

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 number 001-38481

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Missouri 43-0903811  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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
<b>ASSETS</b>		
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
<b>LIABILITIES</b>		
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
<b>SHAREHOLDERS' EQUITY</b>		

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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
<b>INTEREST INCOME</b>				
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
<b>INTEREST EXPENSE</b>				
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
<b>NONINTEREST INCOME</b>				
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
<b>NONINTEREST EXPENSE</b>				
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

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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		Nine Months Ended	
	Ended September 30, 2018	2017	September 30, 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 <sup>(1)(2)</sup>	—	—	(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 <sup>(1)</sup>	—	—	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 <sup>(2)</sup>	—	—	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
<b>OPERATING ACTIVITIES</b>		
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
<b>INVESTING ACTIVITIES</b>		
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 )
<b>FINANCING ACTIVITIES</b>		

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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.

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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		Non- Accrual Loans	Total Past Due	Current	Total Loans
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing				
<b>Loans</b>						
<b>Commercial:</b>						
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
<b>Real estate:</b>						
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
<b>Consumer:</b>						
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
<b>Total loans</b>	<b>\$ 14,217</b>	<b>\$ 1,927</b>	<b>\$50,568</b>	<b>\$66,712</b>	<b>\$11,898,012</b>	<b>\$11,964,724</b>



	December 31, 2017					
	30-89	Greater than				
	Days Past	90 Days Past	Non-Accrual	Total Past Due	Current	Total Loans
<b>Loans</b>						
<b>Commercial:</b>						
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
<b>Real estate:</b>						
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
<b>Consumer:</b>						
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
<b>Total loans</b>	<b>\$ 24,136</b>	<b>\$ 3,091</b>	<b>\$ 59,142</b>	<b>\$ 86,369</b>	<b>\$ 11,194,144</b>	<b>\$ 11,280,513</b>

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

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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

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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 with No Investment	Recorded Investment	Total Recorded	Related Allowance	Average Recorded

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	Balance	Allowance	with Allowance	Investment		Investment
<b>Commercial:</b>						
Commercial	\$46,484	\$ 20,731	\$ 14,743	\$ 35,474	\$ 4,454	\$ 46,417
Asset-based	—	—	—	—	—	—
Factoring	—	—	—	—	—	343
Commercial – credit card	—	—	—	—	—	—
<b>Real estate:</b>						
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	—	—	—	—	—	—
<b>Consumer:</b>						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	—	—	—	—	—	—
Leases	—	—	—	—	—	—
<b>Total</b>	<b>\$60,196</b>	<b>\$ 31,115</b>	<b>\$ 15,224</b>	<b>\$ 46,339</b>	<b>\$ 4,610</b>	<b>\$ 59,249</b>

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As of December 31, 2017						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total		Average
				Recorded Investment	Related Allowance	Recorded Investment
<b>Commercial:</b>						
Commercial	\$84,749	\$ 44,525	\$ 16,465	\$ 60,990	\$ 6,299	\$ 65,385
Asset-based	—	—	—	—	—	—
Factoring	830	—	830	830	306	207
Commercial – credit card	—	—	—	—	—	—
<b>Real estate:</b>						
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	—	—	—	—	—	—
<b>Consumer:</b>						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	—	—	—	—	—	8
Leases	—	—	—	—	—	—
<b>Total</b>	<b>\$102,398</b>	<b>\$ 52,907</b>	<b>\$ 21,869</b>	<b>\$ 74,776</b>	<b>\$ 6,683</b>	<b>\$ 76,475</b>

### 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.

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## 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):

		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
September 30, 2018	Cost	Gains	Losses	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

		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
December 31, 2017	Cost	Gains	Losses	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	Fair
	Cost	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):

September 30, 2018 Description of Securities	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
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)

December 31, 2017 Description of Securities	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
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):

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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

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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, 2018		Nine Months Ended September 30, 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):

Repurchase agreements, secured by:	As of September 30, 2018 Remaining Contractual Maturities of the Agreements		
	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