Hilltop Holdings Inc.
Form 10-Q
July 26, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-31987

Hilltop Holdings Inc.

(Exact name of registrant as specified in its charter)

Maryland	84-1477939
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2323 Victory Avenue, Suite 1400

Dallas, TX	75219
(Address of principal executive offices)	(Zip Code)

(214) 855-2177

(Registrant’s telephone number, including area code)

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, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	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 Act). Yes No

The number of shares of the registrant's common stock outstanding at July 26, 2018 was 94,576,828.

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HILLTOP HOLDINGS INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2018

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 353,432	$ 486,977
Federal funds sold	403	405
Securities purchased under agreements to resell	229,172	186,537
Assets segregated for regulatory purposes	128,417	186,578
Securities:		
Trading, at fair value	634,197	730,685
Available for sale, at fair value (amortized cost of $826,515 and $748,255, respectively)	811,218	744,319
Held to maturity, at amortized cost (fair value of $339,702 and $349,939, respectively)	353,192	355,849
Equity, at fair value	21,218	21,241
	1,819,825	1,852,094
Loans held for sale	1,953,562	1,715,357
Non-covered loans, net of unearned income	6,384,660	6,273,669
Allowance for non-covered loan losses	(59,996)	(60,957)
Non-covered loans, net	6,324,664	6,212,712
Covered loans, net of allowance of $1,974 and $2,729, respectively	158,996	179,400
Broker-dealer and clearing organization receivables	1,614,951	1,464,378
Premises and equipment, net	172,911	177,577
FDIC indemnification asset	23,525	29,340
Covered other real estate owned	34,895	36,744
Other assets	589,897	549,447
Goodwill	251,808	251,808
Other intangible assets, net	32,716	36,432
Total assets	$ 13,689,174	$ 13,365,786
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 2,468,332	$ 2,411,849
Interest-bearing	5,345,290	5,566,270
Total deposits	7,813,622	7,978,119

Broker-dealer and clearing organization payables	1,409,904	1,287,563
Short-term borrowings	1,610,735	1,206,424
Securities sold, not yet purchased, at fair value	251,581	232,821
Notes payable	227,736	208,809
Junior subordinated debentures	67,012	67,012
Other liabilities	392,171	470,231
Total liabilities	11,772,761	11,450,979
Commitments and contingencies (see Notes 12 and 13)		
Stockholders' equity:		
Hilltop stockholders' equity:		
Common stock, $0.01 par value, 125,000,000 shares authorized; 94,570,757 and 95,982,184 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	946	960
Additional paid-in capital	1,502,105	1,526,369
Accumulated other comprehensive income (loss)	(11,846)	(394)
Retained earnings	419,683	384,545
Deferred compensation employee stock trust, net	857	848
Employee stock trust (11,217 and 11,672 shares, at cost, respectively)	(252)	(247)
Total Hilltop stockholders' equity	1,911,493	1,912,081
Noncontrolling interests	4,920	2,726
Total stockholders' equity	1,916,413	1,914,807
Total liabilities and stockholders' equity	$ 13,689,174	$ 13,365,786

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income:				
Loans, including fees	$ 103,924	$ 113,793	$ 203,868	$ 203,784
Securities borrowed	17,486	9,597	33,786	17,650
Securities:				
Taxable	12,516	8,833	23,469	15,433
Tax-exempt	1,697	1,375	3,469	2,619
Other	4,417	2,708	8,808	5,061
Total interest income	140,040	136,306	273,400	244,547
Interest expense:				
Deposits	10,136	5,464	18,811	10,154
Securities loaned	15,075	7,481	28,814	13,821
Short-term borrowings	6,466	3,648	10,509	5,066
Notes payable	2,437	2,826	4,934	5,640
Junior subordinated debentures	918	744	1,740	1,455
Other	160	167	324	335
Total interest expense	35,192	20,330	65,132	36,471
Net interest income	104,848	115,976	208,268	208,076
Provision (recovery) for loan losses	340	5,853	(1,467)	7,558
Net interest income after provision (recovery) for loan losses	104,508	110,123	209,735	200,518
Noninterest income:				
Net gains from sale of loans and other mortgage production income	132,478	153,688	238,245	277,838
Mortgage loan origination fees	29,318	25,976	49,944	45,532
Securities commissions and fees	38,320	37,804	77,037	76,861
Investment and securities advisory fees and commissions	21,965	25,537	40,319	47,739
Net insurance premiums earned	34,105	36,020	68,420	72,160
Other	23,248	65,667	40,612	96,001
Total noninterest income	279,434	344,692	514,577	616,131
Noninterest expense:				

Employees' compensation and benefits	200,632	214,719	383,232	401,605
Occupancy and equipment, net	27,893	27,919	55,723	55,212
Professional services	26,020	26,696	50,724	51,741
Loss and loss adjustment expenses	24,409	33,184	39,941	54,884
Other	59,563	63,733	117,099	123,301
Total noninterest expense	338,517	366,251	646,719	686,743
Income before income taxes	45,425	88,564	77,593	129,906
Income tax expense	11,034	25,754	18,522	40,789
Net income	34,391	62,810	59,071	89,117
Less: Net income attributable to noncontrolling interest	1,311	334	1,550	207
Income attributable to Hilltop	$ 33,080	$ 62,476	$ 57,521	$ 88,910
Earnings per common share:				
Basic	$ 0.35	$ 0.64	$ 0.60	$ 0.90
Diluted	$ 0.35	$ 0.63	$ 0.60	$ 0.90
Cash dividends declared per common share	$ 0.07	$ 0.06	$ 0.14	$ 0.12
Weighted average share information:				
Basic	95,270	98,154	95,625	98,295
Diluted	95,358	98,414	95,727	98,576

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 34,391	$ 62,810	$ 59,071	$ 89,117
Other comprehensive income:				
Net unrealized gains (losses) on securities available for sale, net of tax of $(602), $696, $(2,495) and $927, respectively	(2,148)	1,224	(8,851)	1,636
Reclassification adjustment for gains included in net income, net of tax of $0, $(5), $0 and $(5), respectively	—	(9)	—	(9)
Comprehensive income	32,243	64,025	50,220	90,744
Less: comprehensive income attributable to noncontrolling interest	1,311	334	1,550	207
Comprehensive income applicable to Hilltop	$ 30,932	$ 63,691	$ 48,670	$ 90,537

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(Unaudited)

Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Deferred Compensation Employee Stock Trust,	Employee Stock Trust		Total Hilltop Stockholders'	Noncontrolli
Shares	Amount	Capital	Income	Earnings	Net	Shares	Amount	Equity	Interest
98,544	$ 985	$ 1,572,877	$ 485	$ 295,568	$ 903	15	$ (309)	$ 1,870,509	$ 4,011
—	—	—	—	88,910	—	—	—	88,910	207
—	—	—	1,627	—	—	—	—	1,627	—
—	—	5,687	—	—	—	—	—	5,687	—
7	—	212	—	—	—	—	—	212	—
244	3	(2,134)	—	—	—	—	—	(2,131)	—
(2,462)	(25)	(46,739)	—	(16,311)	—	—	—	(63,075)	—
—	—	—	—	(11,603)	—	—	—	(11,603)	—
—	—	—	—	—	(58)	(3)	61	3	—
—	—	—	—	—	—	—	—	—	(1,304)

	96,333	$ 963	$ 1,529,903	$ 2,112	$ 356,564	$ 845	12	$ (248)	$ 1,890,139	$ 2,914
	95,982	$ 960	$ 1,526,369	$ (394)	$ 384,545	$ 848	12	$ (247)	$ 1,912,081	$ 2,726
	—	—	—	—	57,521	—	—	—	57,521	1,550
e	—	—	—	(8,851)	—	—	—	—	(8,851)	—
	—	—	4,549	—	—	—	—	—	4,549	—
k d	10	—	248	—	—	—	—	—	248	—
	281	3	(1,732)	—	—	—	—	—	(1,729)	—
f	(1,702)	(17)	(27,329)	—	(11,531)	—	—	—	(38,877)	—
	—	—	—	—	(13,453)	—	—	—	(13,453)	—
	—	—	—	—	—	9	(1)	(5)	4	—
e	—	—	—	(2,601)	2,601	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	644
	94,571	$ 946	$ 1,502,105	$ (11,846)	$ 419,683	$ 857	11	$ (252)	$ 1,911,493	$ 4,920

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Operating Activities		
Net income	$ 59,071	$ 89,117
Adjustments to reconcile net income to net cash used in operating activities:		
Provision (recovery) for loan losses	(1,467)	7,558
Depreciation, amortization and accretion, net	3,412	(14,436)
Net realized gains on securities	—	(14)
Net change in fair value of equity securities	512	—
Deferred income taxes	734	2,615
Other, net	4,926	5,264
Net change in securities purchased under agreements to resell	(42,635)	(35,758)
Net change in assets segregated for regulatory purposes	58,161	13,428
Net change in trading securities	96,488	(205,951)
Net change in broker-dealer and clearing organization receivables	(172,846)	(45,566)
Net change in FDIC indemnification asset	—	22,824
Net change in other assets	2,897	(48,794)
Net change in broker-dealer and clearing organization payables	52,574	75,004
Net change in other liabilities	(90,078)	(132,731)
Net change in securities sold, not yet purchased	18,760	(4,020)
Proceeds from sale of mortgage servicing rights asset	9,303	17,499
Net gains from sales of loans	(238,245)	(277,838)
Loans originated for sale	(7,308,972)	(7,151,419)
Proceeds from loans sold	7,286,188	7,221,859
Net cash used in operating activities	(261,217)	(461,359)
Investing Activities		
Proceeds from maturities and principal reductions of securities held to maturity	24,047	27,975
Proceeds from sales, maturities and principal reductions of securities available for sale	90,950	197,327
Proceeds from sales, maturities and principal reductions of equity securities	3	—
Purchases of securities held to maturity	(21,634)	(36,299)
Purchases of securities available for sale	(170,328)	(361,530)
Purchases of equity securities	(492)	—
Net change in loans	(49,003)	(195,832)
Purchases of premises and equipment and other assets	(12,252)	(13,771)

Proceeds from sales of premises and equipment and other real estate owned	8,172	18,071
Net cash received from Federal Home Loan Bank and Federal Reserve Bank stock	(16,626)	8,165
Net cash used in investing activities	(147,163)	(355,894)
Financing Activities		
Net change in deposits	(94,730)	483,993
Net change in short-term borrowings	404,311	97,780
Proceeds from notes payable	267,194	173,052
Payments on notes payable	(248,167)	(190,631)
Payments to repurchase common stock	(38,877)	(16,009)
Dividends paid on common stock	(13,453)	(11,603)
Net cash received from (distributed to) noncontrolling interest	644	(1,304)
Taxes paid on employee stock awards netting activity	(1,726)	(2,131)
Other, net	(363)	(332)
Net cash provided by financing activities	274,833	532,815
Net change in cash and cash equivalents	(133,547)	(284,438)
Cash and cash equivalents, beginning of period	487,382	690,764
Cash and cash equivalents, end of period	$ 353,835	$ 406,326
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 65,349	$ 36,299
Cash paid for income taxes, net of refunds	$ 966	$ 26,703
Supplemental Schedule of Non-Cash Activities		
Conversion of loans to other real estate owned	$ 4,846	$ 5,644
Additions to mortgage servicing rights	$ 9,729	$ 2,490

See accompanying notes.

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting and Reporting Policies

Nature of Operations

Hilltop Holdings Inc. (“Hilltop” and, collectively with its subsidiaries, the “Company”) is a financial holding company registered under the Bank Holding Company Act of 1956. The Company’s primary line of business is to provide business and consumer banking services from offices located throughout Texas through PlainsCapital Bank (the “Bank”). In addition, the Company provides an array of financial products and services through its broker-dealer, mortgage origination and insurance subsidiaries.

The Company, headquartered in Dallas, Texas, provides its products and services through three primary business units, PlainsCapital Corporation (“PCC”), Hilltop Securities Holdings LLC (“Securities Holdings”) and National Lloyds Corporation (“NLC”). PCC is a financial holding company that provides, through its subsidiaries, traditional banking, wealth and investment management and treasury management services primarily in Texas and residential mortgage lending throughout the United States. Securities Holdings is a holding company that provides, through its subsidiaries, investment banking and other related financial services, including municipal advisory, sales, trading and underwriting of taxable and tax-exempt fixed income securities, equity trading, clearing, securities lending, structured finance and retail brokerage services throughout the United States. NLC is a property and casualty insurance holding company that provides, through its subsidiaries, fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the southern United States.

On February 13, 2018, the Company entered into a definitive agreement to acquire privately-held, Houston-based The Bank of River Oaks (“BORO”) in an all-cash transaction. Under the terms of the definitive agreement, the Company has agreed to pay cash in the aggregate amount of $85 million to the shareholders and option holders of BORO. As of December 31, 2017, BORO had total assets, gross loans and deposits of $454.4 million, $343.6 million and $406.1 million, respectively. The acquisition was approved by BORO shareholders in May 2018 and was subsequently approved by regulators. The transaction is expected to close on or about August 1, 2018.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"), and in conformity with the rules and regulations of the Securities and Exchange Commission (the "SEC"). In the opinion of management, these financial statements contain all adjustments necessary for a fair statement of the results of the interim periods presented. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"). Results for interim periods are not necessarily indicative of results to be expected for a full year or any future period.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates regarding the allowance for loan losses, the fair values of financial instruments, the amounts receivable from the Federal Deposit Insurance Corporation (the "FDIC") under loss-share agreements (the "FDIC Indemnification Asset"), reserves for losses and loss adjustment expenses ("LAE"), the mortgage loan indemnification liability, and the potential impairment of assets are particularly subject to change. The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these consolidated financial statements.

Hilltop owns 100% of the outstanding stock of PCC. PCC owns 100% of the outstanding stock of the Bank and 100% of the membership interest in Hilltop Opportunity Partners LLC, formerly known as PlainsCapital Equity, LLC, a merchant bank utilized to facilitate investments in companies engaged in non-financial activities. The Bank owns 100% of the outstanding stock of PrimeLending, a PlainsCapital Company ("PrimeLending").

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Hilltop Holdings Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Unaudited)

PrimeLending owns a 100% membership interest in PrimeLending Ventures Management, LLC (“Ventures Management”), which holds an ownership interest in and is the managing member of certain affiliated business arrangements (“ABAs”).

PCC also owns 100% of the outstanding common securities of PCC Statutory Trusts I, II, III and IV (the “Trusts”), which are not included in the consolidated financial statements under the requirements of the Variable Interest Entities Subsections of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) because the primary beneficiaries of the Trusts are not within the consolidated group.

Hilltop has a 100% membership interest in Securities Holdings, which operates through its wholly owned subsidiaries, Hilltop Securities Inc. (“Hilltop Securities”), Hilltop Securities Independent Network Inc. (“HTS Independent Network”) (collectively, the “Hilltop Broker-Dealers”) and First Southwest Asset Management, LLC. Hilltop Securities is a broker-dealer registered with the SEC and Financial Industry Regulatory Authority (“FINRA”) and a member of the New York Stock Exchange (“NYSE”), HTS Independent Network is an introducing broker-dealer that is also registered with the SEC and FINRA, and First Southwest Asset Management, LLC is a registered investment adviser under the Investment Advisers Act of 1940.

Hilltop also owns 100% of NLC, which operates through its wholly owned subsidiaries, National Lloyds Insurance Company (“NLIC”) and American Summit Insurance Company (“ASIC”).

The consolidated financial statements include the accounts of the above-named entities. Intercompany transactions and balances have been eliminated. Noncontrolling interests have been recorded for minority ownership in entities that are not wholly owned and are presented in compliance with the provisions of Noncontrolling Interest in Subsidiary Subsections of the ASC.

Certain reclassifications have been made to the prior period consolidated financial statements to conform with the current period presentation, including reclassifications due to the adoption of new accounting pronouncements. In preparing these consolidated financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all stockholders and other financial statement users, or filed with the SEC.

Significant accounting policies are detailed in Note 1 to the consolidated financial statements included in the Company’s 2017 Form 10-K. The Company has updated its accounting policies related to securities as a result of the adoption of Accounting Standards Update (“ASU”) 2016-01 as presented below.

Securities

Management classifies securities at the time of purchase and reassesses such designation at each balance sheet date. Securities held for resale to facilitate principal transactions with customers are classified as trading, and are carried at fair value, with changes in fair value reflected in the consolidated statements of operations. Hilltop reports interest income on trading securities as interest income on securities and other changes in fair value as other noninterest income.

Debt securities held but not intended to be held to maturity or on a long-term basis are classified as available for sale. Securities included in this category are those that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk, and other factors related to interest rate and resultant prepayment risk changes. Debt securities available for sale are carried at fair value. Unrealized holding gains and losses on debt securities available for sale, net of taxes, are reported in other comprehensive income (loss) until realized. Premiums and discounts are recognized in interest income using the effective interest method and consider any optionality that may be embedded in the security.

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Equity securities are carried at fair value, with changes in fair value reflected in the consolidated statements of operations. Equity securities that do not have readily determinable fair values are initially recorded at cost and are remeasured when there is (i) an observable transaction involving the same investment, (ii) an observable transaction involving a similar investment from the same issuer or (iii) an impairment. These remeasurements are reflected in the consolidated statements of operations.

Purchases and sales (and related gain or loss) of securities are recorded on the trade date, based on specific identification. Declines in the fair value of available-for-sale debt securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the other-than-temporary impairment ("OTTI") is related to credit losses. The amount of the OTTI related to other factors is recognized in other comprehensive income (loss). In estimating OTTI, management considers in developing its best estimate of cash flows, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, (iii) the historic and implied volatility of the security, (iv) failure of the issuer to make scheduled interest payments and (v) changes to the rating of the security by a rating agency.

2. Recently Issued Accounting Standards

Adoption of New Accounting Standards

In February 2018, FASB issued ASU 2018-02 to help organizations address certain stranded income tax effects in accumulated other comprehensive income ("AOCI") resulting from the Tax Cuts and Jobs Act of 2017 ("Tax Legislation"). The amendment provides an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the changes in the U.S. federal corporate income tax rate in the Tax Legislation (or portion thereof) is recorded. The amendment also includes disclosure requirements regarding the issuer's accounting policy for releasing income tax effects from AOCI. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. As permitted within the amendment, the Company elected to early adopt and apply the provisions of this amendment as of January 1, 2018. The adoption of the amendment resulted in a reclassification of $0.1 million from AOCI to retained earnings, representing an increase to retained earnings. This reclassification is included within the adoption of accounting standards line item in the consolidated statements of stockholders' equity.

In May 2017, FASB issued ASU 2017-09 which provides clarity and reduces both diversity in practice and cost and complexity associated with changes to the terms or conditions of a share-based payment award and, specifically, which changes require an entity to apply modification accounting. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the amendments as of January 1, 2018, which did not have a significant effect on the Company's consolidated financial statements.

In January 2017, FASB issued ASU 2017-01 which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendment is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017, using the prospective method. The Company adopted the amendment as of January 1, 2018 and will prospectively apply its provisions.

In November 2016, FASB issued ASU 2016-18 which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We have adopted the requirements of the new standard as of January 1, 2018. The adoption of this ASU had no impact on our consolidated statements of cash flows.

In October 2016, FASB issued ASU 2016-16 which addresses improvement in accounting for income tax consequences of intra-equity transfers of assets other than inventory. The amendment requires that an entity recognize the income tax consequences of the intra-equity transfer of an asset other than inventory when the transfer occurs. The amendment was effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15,

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2017, using the modified retrospective transition method. The Company adopted the amendment as of January 1, 2018, which did not have a significant effect on the Company’s consolidated financial statements.

In August 2016, FASB issued ASU 2016-15 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017 using a retrospective transition method. The Company adopted the amendments as of January 1, 2018, which did not have a significant effect on the Company’s consolidated financial statements.

In January 2016, FASB issued ASU 2016-01 related to financial instruments and subsequently issued technical corrections to the amendment in ASU 2018-03. The amendments require that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The amendments also impact financial liabilities under the Fair Value Option and the presentation and disclosure requirements for financial instruments and modify the required process used to evaluate deferred tax assets on available for sale securities. The amendments are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the amendments as of January 1, 2018, which resulted in $21.2 million of securities being reclassified from available for sale to equity within the consolidated balance sheets consistent with the provisions of the amendments, while certain other equity investments of $42.2 million are included in other assets within the consolidated balance sheets at June 30, 2018. The adoption of the amendments also resulted in $2.5 million being reclassified from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of January 1, 2018. This reclassification is included within the adoption of accounting standards line item in the consolidated statement of stockholders’ equity. All subsequent changes in fair value related to these equity investments will be recognized in net income. Additionally, the enhanced disclosures required by the amendments are included within the notes to the consolidated financial statements, including the disclosure of the fair value of the loan portfolio using an exit price method instead of the prior discounted cash flow method. These disclosure changes did not have a significant effect on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year, to clarify the principles for recognizing revenue from contracts with customers. The FASB has subsequently issued several amendments to the standard, including clarification of principal versus agent considerations, narrow scope improvements and other technical corrections, all of which are codified in ASC 606, Revenue from Contracts with Customers. The amendments outline a single comprehensive model for entities to depict the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. The amendments also require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017 and have been adopted as of January 1, 2018 using the modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application and to new contracts entered into thereafter. Revenue from the Company's mortgage origination and insurance segments are not in the scope of the new guidance, while certain revenue from contracts with customers within the broker-dealer and banking segments are subject to the new guidance. There were no material changes to the revenue recognition policies of the banking segment upon adoption.

The revenue recognition policies within the Company's broker-dealer segment were affected upon adoption of ASC 606. Specifically, the new guidance required changes to the principal versus agent conclusion for certain advisory and underwriting revenues and expenses which, as of January 1, 2018, are recorded on a gross basis while legacy guidance required these revenues to be recognized net of the related expenses. Conversely, certain contract costs related to clearing and retail operations are now netted against the revenues while the legacy guidance required these revenues and expenses to be recognized on a gross basis. These changes did not have a material effect on the Company's consolidated financial statements during the three and six months ended June 30, 2018. As the measurement and timing of revenue recognition was not affected for any of the Company's revenue streams, the implementation of the new guidance had no impact on opening retained earnings as of January 1, 2018.

The Company's broker-dealer segment has six primary lines of business: (i) public finance, (ii) capital markets, (iii) retail, (iv) structured finance, (v) clearing services and (vi) securities lending. Revenue from contracts with customers subject to the guidance in ASC 606 from the broker-dealer segment is included within the securities commissions and fees and investment and securities advisory fees and commissions line items within the consolidated statements of operations. Commissions and fees revenue is generally recognized at a point in time upon the delivery of contracted services based on a predefined contractual amount or on the trade date for trade execution services based on prevailing market prices and internal and regulatory guidelines.

The Company's banking segment has three primary lines of business: (i) business banking, (ii) personal banking and (iii) wealth and investment management. Revenue from contracts with customers subject to the guidance in ASC 606 from the banking segment (certain retail and trust fees) is included within the other noninterest income line item within the consolidated statements of operations. Retail and trust fees are generally recognized at the time the related transaction occurs or when services are completed. Fees are based on the dollar amount of the transaction or are otherwise predefined in contracts associated with each customer account depending on the type of account and services provided.

Accounting Standards Issued But Not Yet Adopted

In August 2017, FASB issued ASU 2017-12 which provides targeted improvements to accounting for hedging activities. The purpose of the amendment is to better align a company's risk management activities with its financial reporting for hedging relationships, to simplify the hedge accounting requirements and to improve the disclosures of hedging arrangements. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, and all transition requirements and elections should be applied to hedging relationships existing on the date of adoption. The Company has not historically applied hedge accounting to its derivative transactions. However, the Company is currently evaluating the provisions of the amendment and the impact, if any, on its future consolidated financial statements.

In June 2016, FASB issued ASU 2016-13 which sets forth a "current expected credit loss" (CECL) model which requires entities to measure all credit losses expected over the life of an exposure (or pool of exposures) for financial instruments held at the reporting date based on historical experience, current conditions and reason