290	1,352	5,591	3,883	(9,278)	16,838
Gains on sales of securities available for sale, net	—	—	—	—	211	211
Other	989	121	877	180	6,865	9,032
Total Noninterest income	$ 23,830	$ 38,926	$ 28,238	$ 8,355	$ 1,536	$ 100,885

	Three Months Ended September 30, 2017					
NONINTEREST INCOME	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Revenue (Expense) out of Scope of ASC 606	Total
Trust and securities processing	$—	$ 28,300	$ 16,760	$ —	$ —	$ 45,060
Trading and investment banking	—	—	—	—	4,453	4,453
Service charges on deposit accounts	7,579	7,025	3,022	3,857	27	21,510
Insurance fees and commissions	—	—	425	—	—	425
Brokerage fees	40	3,688	2,087	—	—	5,815
Bankcard fees	13,943	1,523	5,837	4,030	(7,906)	17,427
Gains on sales of securities available for sale, net	—	—	—	—	2,390	2,390
Other	499	160	700	107	5,760	7,226
Total Noninterest income	$ 22,061	$ 40,696	$ 28,831	$ 7,994	$ 4,724	$ 104,306

	Nine Months Ended September 30, 2018					
NONINTEREST INCOME	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Revenue (Expense) out of Scope of ASC 606	Total
Trust and securities processing	$—	$ 81,555	$ 48,717	$ —	$ —	$ 130,272
Trading and investment banking	—	—	—	—	12,465	12,465
Service charges on deposit accounts	22,917	19,178	8,555	12,808	96	63,554
Insurance fees and commissions	—	—	980	—	—	980
Brokerage fees	150	12,336	6,560	—	—	19,046
Bankcard fees	45,112	4,407	16,488	12,229	(26,091)	52,145
Gains on sales of securities available for sale, net	—	—	—	—	578	578
Other	2,122	376	2,662	515	21,984	27,659
Total Noninterest income	$ 70,301	$ 117,852	$ 83,962	$ 25,552	$ 9,032	$ 306,699

	Nine Months Ended September 30, 2017					
NONINTEREST INCOME	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Revenue (Expense) out of Scope of ASC 606	Total
Trust and securities processing	$—	$ 82,779	$ 49,633	$ —	$ —	$ 132,412
Trading and investment banking	—	674	—	—	17,494	18,168
Service charges on deposit accounts	23,682	21,874	8,751	11,922	87	66,316
Insurance fees and commissions	—	—	1,584	—	—	1,584
Brokerage fees	116	10,647	6,315	3	—	17,081
Bankcard fees	39,507	4,611	17,177	13,742	(19,624)	55,413
Gains on sales of securities available for sale, net	—	—	—	—	4,138	4,138
Other	2,495	474	2,172	276	17,000	22,417
Total Noninterest income	$ 65,800	$ 121,059	$ 85,632	$ 25,943	$ 19,095	$ 317,529

10. Commitments, Contingencies and Guarantees

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, commercial letters of credit, standby letters of credit, forward foreign exchange contracts, and spot foreign exchange contracts. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the Consolidated Balance Sheets. The contractual or notional amount of those instruments reflects the extent of involvement the Company has in particular classes of financial instruments. Many of the commitments expire without being drawn upon; therefore, the total amount of these commitments does not necessarily represent the future cash requirements of the Company.

The Company’s exposure to credit loss in the event of nonperformance by the counterparty to the financial instruments for commitments to extend credit, commercial letters of credit, and standby letters of credit is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following table summarizes the Company's off-balance sheet financial instruments (in thousands):

	Contract or Notional Amount	
	September 30, 2018	December 31, 2017
Commitments to extend credit for loans (excluding credit card loans)	$6,452,304	$ 6,689,467
Commitments to extend credit under credit card loans	3,071,340	2,975,507
Commercial letters of credit	4,248	813
Standby letters of credit	304,385	316,054
Forward contracts	29,636	29,007
Spot foreign exchange contracts	10,109	628

11. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and known or expected cash payments principally related to certain fixed-rate assets and liabilities. The Company also has interest rate derivatives that result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk of the Company's assets or liabilities. The Company has entered into an offsetting position for each of these derivative instruments with a matching instrument from another financial institution in order to minimize its net risk exposure resulting from such transactions.

Fair Values of Derivative Instruments on the Consolidated Balance Sheets

The table below presents the fair value of the Company's derivative financial instruments as of September 30, 2018 and December 31, 2017. The Company's derivative assets and derivative liabilities are located within Other assets and Other liabilities, respectively, on the Company's Consolidated Balance Sheets.

Derivatives fair values are determined using valuation techniques including discounted cash flow analysis on the expected cash flows from each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

This table provides a summary of the fair value of the Company's derivative assets and liabilities as of September 30, 2018 and December 31, 2017 (in thousands):

	Derivative Assets		Derivative Liabilities	
Fair Value	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Interest Rate Products:				
Derivatives not designated as hedging instruments	$2,499	$ 10,116	$11,424	$ 7,326
Derivatives designated as hedging instruments	—	33	41	1,580
Total	$2,499	$ 10,149	$11,465	$ 8,906

Fair Value Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its fixed-rate assets and liabilities due to changes in the benchmark interest rate, London Interbank Offered Rate (LIBOR). Interest rate swaps designated as fair value hedges involve either making fixed rate payments to a counterparty in exchange for the Company receiving variable rate payments, or making variable rate payments to a counterparty in exchange for the Company receiving fixed rate payments, over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2018, the Company had one interest rate swap with a notional amount of $5.7 million that was designated as a fair value hedge of interest rate risk associated with the Company's fixed rate loan assets.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings.

Cash Flow Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its variable-rate liabilities due to changes in the benchmark interest rate, LIBOR. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of September 30, 2018, the Company had two interest rate swaps with a notional amount of $51.5 million that were designated as cash flow hedges of interest rate risk associated with the Company's variable-rate subordinated debentures issued by Marquette Capital Trusts III and IV. For derivatives designated and that qualify as cash flow hedges, the change in fair value is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2018, the Company recognized net gains of $1.2 million and $4.3 million, respectively, in AOCI for the change in fair value of these cash flow hedges. During the three and nine months ended September 30, 2017, the Company recognized net losses of $169 thousand and $1.1 million, respectively, in AOCI for the change in fair value of these cash flow hedges. Amounts reported in AOCI related to derivatives will be reclassified to Interest expense as interest payments are received or paid on the Company's derivatives. The Company expects to reclassify $40 thousand from AOCI as a reduction in Interest expense during the next 12 months. As of September 30, 2018, the Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 17.97 years.

Non-designated Hedges

The remainder of the Company's derivatives are not designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously offset by interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of September 30, 2018, the Company had 104 interest rate swaps with an aggregate notional amount of $1.3 billion related to this program. During the three and nine months ended September 30, 2018, the Company recognized net gains of $67 thousand and $538 thousand, respectively, related to changes in fair value of these swaps. During the three and nine months ended September 30, 2017, the Company recognized net losses of $140 thousand and $656 thousand, respectively, related to changes in fair value of these swaps.

Effect of Derivative Instruments on the Consolidated Statements of Income

This table provides a summary of the amount of gain or loss recognized in Other noninterest expense in the Consolidated Statements of Income related to the Company's derivative assets and liabilities for the three and nine months ended September 30, 2018 and September 30, 2017 (in thousands):

	Amount of Gain (Loss) Recognized			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest Rate Products				
Derivatives not designated as hedging instruments	$67	$ (140)	$538	$ (656)
Total	$67	$ (140)	$538	$ (656)
Interest Rate Products				
Derivatives designated as hedging instruments:				
Fair value adjustments on derivatives	$36	$ (56)	$170	$ (188)
Fair value adjustments on hedged items	(37)	55	(167)	189
Total	$(1)	$ (1)	$3	$ 1

This table provides a summary of the amount of gain or loss recognized in AOCI in the Consolidated Statements of Comprehensive Income related to the Company's derivative assets and liabilities for the three and nine months ended September 30, 2018 and September 30, 2017 (in thousands):

	Amount of Gain Recognized in Other Comprehensive Income on Derivatives			
	For the Three Months Ended		For the Nine Months Ended	
Derivatives in Cash Flow Hedging Relationships	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest Rate Products				
Derivatives designated as cash flow hedging instruments	$1,162	$ (169)	$4,274	$ (1,080)
Total	$1,162	$ (169)	$4,274	$ (1,080)

Credit-risk-related Contingent Features

The Company has agreements with certain of its derivative counterparties that contain a provision that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

As of September 30, 2018, the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was $563 thousand. The Company has minimum collateral posting thresholds with certain of its derivative counterparties. At September 30, 2018, the Company had posted $1.0 million of collateral. If the Company had breached any of these provisions at September 30, 2018, it could have been required to settle its obligations under the agreements at the termination value.

12. Fair Value Measurements

The following table presents information about the Company's assets measured at fair value on a recurring basis as of September 30, 2018, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets and liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the hierarchy. In such cases, the fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 (in thousands):

	Fair Value Measurement at September 30, 2018			
Description	September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. Treasury	$35	$35	$—	$ —
U.S. Agencies	9,171	—	9,171	—
State and political subdivisions	49,406	—	49,406	—
Corporates	9,488	9,488	—	—
Trading – other	13,059	12,547	512	—
Trading securities	81,159	22,070	59,089	—
U.S. Treasury	37,938	37,938	—	—
U.S. Agencies	198	—	198	—
Mortgage-backed	3,620,378	—	3,620,378	—
State and political subdivisions	2,274,227	—	2,274,227	—
Corporates	—	—	—	—
Available for sale securities	5,932,741	37,938	5,894,803	—
Company-owned life insurance	58,314	—	58,314	—
Bank-owned life insurance	271,623	—	271,623	—
Derivatives	2,499	—	2,499	—
Total	$6,346,336	$60,008	$6,286,328	$ —
Liabilities				
Deferred compensation	$55,012	$55,012	$—	$ —
Derivatives	11,465	—	11,465	—
Securities sold not yet purchased	40,342	—	40,342	—
Total	$106,819	$55,012	$51,807	$ —

	Fair Value Measurement at December 31, 2017			
Description	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. Treasury	$18	$18	$—	$ —
U.S. Agencies	9,976	—	9,976	—
Mortgage-backed	1,949	—	1,949	—
State and political subdivisions	27,114	—	27,114	—
Corporates	1,885	1,885	—	—
Trading – other	13,113	12,434	679	—
Trading securities	54,055	14,337	39,718	—
U.S. Treasury	38,643	38,643	—	—
U.S. Agencies	14,752	—	14,752	—
Mortgage-backed	3,649,243	—	3,649,243	—
State and political subdivisions	2,542,673	—	2,542,673	—
Corporates	13,266	13,266	—	—
Available for sale securities	6,258,577	51,909	6,206,668	—
Company-owned life insurance	53,577	—	53,577	—
Bank-owned life insurance	265,823	—	265,823	—
Derivatives	10,149	—	10,149	—
Total	$6,642,181	$66,246	$6,575,935	$ —
Liabilities				
Deferred compensation	$50,963	$50,963	$—	$ —
Derivatives	8,906	—	8,906	—
Securities sold not yet purchased	4,130	—	4,130	—
Total	$63,999	$50,963	$13,036	$ —

Valuation methods for instruments measured at fair value on a recurring basis

The following methods and assumptions were used to estimate the fair value of each class of financial instruments measured on a recurring basis:

Trading Securities Fair values for trading securities (including financial futures), are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities.

Securities Available for Sale Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Prices are provided by third-party pricing services and are based on observable market inputs. On an annual basis, the Company compares a sample of these prices to other independent sources for the same securities. Additionally, throughout the

year, if securities are sold, comparisons are made between the pricing services prices and the market prices at which the securities were sold. Variances are analyzed, and, if appropriate, additional research is conducted with the third-party pricing services. Based on this research, the pricing services may affirm or revise their quoted price. No significant adjustments have been made to the prices provided by the pricing services. The pricing services also provide documentation on an ongoing basis that includes reference data, inputs and methodology by asset class, which is reviewed to ensure that security placement within the fair value hierarchy is appropriate.

Company-owned Life Insurance Fair value is equal to the cash surrender value of the life insurance policies.

Bank-owned Life Insurance Fair value is equal to the cash surrender value of the life insurance policies.

Derivatives Fair values are determined using valuation techniques including discounted cash flow analysis on the expected cash flows from each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Deferred Compensation Fair values are based on quoted market prices or dealer quotes.

Securities sold not yet purchased Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Prices are provided by third-party pricing services and are based on observable market inputs.

Assets measured at fair value on a non-recurring basis as of September 30, 2018 and December 31, 2017 (in thousands):

	Fair Value Measurement at September 30, 2018 Using				
Description	September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains Recognized During the Nine Months Ended September 30
Impaired loans	$10,614	$ —	$ —	$ 10,614	$ 2,073
Other real estate owned	3,619	—	—	3,619	—
Total	$14,233	$ —	$ —	$ 14,233	$ 2,073

	Fair Value Measurement at December 31, 2017 Using				
Description	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains Recognized During the Twelve Months Ended December 31
Impaired loans	$15,186	$ —	$ —	$ 15,186	$ 1,251
Other real estate owned	1,488	—	—	1,488	13
Total	$16,674	$ —	$ —	$ 16,674	$ 1,264

Valuation methods for instruments measured at fair value on a non-recurring basis

The following methods and assumptions were used to estimate the fair value of each class of financial instruments measured on a non-recurring basis:

Impaired loans While the overall loan portfolio is not carried at fair value, adjustments are recorded on certain loans to reflect write-downs that are based on the external appraised value of the underlying collateral. The external appraisals are generally based on recent sales of comparable properties which are then adjusted for the unique characteristics of the property being valued. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists within the Company's property management group and the Company's credit department. The valuation of the impaired loans is reviewed on a quarterly basis. Because many of these inputs are not observable, the measurements are classified as Level 3.

Other real estate owned Other real estate owned consists of loan collateral which has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate

property, including auto, recreational and marine vehicles. Other real estate owned is recorded as held for sale initially at the lower of the loan balance or fair value of the collateral. The initial valuation of the foreclosed property is obtained through an appraisal process similar to the process described in the impaired loans paragraph above. Subsequent to foreclosure, valuations are reviewed quarterly and updated periodically, and the assets may be marked down further, reflecting a new cost basis. Fair value measurements may be based upon appraisals, third-party price opinions, or internally developed pricing methods and those measurements are classified as Level 3.

Goodwill Valuation of goodwill to determine impairment is performed annually, or more frequently if there is an event or circumstance that would indicate impairment may have occurred. The process involves calculations to determine the fair value of each reporting unit on a stand-alone basis. A combination of formulas using current market multiples, based on recent sales of financial institutions within the Company's geographic marketplace, is used to estimate the fair value of each reporting unit. That fair value is compared to the carrying amount of the reporting unit, including its recorded goodwill. Impairment is considered to have occurred if the fair value of the reporting unit is lower than the carrying amount of the reporting unit. The fair value of the Company's common stock relative to its computed book value per share is also considered as part of the overall evaluation. These measurements are classified as Level 3.

Fair value disclosures require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value of the Company's financial instruments at September 30, 2018 and December 31, 2017 are as follows (in thousands):

	Fair Value Measurement at September 30, 2018 Using				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Cash and short-term investments	$1,224,102	$ 1,024,423	$199,679	$ —	$1,224,102
Securities available for sale	5,932,741	37,938	5,894,803	—	5,932,741
Securities held to maturity	1,199,114	—	1,091,640	—	1,091,640
Trading securities	81,159	22,070	59,089	—	81,159
Other securities	65,252	—	65,252	—	65,252
Loans (exclusive of allowance for loan loss)	11,966,946	—	11,938,756	—	11,938,756
Derivatives	2,499	—	2,499	—	2,499
FINANCIAL LIABILITIES					
Demand and savings deposits	16,696,192	16,696,192	—	—	16,696,192
Time deposits	1,040,512	—	1,040,512	—	1,040,512
Other borrowings	1,192,985	—	1,192,985	—	1,192,985
Long-term debt	78,523	—	78,775	—	78,775
Derivatives	11,465	—	11,465	—	11,465
OFF-BALANCE SHEET ARRANGEMENTS					

Commitments to extend credit for loans	3,970
Commercial letters of credit	79
Standby letters of credit	1,935

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	Fair Value Measurement at December 31, 2017 Using				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
Cash and short-term investments	$1,936,084	$ 1,749,618	$186,466	$ —	$1,936,084
Securities available for sale	6,258,577	51,909	6,206,668	—	6,258,577
Securities held to maturity	1,261,014	—	1,207,447	—	1,207,447
Trading securities	54,055	14,337	39,718	—	54,055
Other securities	65,897	—	65,897	—	65,897
Loans (exclusive of allowance for loan loss)	11,281,973	—	11,318,764	—	11,318,764
Derivatives	10,149	—	10,149	—	10,149
FINANCIAL LIABILITIES					
Demand and savings deposits	16,742,736	16,742,736	—	—	16,742,736
Time deposits	1,280,264	—	1,280,264	—	1,280,264
Other borrowings	1,260,704	11,334	1,249,370	—	1,260,704
Long-term debt	79,281	—	79,496	—	79,496
Derivatives	8,906	—	8,906	—	8,906
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					6,654
Commercial letters of credit					136
Standby letters of credit					2,514

Cash and short-term investments The carrying amounts of cash and due from banks, federal funds sold and resell agreements are reasonable estimates of their fair values.

Securities held to maturity Fair value of held-to-maturity securities are estimated by discounting the future cash flows using current market rates.

Other securities Amount consists of FRB and FHLB stock held by the Company, PCM equity-method investments, and other miscellaneous investments. The carrying amount of the FRB and FHLB stock equals its fair value because the shares can only be redeemed by the FRB and FHLB at their carrying amount. The fair value of PCM marketable equity-method investments are based on quoted market prices used to estimate the value of the underlying investment. For non-marketable equity-method investments, the Company’s proportionate share of the income or loss is recognized on a one-quarter lag based on the valuation of the underlying investment(s).

Loans Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as commercial, real estate, consumer, and credit card. Each loan category is further segmented into fixed and variable interest rate categories. The fair value of loans are based on quoted market prices for similar instruments or estimated by discounting the future cash flows. The discount rates used are estimated using comparable market rates

for similar types of instruments adjusted to be commensurate with the credit risk, overhead costs, and optionality of such instruments.

Demand and savings deposits The fair value of demand deposits and savings accounts was the amount payable on demand at September 30, 2018 and December 31, 2017.

Time deposits The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates that are currently offered for deposits of similar remaining maturities.

Other borrowings The carrying amounts of federal funds purchased, repurchase agreements and other short-term debt are reasonable estimates of their fair value because of the short-term nature of their maturities.

Long-term debt Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Other off-balance sheet instruments The fair value of loan commitments and letters of credit are determined based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present creditworthiness of the counterparties. Neither the fees earned during the year on these instruments nor their fair value at period-end are significant to the Company's consolidated financial position.

13. Divestitures

On November 17, 2017, the Company closed on the sale of all of the outstanding stock of Scout, an institutional investment management subsidiary, for $172.5 million in cash. The gain recorded on the disposal of Scout was $103.6 million.

This table summarizes the components of (loss) income from discontinued operations, net of taxes, for the three and nine months ended September 30, 2018 and September 30, 2017 presented in the Consolidated Statements of Income (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Total noninterest income	$ —	$ 18,193	$—	$ 53,912
Total noninterest expense	—	19,223	917	54,634
Loss from discontinued operations	—	(1,030)	(917)	(722)
Income tax benefit	—	(300)	(170)	(247)
Net loss on discontinued operations	$ —	$ (730)	$(747)	$ (475)

The components of net cash provided by operating activities of discontinued operations included in the Consolidated Statements of Cash Flows are as follows (in thousands):

	For the Nine Months Ended	
	September 30, 2018	September 30, 2017
Loss from discontinued operations	$(747)	$ (475)
Depreciation and amortization	—	1,647
Net cash (used in) provided by operating activities of discontinued operations	$(747)	$ 1,172

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations highlights the material changes in the results of operations and changes in financial condition of the Company for the three and nine-month periods ended September 30, 2018. It should be read in conjunction with the accompanying Consolidated Financial Statements, Notes to Consolidated Financial Statements and other financial information appearing elsewhere in this Form 10-Q and the Form 10-K. Results of operations for the periods included in this review are not necessarily indicative of results to be attained during any future period.

CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

From time to time the Company has made, and in the future will make, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "believe," "expect," "anticipate," "intend," "estimate," "project," "outlook," "forecast," "target," "trend," "plan," "goal," or other words c meaning or future-tense or conditional verbs such as "may," "will," "should," "would," or "could." Forward-looking statement convey the Company's expectations, intentions, or forecasts about future events, circumstances, results, or aspirations, in each case as of the date such forward-looking statements are made.

This Form 10-Q, including any information incorporated by reference in this Form 10-Q, contains forward-looking statements. The Company also may make forward-looking statements in other documents that are filed or furnished with the Securities and Exchange Commission. In addition, the Company may make forward-looking statements orally or in writing to investors, analysts, members of the media, or others.

All forward-looking statements, by their nature, are subject to assumptions, risks, and uncertainties, which may change over time and many of which are beyond the Company's control. You should not rely on any forward-looking statement as a prediction or guarantee about the future. Actual future objectives, strategies, plans, prospects, performance, conditions, or results may differ materially from those set forth in any forward-looking statement. While no list of assumptions, risks, or uncertainties could be complete, some of the factors that may cause actual results or other future events, circumstances, or aspirations to differ from those in forward-looking statements include:

- local, regional, national, or international business, economic, or political conditions or events;
- changes in laws or the regulatory environment, including as a result of financial-services legislation or regulation;
- changes in monetary, fiscal, or trade laws or policies, including as a result of actions by central banks or supranational authorities;
- changes in accounting standards or policies;
- shifts in investor sentiment or behavior in the securities, capital, or other financial markets, including changes in market liquidity or volatility or changes in interest or currency rates;
- changes in spending, borrowing, or saving by businesses or households;
- the Company's ability to effectively manage capital or liquidity or to effectively attract or deploy deposits;
- changes in any credit rating assigned to the Company or its affiliates;
- adverse publicity or other reputational harm to the Company;
- changes in the Company's corporate strategies, the composition of its assets, or the way in which it funds those assets;
- the Company's ability to develop, maintain, or market products or services or to absorb unanticipated costs or liabilities associated with those products or services;

- the Company's ability to innovate to anticipate the needs of current or future customers, to successfully compete in its chosen business lines, to increase or hold market share in changing competitive environments, or to deal with pricing or other competitive pressures;
- changes in the credit, liquidity, or other condition of the Company's customers, counterparties, or competitors;
- the Company's ability to effectively deal with economic, business, or market slowdowns or disruptions;
- judicial, regulatory, or administrative investigations, proceedings, disputes, or rulings that create uncertainty for, or are adverse to, the Company or the financial-services industry;
- the Company's ability to address changing or stricter regulatory or other governmental supervision or requirements;
- the Company's ability to maintain secure and functional financial, accounting, technology, data processing, or other operating systems or facilities, including its capacity to withstand cyber-attacks;
- the adequacy of the Company's corporate governance, risk-management framework, compliance programs, or internal controls, including its ability to control lapses or deficiencies in financial reporting or to effectively mitigate or manage operational risk;
- the efficacy of the Company's methods or models in assessing business strategies or opportunities or in valuing, measuring, monitoring, or managing positions or risk;
- the Company's ability to keep pace with changes in technology that affect the Company or its customers, counterparties, or competitors;
- mergers, acquisitions, or dispositions, including the Company's ability to integrate acquisitions and divest assets;
- the adequacy of the Company's succession planning for key executives or other personnel;
- the Company's ability to grow revenue, control expenses, or attract and retain qualified employees;
- natural or man-made disasters, calamities, or conflicts, including terrorist events; or
- other assumptions, risks, or uncertainties described in the Notes to Consolidated Financial Statements (Item 1) and Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2) in this Form 10-Q, in the Risk Factors (Item 1A) in the Form 10-K, or in any of the Company's quarterly or current reports.

Any forward-looking statement made by the Company or on its behalf speaks only as of the date that it was made. The Company does not undertake to update any forward-looking statement to reflect the impact of events, circumstances, or results that arise after the date that the statement was made, except to the extent required by applicable securities laws. You, however, should consult further disclosures (including disclosures of a forward-looking nature) that the Company makes in any subsequent Annual Report on Form 10-K, Quarterly Report on Form 10-Q, or Current Report on Form 8-K.

Overview

The Company focuses on the following four core strategic objectives. Management believes these strategic objectives will guide its efforts to achieve its vision, to deliver the unparalleled customer experience, all while seeking to improve net income and strengthen the balance sheet while undertaking prudent risk management.

The first strategic objective is to continuously improve operating efficiencies. The Company has focused on identifying efficiencies that simplify our organizational and reporting structures, streamline back office functions and take advantage of synergies and newer technologies among various platforms and distribution networks. The Company has identified and expects to continue identifying ongoing efficiencies through the normal course of business that, when combined with increased revenue, will contribute to improved operating leverage. During the three-month period ended September 30, 2018, total revenue increased 2.5 percent compared to the same period in

2017, while noninterest expense increased 5.0 percent. As part of this initiative, the Company continues to invest in technological advances that it believes will help management drive operating leverage in the future through improved data analysis and automation.

The second strategic objective is to increase net interest income through profitable loan and deposit growth and the optimization of the balance sheet. During the three-month period ended September 30, 2018, the Company continued to make progress on this strategy as illustrated by an increase in net interest income of $9.6 million, or 6.8 percent, from the same period in 2017. The Company has shown increased net interest income through the effects of increased interest rates, the volume and mix of average earning assets, and a low cost of funds in its Consolidated Balance Sheets. Average loan balances increased $807.4 million, or 7.4 percent, compared to the same period in 2017. The funding for these assets was driven primarily by a 4.4 percent increase in average interest-bearing liabilities. Net interest margin, on a tax-equivalent basis, increased two basis points compared to the same period in 2017. The variance to the same period in 2017 is impacted by a lower tax-equivalent tax rate in 2018 as a result of the Tax Act. This impact was approximately 11 basis points.

The third strategic objective is to grow the Company's revenue from noninterest sources. The Company has continued to emphasize its diverse operations throughout all economic cycles. This strategy has provided revenue diversity, helped to reduce the impact of sustained low interest rates, and positioned the Company to benefit in periods of growth. Noninterest income decreased $3.4 million, or 3.3 percent, to $100.9 million for the three-month period ended September 30, 2018, compared to the same period in 2017. This decline was driven by a combination of lower market-driven revenues such as bond trading income, customer and contract re-pricings in our institutional and asset servicing businesses, as well as an increase in card-based rewards and rebates expense recorded as contra-revenues from lower levels in the prior year. This change is discussed in greater detail below under Noninterest Income. The Company continues to emphasize its asset management, brokerage, bankcard services, healthcare services, and treasury management businesses. At September 30, 2018, noninterest income represented 40.1 percent of total revenues, compared to 42.5 percent at September 30, 2017.

The fourth strategic objective is effective capital management. The Company places a significant emphasis on maintaining a strong capital position, which management believes promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company's ability to capitalize on business growth and acquisition opportunities. The Company continues to maximize shareholder value through a mix of reinvesting in organic growth, evaluating acquisition opportunities that complement the Company's strategies, increasing dividends over time, and appropriately utilizing a share repurchase program. At September 30, 2018, the Company had $2.2 billion in total shareholders' equity. This is an increase of $101.9 million, or 4.8 percent, compared to total shareholders' equity at September 30, 2017. At September 30, 2018, the Company had a total risk-based capital ratio of 14.54 percent. The Company repurchased 271,204 shares of common stock at an average price of $74.50 per share during the three-month period ended September 30, 2018.

Earnings Summary

The following is a summary regarding the Company's earnings for the third quarter of 2018. The changes identified in the summary are explained in greater detail below. The Company recorded income from continuing operations of $57.8 million for the three-month period ended September 30, 2018, compared to $48.9 million for the same period a year earlier. This represents an 18.4 percent increase over the three-month period ended September 30, 2017. Basic earnings per share from continuing operations for the three-month period ended September 30, 2018 was $1.17 per share ($1.16 per share fully-diluted) compared to $0.99 per share ($0.98 per share fully-diluted) for the three-month period ended September 30, 2017. Return on average assets and return on average common shareholders' equity for the three-month period ended September 30, 2018 were 1.11 and 10.32 percent, respectively, compared to 0.95 and 9.17 percent, respectively, for the same period a year earlier.

The Company recorded net income from continuing operations of $170.8 million for the nine-month period ended September 30, 2018, compared to $135.6 million for the same period a year earlier. This represents a 25.9 percent increase over the nine-month period ended September 30, 2017. Basic earnings per share from continuing operations for the nine-month period ended September 30, 2018 were $3.45 per share ($3.41 per share fully-diluted) compared to $2.76 per share ($2.72 per share fully-diluted) for the same period in 2017. Return on average assets

and return on average common shareholders’ equity for the nine-month period ended September 30, 2018 were 1.10 and 10.43 percent, respectively, compared to 0.89 and 8.82 percent, respectively, for the same period in 2017.

Net interest income for the three and nine-month periods ended September 30, 2018 increased $9.6 million, or 6.8 percent, and $36.1 million, or 8.7 percent, respectively, compared to the same periods in 2017. For the three-month period ended September 30, 2018, average earning assets increased by $433.8 million, or 2.3 percent, and for the nine-month period ended September 30, 2018, they increased by $428.5 million, or 2.3 percent, compared to the same periods in 2017. Net interest margin, on a tax-equivalent basis, increased to 3.18 percent and 3.20 percent for the three and nine-month periods ended September 30, 2018, respectively, compared to 3.16 percent and 3.12 percent, respectively, for the same periods in 2017. The variance to the same period in 2017 is impacted by a lower tax-equivalent tax rate in 2018 as a result of the Tax Act. This impact is approximately 11 basis points.

The provision for loan losses decreased by $5.8 million to $5.8 million for the three-month period ended September 30, 2018, and decreased by $12.3 million to $22.8 million for the nine-month period ended September 30, 2018, compared to the same periods in 2017. This change is the result of applying the Company’s methodology for computing the allowance for loan losses, which considers the inherent risk in the loan portfolio, as well as other qualitative factors, such as macroeconomic conditions, loan growth, loan impairment changes, loan risk grading changes, and net charge-off levels. The Company’s nonperforming loans decreased $3.7 million to $50.6 million at September 30, 2018, compared to September 30, 2017, and decreased $8.6 million, compared to December 31, 2017. The allowance for loan losses as a percentage of total loans decreased to 0.85 percent as of September 30, 2018, compared to 0.89 percent at September 30, 2017. For a description of the Company’s methodology for computing the allowance for loan losses, please see the summary discussion of the Allowance for Loan Losses within the Critical Accounting Policies and Estimates subsection of the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Form 10-K.

Noninterest income decreased by $3.4 million, or 3.3 percent, for the three-month period ended September 30, 2018, and decreased by $10.8 million, or 3.4 percent, for the nine-month period ended September 30, 2018, compared to the same periods in 2017. These changes are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by $8.6 million, or 5.0 percent, for the three-month period ended September 30, 2018, and increased by $10.9 million, or 2.1 percent, for the nine-month period ended September 30, 2018, compared to the same periods in 2017. These changes are discussed in greater detail below under Noninterest Expense.

Net Interest Income

Net interest income is a significant source of the Company’s earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest-earning assets and the related funding sources, the overall mix of these assets and liabilities, and the interest rates paid on each affect net interest income. Net interest income for the three and nine-month periods ended September 30, 2018 increased $9.6 million, or 6.8 percent, and $36.1 million, or 8.7 percent, respectively, compared to the same periods in 2017.

Table 1 shows the impact of earning asset rate changes compared to changes in the cost of interest-bearing liabilities. As illustrated in this table, net interest spread for the three-month period ended September 30, 2018 decreased by 15 basis points as compared to the same period in 2017. Net interest margin for the three-month period ended September 30, 2018 increased by two basis points compared to the same period in 2017. Net interest spread for the nine-month period ended September 30, 2018 decreased by seven basis points as compared to the same period in 2017. Net interest margin for the nine-month period ended September 30, 2018 increased by eight basis points compared to the same period in 2017. As noted above, the variances to the same periods in 2017 are impacted by a lower tax-equivalent tax rate in 2018 as a result of the Tax Act. This impact is approximately 11 basis points. The changes

compared to 2017 are primarily due to favorable interest rate and volume variances on loans offset by unfavorable rate variances in interest-bearing deposits. These interest rate variances have led to decreased net interest spreads, but higher net interest margins. These variances have also driven an increase in interest income partially offset by an increase in interest expense, resulting in an increase in the Company's net

interest income during 2018 as compared to results for the same period in 2017. For the impact of the contribution from free funds, see the Analysis of Net Interest Margin within Table 2 below. Table 2 also illustrates how the changes in volume and interest rates have resulted in an increase in net interest income.

Table 1

AVERAGE BALANCE SHEETS/YIELDS AND RATES (tax-equivalent basis) (unaudited, dollars in thousands)

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates. All average balances are daily average balances. The average yield on earning assets without the tax-equivalent basis adjustment would have been 3.79 percent for the three-month period ended September 30, 2018 and 3.31 percent for the same period in 2017. The average yield on earning assets without the tax-equivalent basis adjustment would have been 3.66 percent for the nine-month period ended September 30, 2018 and 3.21 percent for the same period in 2017.

	Three Months Ended September 30,					
	2018			2017		
	Average Balance	Average Yield/Rate		Average Balance	Average Yield/Rate	
ASSETS						
Loans, net of unearned interest	$11,718,552	4.87	%	$10,911,154	4.33	%
Securities:						
Taxable	3,760,332	2.14		3,794,074	1.85	
Tax-exempt	3,431,206	2.67		3,746,540	3.06	
Total securities	7,191,538	2.39		7,540,614	2.46	
Federal funds and resell agreements	101,223	2.61		190,036	2.10	
Interest-bearing due from banks	322,882	1.86		254,702	1.17	
Other earning assets	45,476	4.35		49,396	3.95	
Total earning assets	19,379,671	3.89		18,945,902	3.52	
Allowance for loan losses	(99,289)			(99,954)		
Other assets	1,469,283			1,467,273		
Total assets	$20,749,665			$20,313,221		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits	$10,984,419	0.93	%			