

## Section 1: 10-Q (FORM 10-Q)

**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, 2019

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

(State or other jurisdiction of  
incorporation or organization)

1010 Grand Boulevard, Kansas City, Missouri

(Address of principal executive offices)

43-0903811

(I.R.S. Employer  
Identification Number)

64106

(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$1.00 Par Value	UMBF	The NASDAQ Global Select Market

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 every Interactive Data File required to be submitted 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 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.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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, 2019, UMB Financial Corporation had 49,092,236 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**  
*(dollars in thousands, except share and per share data)*

	September 30, 2019 (unaudited)	December 31, 2018 (audited)
<b>ASSETS</b>		
Loans	\$ 13,043,840	\$ 12,178,150
Allowance for loan losses	(107,406)	(103,635)
Net loans	12,936,434	12,074,515
Loans held for sale	11,025	3,192
Securities:		
Available for sale	7,411,908	6,542,800
Held to maturity (fair value of \$1,089,483 and \$1,070,532, respectively)	1,102,005	1,170,646
Trading securities	86,074	61,011
Other securities	88,176	73,692
Total securities	8,688,163	7,848,149
Federal funds sold and securities purchased under agreements to resell	463,392	627,001
Interest-bearing due from banks	158,339	1,047,830
Cash and due from banks	658,198	645,123
Premises and equipment, net	290,273	283,879
Accrued income	119,024	110,168
Goodwill	180,867	180,867
Other intangibles, net	17,190	15,003
Other assets	620,187	515,392
Total assets	<u>\$ 24,143,092</u>	<u>\$ 23,351,119</u>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 6,652,887	\$ 6,680,070
Interest-bearing demand and savings	11,689,871	11,454,442
Time deposits under \$250,000	618,301	593,904
Time deposits of \$250,000 or more	348,286	552,844
Total deposits	19,309,345	19,281,260
Federal funds purchased and repurchase agreements	1,791,000	1,518,920
Long-term debt	86,951	82,671
Accrued expenses and taxes	223,210	177,731
Other liabilities	168,720	62,067
Total liabilities	<u>21,579,226</u>	<u>21,122,649</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730 shares issued, 49,088,331 and 49,117,222 shares outstanding, respectively	55,057	55,057
Capital surplus	1,069,510	1,054,601
Retained earnings	1,621,198	1,488,421
Accumulated other comprehensive income (loss), net	96,021	(95,782)
Treasury stock, 5,968,399 and 5,939,508 shares, at cost, respectively	(277,920)	(273,827)
Total shareholders' equity	<u>2,563,866</u>	<u>2,228,470</u>
Total liabilities and shareholders' equity	<u>\$ 24,143,092</u>	<u>\$ 23,351,119</u>

See Notes to Consolidated Financial Statements.

**UMB FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
*(unaudited, dollars in thousands, except share and per share data)*

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<b>INTEREST INCOME</b>				
Loans	\$ 162,243	\$ 143,947	\$ 481,342	\$ 405,231
Securities:				
Taxable interest	26,966	20,263	79,057	60,566
Tax-exempt interest	23,202	18,281	65,887	55,274
Total securities income	50,168	38,544	144,944	115,840
Federal funds and resell agreements	2,817	665	8,968	2,455
Interest-bearing due from banks	3,450	1,513	10,117	4,149
Trading securities	425	428	1,701	1,567
Total interest income	219,103	185,097	647,072	529,242
<b>INTEREST EXPENSE</b>				
Deposits	41,144	25,792	118,494	57,961
Federal funds and repurchase agreements	8,313	7,524	25,924	18,922
Other	1,386	1,291	4,112	3,721
Total interest expense	50,843	34,607	148,530	80,604
Net interest income	168,260	150,490	498,542	448,638
Provision for loan losses	7,500	5,750	30,850	22,750
Net interest income after provision for loan losses	160,760	144,740	467,692	425,888
<b>NONINTEREST INCOME</b>				
Trust and securities processing	45,218	43,425	130,078	130,272
Trading and investment banking	5,712	3,711	16,746	12,465
Service charges on deposit accounts	20,620	20,927	62,648	63,554
Insurance fees and commissions	320	339	1,123	980
Brokerage fees	8,102	6,402	22,422	19,046
Bankcard fees	16,895	16,838	50,401	52,145
Gains on sales of securities available for sale, net	3,057	211	2,463	578
Other	3,711	9,032	30,534	27,659
Total noninterest income	103,635	100,885	316,415	306,699
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	110,153	102,956	340,639	315,099
Occupancy, net	12,240	11,628	35,522	33,394
Equipment	19,775	18,533	58,283	56,201
Supplies and services	4,261	4,528	12,419	12,434
Marketing and business development	5,655	6,671	17,872	17,889
Processing fees	13,619	12,331	38,847	35,029
Legal and consulting	8,374	8,470	21,503	18,774
Bankcard	4,643	4,407	13,689	13,198
Amortization of other intangible assets	1,335	1,385	3,913	4,432
Regulatory fees	2,749	3,337	8,549	10,014
Other	8,593	6,139	24,174	17,015
Total noninterest expense	191,397	180,385	575,410	533,479
Income before income taxes	72,998	65,240	208,697	199,108
Income tax expense	10,616	7,391	31,612	28,302
<b>Income from continuing operations</b>	62,382	57,849	177,085	170,806
<b>Discontinued Operations</b>				
Loss from discontinued operations before income taxes	—	—	—	(917)
Income tax benefit	—	—	—	(170)
<b>Loss from discontinued operations</b>	—	—	—	(747)
<b>NET INCOME</b>	\$ 62,382	\$ 57,849	\$ 177,085	\$ 170,059

**PER SHARE DATA**

Basic:								
Income from continuing operations	\$	1.28	\$	1.17	\$	3.63	\$	3.45
Loss from discontinued operations		—		—		—		(0.01)
Net income – basic		1.28		1.17		3.63		3.44
Diluted:								
Income from continuing operations		1.27		1.16		3.61		3.41
Loss from discontinued operations		—		—		—		(0.01)
Net income – diluted		1.27		1.16		3.61		3.40
Dividends		0.30		0.29		0.90		0.87
Weighted average shares outstanding – basic		48,797,182		49,473,157		48,762,667		49,482,087
Weighted average shares outstanding – diluted		49,096,196		49,912,084		49,052,329		49,952,984

See Notes to Consolidated Financial Statements.

**UMB FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(unaudited, dollars in thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 62,382	\$ 57,849	\$ 177,085	\$ 170,059
Other comprehensive income (loss), net of tax:				
Unrealized gains and losses on debt securities:				
Change in unrealized holding gains and losses, net	54,182	(36,331)	268,100	(133,013)
Less: Reclassification adjustment for gains included in net income	(3,057)	(211)	(2,463)	(578)
Change in unrealized gains and losses on debt securities during the period	51,125	(36,542)	265,637	(133,591)
Change in unrealized gains and losses on derivative hedges	(7,189)	1,162	(12,323)	4,274
Income tax (expense) benefit	(10,532)	8,698	(61,511)	32,250
Other comprehensive income (loss) before reclassifications	33,404	(26,682)	191,803	(97,067)
Amounts reclassified from accumulated other comprehensive income <sup>(1)(2)</sup>	—	—	—	(13,049)
Net current-period other comprehensive income (loss)	33,404	(26,682)	191,803	(110,116)
Comprehensive income	<u>\$ 95,786</u>	<u>\$ 31,167</u>	<u>\$ 368,888</u>	<u>\$ 59,943</u>

(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)*

	<b>Common Stock</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance - July 1, 2018	\$ 55,057	\$ 1,050,660	\$ 1,434,342	\$ (128,959)	\$ (209,288)	\$ 2,201,812
Total comprehensive income (loss)	—	—	57,849	(26,682)	—	31,167
Dividends (\$0.29 per share)	—	—	(14,459)	—	—	(14,459)
Purchase of treasury stock	—	—	—	—	(20,206)	(20,206)
Forfeitures of equity awards, net of issuances	—	453	—	—	(452)	1
Recognition of equity-based compensation	—	3,268	—	—	—	3,268
Sale of treasury stock	—	131	—	—	131	262
Exercise of stock options	—	289	—	—	1,330	1,619
Balance - September 30, 2018	<u>\$ 55,057</u>	<u>\$ 1,054,801</u>	<u>\$ 1,477,732</u>	<u>\$ (155,641)</u>	<u>\$ (228,485)</u>	<u>\$ 2,203,464</u>
Balance - July 1, 2019	\$ 55,057	\$ 1,065,301	\$ 1,573,586	\$ 62,617	\$ (278,771)	\$ 2,477,790
Total comprehensive income	—	—	62,382	33,404	—	95,786
Dividends (\$0.30 per share)	—	—	(14,770)	—	—	(14,770)
Purchase of treasury stock	—	—	—	—	(221)	(221)
Forfeitures of equity awards, net of issuances	—	6	—	—	6	12
Recognition of equity-based compensation	—	3,912	—	—	—	3,912
Sale of treasury stock	—	80	—	—	106	186
Exercise of stock options	—	211	—	—	960	1,171
Balance - September 30, 2019	<u>\$ 55,057</u>	<u>\$ 1,069,510</u>	<u>\$ 1,621,198</u>	<u>\$ 96,021</u>	<u>\$ (277,920)</u>	<u>\$ 2,563,866</u>

	<b>Common Stock</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>	<b>Treasury Stock</b>	<b>Total</b>
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 (\$0.87 per share)	—	—	(43,499)	—	—	(43,499)
Purchase of treasury stock	—	—	—	—	(26,417)	(26,417)
Issuances of equity awards, net of forfeitures	—	(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	<u>\$ 55,057</u>	<u>\$ 1,054,801</u>	<u>\$ 1,477,732</u>	<u>\$ (155,641)</u>	<u>\$ (228,485)</u>	<u>\$ 2,203,464</u>
Balance - January 1, 2019	\$ 55,057	\$ 1,054,601	\$ 1,488,421	\$ (95,782)	\$ (273,827)	\$ 2,228,470
Total comprehensive income	—	—	177,085	191,803	—	368,888
Dividends (\$0.90 per share)	—	—	(44,308)	—	—	(44,308)
Purchase of treasury stock	—	—	—	—	(4,335)	(4,335)
Forfeitures of equity awards, net of issuances	—	3,113	—	—	(2,497)	616
Recognition of equity-based compensation	—	10,918	—	—	—	10,918
Sale of treasury stock	—	265	—	—	380	645
Exercise of stock options	—	613	—	—	2,359	2,972
Balance - September 30, 2019	<u>\$ 55,057</u>	<u>\$ 1,069,510</u>	<u>\$ 1,621,198</u>	<u>\$ 96,021</u>	<u>\$ (277,920)</u>	<u>\$ 2,563,866</u>

(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,	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 177,085	\$ 170,059
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	30,850	22,750
Net amortization (accretion) of premiums and discounts from acquisition	135	(193)
Depreciation and amortization	41,388	39,781
Deferred income tax expense (benefit)	1,331	(22,535)
Net increase in trading securities and other earning assets	(25,425)	(29,583)
Gains on sales of securities available for sale, net	(2,463)	(578)
Gains on sales of assets	(247)	(157)
Amortization of securities premiums, net of discount accretion	25,670	33,906
Originations of loans held for sale	(122,479)	(40,836)
Gains on sales of loans held for sale, net	(920)	(966)
Proceeds from sales of loans held for sale	115,566	41,040
Equity-based compensation	11,534	8,964
Net tax benefit related to equity compensation plans	643	2,241
Changes in:		
Accrued income	(8,856)	(5,149)
Accrued expenses and taxes	66,372	(19,916)
Other assets and liabilities, net	(119,674)	25,258
Net cash provided by operating activities	<u>190,510</u>	<u>224,086</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities of securities held to maturity	119,078	81,670
Proceeds from sales of securities available for sale	331,399	95,525
Proceeds from maturities of securities available for sale	789,570	825,504
Purchases of securities held to maturity	(68,192)	(20,159)
Purchases of securities available for sale	(1,719,630)	(760,205)
Net increase in loans	(892,159)	(708,880)
Net decrease (increase) in fed funds sold and resell agreements	163,609	(14,811)
Net cash activity from acquisitions and divestitures	(6,225)	2,364
Net increase in interest bearing balances due from other financial institutions	(4,747)	(4,776)
Purchases of premises and equipment	(47,729)	(36,731)
Proceeds from sales of premises and equipment	4,163	463
Proceeds from bank-owned and company-owned life insurance death benefit	444	16
Net cash used in investing activities	<u>(1,330,419)</u>	<u>(540,020)</u>
<b>FINANCING ACTIVITIES</b>		
Net increase (decrease) in demand and savings deposits	208,246	(46,544)
Net decrease in time deposits	(180,161)	(239,752)
Net increase (decrease) in fed funds purchased and repurchase agreements	272,080	(67,719)
Proceeds from long-term debt	6,765	—
Repayment of long-term debt	(3,247)	(1,554)
Cash dividends paid	(44,219)	(43,529)
Proceeds from exercise of stock options and sales of treasury shares	3,617	9,880
Purchases of treasury stock	(4,335)	(26,417)
Net cash provided by (used) in financing activities	<u>258,746</u>	<u>(415,635)</u>
Decrease in cash and cash equivalents	(881,163)	(731,569)
Cash and cash equivalents at beginning of period	1,674,121	1,716,262
Cash and cash equivalents at end of period	<u>\$ 792,958</u>	<u>\$ 984,693</u>
Supplemental Disclosures:		
Income tax payments	\$ 2,056	\$ 62,776
Total interest payments	145,944	76,066

See Notes to Consolidated Financial Statements.



**UMB FINANCIAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 (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, 2019. 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, 2018, filed with the Securities and Exchange Commission (SEC) on March 1, 2019 (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.

**2. Summary of Significant Accounting Policies**

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

**Cash and cash equivalents**

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

This table provides a summary of cash and cash equivalents as presented on the Consolidated Statements of Cash Flows as of September 30, 2019 and September 30, 2018 (*in thousands*):

	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
Due from the FRB	\$ 134,760	\$ 635,993
Cash and due from banks	658,198	348,700
Cash and cash equivalents at end of period	<u>\$ 792,958</u>	<u>\$ 984,693</u>

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 \$23.6 million and \$33.0 million at September 30, 2019 and September 30, 2018, 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 299,014

and 438,927 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2019 and 2018, respectively. Diluted year-to-date net income per share includes the dilutive effect of 289,662 and 470,897 shares issuable upon the exercise of options granted by the Company and outstanding at September 30, 2019 and 2018, respectively.

Options issued under employee benefits plans to purchase 116,376 and 135,157 shares of common stock were outstanding at September 30, 2019 and 2018, 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, four 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" – Accounting Standards Codification (ASC) Topic 606. 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" – ASC Topic 842. In January, July, and December 2018 and March 2019, the FASB issued implementation amendments to the February 2016 ASU (collectively, the amended guidance). The amended guidance changed the accounting treatment of leases, in that lessees recognize most leases on-balance sheet. This increased reported assets and liabilities, as lessees are required to recognize a right-of-use asset along with a lease liability, measured on a discounted basis. 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. The Company adopted the amended guidance on January 1, 2019, using the effective date as the date of initial application. Adoption of the amended guidance resulted in the recording of a right-of-use asset of \$58.2 million and a lease liability of \$63.0 million to its Consolidated Balance Sheets as of January 1, 2019. The most significant effects of the adoption of the amended guidance are additional financial statement disclosures. See Note 10, "Leases" for related 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. The amendment requires the use of the modified retrospective approach for adoption.

The Company has formed a cross-functional working group, including our credit, finance, and risk management departments, to address the adoption and implementation of this amendment. We are currently working through our implementation plan which includes assessment and documentation of processes, internal controls, model development, documentation, and validation, among other things. The adoption of this amendment could result in an increase in the allowance for loan losses as a result of changing from the incurred loss model. 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, 2019 and December 31, 2018 (*in thousands*):

	September 30, 2019					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non- Accrual Loans	Total Past Due	Current	Total Loans
<b>Loans</b>						
<b>Commercial:</b>						
Commercial	\$ 7,567	\$ 306	\$ 38,770	\$ 46,643	\$ 5,465,406	\$ 5,512,049
Asset-based	—	—	—	—	384,944	384,944
Factoring	—	—	4,232	4,232	187,871	192,103
Commercial – credit card	467	93	—	560	203,856	204,416
<b>Real estate:</b>						
Real estate – construction	2,702	100	—	2,802	850,252	853,054
Real estate – commercial	2,303	—	22,324	24,627	4,197,988	4,222,615
Real estate – residential	319	—	2,727	3,046	834,615	837,661
Real estate – HELOC	147	113	2,795	3,055	485,814	488,869
<b>Consumer:</b>						
Consumer – credit card	1,917	1,751	812	4,480	211,859	216,339
Consumer – other	181	103	178	462	129,313	129,775
<b>Leases</b>						
	—	—	—	—	2,015	2,015
Total loans	<u>\$ 15,603</u>	<u>\$ 2,466</u>	<u>\$ 71,838</u>	<u>\$ 89,907</u>	<u>\$ 12,953,933</u>	<u>\$ 13,043,840</u>

December 31, 2018

	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non- Accrual Loans	Total Past Due	Current	Total Loans
<b>Loans</b>						
<b>Commercial:</b>						
Commercial	\$ 5,717	\$ 133	\$ 27,060	\$ 32,910	\$ 5,195,492	\$ 5,228,402
Asset-based	—	—	—	—	380,738	380,738
Factoring	—	—	—	—	261,591	261,591
Commercial – credit card	490	90	—	580	165,754	166,334
<b>Real estate:</b>						
Real estate – construction	—	—	—	—	792,565	792,565
Real estate – commercial	7,385	90	11,662	19,137	3,695,143	3,714,280
Real estate – residential	246	3,750	807	4,803	702,701	707,504
Real estate – HELOC	764	—	2,776	3,540	542,181	545,721
<b>Consumer:</b>						
Consumer – credit card	2,022	1,945	648	4,615	226,367	230,982
Consumer – other	199	1	65	265	144,520	144,785
<b>Leases</b>						
Leases	—	—	—	—	5,248	5,248
<b>Total loans</b>	<b>\$ 16,823</b>	<b>\$ 6,009</b>	<b>\$ 43,018</b>	<b>\$ 65,850</b>	<b>\$ 12,112,300</b>	<b>\$ 12,178,150</b>

The Company sold residential real estate loans with proceeds of \$115.6 million and \$41.0 million in the secondary market without recourse during the nine months ended September 30, 2019 and September 30, 2018, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of \$71.8 million and \$43.0 million at September 30, 2019 and December 31, 2018, respectively. Restructured loans totaled \$29.3 million and \$21.1 million at September 30, 2019 and December 31, 2018, respectively. Loans 90 days past due and still accruing interest amounted to \$2.5 million and \$6.0 million at September 30, 2019 and December 31, 2018, respectively. There was an insignificant amount of interest recognized on impaired loans during 2019 and 2018.

### Credit Quality Indicators

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

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

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

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

- **Substandard** – This rating represents an asset inadequately protected by the current sound worth and paying capacity of the borrower or by 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 at September 30, 2019 and December 31, 2018 (*in thousands*):

**Credit Exposure  
Credit Risk Profile by Risk Rating**

	<u>Commercial</u>		<u>Asset-based</u>		<u>Factoring</u>	
	<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Non-watch list	\$ 4,995,643	\$ 4,788,234	\$ 334,575	\$ 296,719	\$ 147,858	\$ 260,727
Watch	205,706	192,653	—	—	—	—
Special Mention	163,650	55,927	33,272	84,019	5,368	864
Substandard	147,050	191,588	17,097	—	38,877	—
Total	<u>\$ 5,512,049</u>	<u>\$ 5,228,402</u>	<u>\$ 384,944</u>	<u>\$ 380,738</u>	<u>\$ 192,103</u>	<u>\$ 261,591</u>

	<u>Real estate – construction</u>		<u>Real estate – commercial</u>	
	<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Non-watch list	\$ 847,146	\$ 792,256	\$ 3,971,633	\$ 3,551,537
Watch	5,488	204	98,297	64,998
Special Mention	310	—	29,660	32,826
Substandard	110	105	123,025	64,919
Total	<u>\$ 853,054</u>	<u>\$ 792,565</u>	<u>\$ 4,222,615</u>	<u>\$ 3,714,280</u>

**Credit Exposure  
Credit Risk Profile Based on Payment Activity**

	<u>Commercial – credit card</u>		<u>Real estate – residential</u>		<u>Real estate – HELOC</u>	
	<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Performing	\$ 204,416	\$ 166,334	\$ 834,934	\$ 706,697	\$ 486,074	\$ 542,945
Non-performing	—	—	2,727	807	2,795	2,776
Total	<u>\$ 204,416</u>	<u>\$ 166,334</u>	<u>\$ 837,661</u>	<u>\$ 707,504</u>	<u>\$ 488,869</u>	<u>\$ 545,721</u>

	Consumer – credit card		Consumer – other		Leases	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Performing	\$ 215,527	\$ 230,334	\$ 129,597	\$ 144,720	\$ 2,015	\$ 5,248
Non-performing	812	648	178	65	—	—
Total	<u>\$ 216,339</u>	<u>\$ 230,982</u>	<u>\$ 129,775</u>	<u>\$ 144,785</u>	<u>\$ 2,015</u>	<u>\$ 5,248</u>

### Allowance for Loan Losses

The allowance for loan losses (ALL) 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, 2019 (in thousands):

	Three Months Ended September 30, 2019				
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 76,008	\$ 17,257	\$ 8,817	\$ 10	\$ 102,092
Charge-offs	(3,136)	(177)	(2,082)	—	(5,395)
Recoveries	2,568	16	625	—	3,209
Provision	(1,313)	6,629	2,190	(6)	7,500
Ending balance	<u>\$ 74,127</u>	<u>\$ 23,725</u>	<u>\$ 9,550</u>	<u>\$ 4</u>	<u>\$ 107,406</u>
	Nine Months Ended September 30, 2019				
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 80,888	\$ 13,664	\$ 9,071	\$ 12	\$ 103,635
Charge-offs	(26,469)	(442)	(6,671)	—	(33,582)
Recoveries	3,574	954	1,975	—	6,503
Provision	16,134	9,549	5,175	(8)	30,850
Ending balance	<u>\$ 74,127</u>	<u>\$ 23,725</u>	<u>\$ 9,550</u>	<u>\$ 4</u>	<u>\$ 107,406</u>
Ending balance: individually evaluated for impairment	\$ 5,783	\$ 3,210	\$ —	\$ —	\$ 8,993
Ending balance: collectively evaluated for impairment	68,344	20,515	9,550	4	98,413
<b>Loans:</b>					
Ending balance: loans	\$ 6,293,512	\$ 6,402,199	\$ 346,114	\$ 2,015	\$ 13,043,840
Ending balance: individually evaluated for impairment	54,480	27,305	—	—	81,785
Ending balance: collectively evaluated for impairment	6,239,032	6,374,894	346,114	2,015	12,962,055

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
<b>Allowance for loan losses:</b>					
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	<u>\$ 80,557</u>	<u>\$ 12,054</u>	<u>\$ 8,679</u>	<u>\$ 12</u>	<u>\$ 101,302</u>
	Nine Months Ended September 30, 2018				
	Commercial	Real estate	Consumer	Leases	Total
<b>Allowance for loan losses:</b>					
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	<u>\$ 80,557</u>	<u>\$ 12,054</u>	<u>\$ 8,679</u>	<u>\$ 12</u>	<u>\$ 101,302</u>
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
<b>Loans:</b>					
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

#### Impaired Loans

This table provides an analysis of impaired loans by class at September 30, 2019 and December 31, 2018 (*in thousands*):

	As of September 30, 2019					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
<b>Commercial:</b>						
Commercial	\$ 59,287	\$ 30,384	\$ 19,864	\$ 50,248	\$ 5,783	\$ 33,629
Asset-based	—	—	—	—	—	—
Factoring	—	4,232	—	4,232	—	4,152
Commercial – credit card	—	—	—	—	—	—
<b>Real estate:</b>						
Real estate – construction	—	—	—	—	—	—
Real estate – commercial	29,527	17,621	8,026	25,647	3,130	18,722
Real estate – residential	1,683	1,564	94	1,658	80	630
Real estate – HELOC	—	—	—	—	—	—
<b>Consumer:</b>						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	—	—	—	—	—	87
<b>Leases</b>	—	—	—	—	—	—
Total	<u>\$ 90,497</u>	<u>\$ 53,801</u>	<u>\$ 27,984</u>	<u>\$ 81,785</u>	<u>\$ 8,993</u>	<u>\$ 57,220</u>

	As of December 31, 2018					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	\$ 40,402	\$ 16,470	\$ 14,536	\$ 31,006	\$ 4,605	\$ 43,335
Asset-based	—	—	—	—	—	—
Factoring	—	—	—	—	—	275
Commercial – credit card	—	—	—	—	—	—
Real estate:						
Real estate – construction	—	—	—	—	—	55
Real estate – commercial	10,856	7,776	165	7,941	28	11,279
Real estate – residential	304	197	95	292	78	303
Real estate – HELOC	—	—	—	—	—	—
Consumer:						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	—	—	—	—	—	—
Leases	—	—	—	—	—	—
Total	<u>\$ 51,562</u>	<u>\$ 24,443</u>	<u>\$ 14,796</u>	<u>\$ 39,239</u>	<u>\$ 4,711</u>	<u>\$ 55,247</u>

### 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, 2019 and September 30, 2018. 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.

For the three and nine months ended September 30, 2019, the Company had two new commercial TDRs with aggregate pre-modification loan balances of \$11.5 million and aggregate post-modification loan balances of \$11.5 million, and one new commercial real estate TDR with a pre-modification loan balance of \$3.1 million and a post-modification loan balance of \$3.1 million. For the three months ended September 30, 2018, the Company had no new TDR loan balances. For the nine months ended September 30, 2018, the Company had one new commercial TDR with a pre-modification loan balance of \$6.2 million and a post-modification loan balance of \$6.1 million, and one new 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 and nine months ended September 30, 2019 and September 30, 2018, the Company had no TDRs for which there was a payment default within the 12 months following the restructure date.

## 5. Securities

### Securities Available for Sale

This table provides detailed information about securities available for sale at September 30, 2019 and December 31, 2018 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2019</b>				
U.S. Treasury	\$ 250,263	\$ 806	\$ (239)	\$ 250,830
U.S. Agencies	89,944	3,608	—	93,552
Mortgage-backed	3,942,467	66,912	(15,876)	3,993,503
State and political subdivisions	2,817,294	82,412	(2,224)	2,897,482
Corporates	173,594	3,064	(117)	176,541
Total	<u>\$ 7,273,562</u>	<u>\$ 156,802</u>	<u>\$ (18,456)</u>	<u>\$ 7,411,908</u>
<b>December 31, 2018</b>				
U.S. Treasury	\$ 248,494	\$ 192	\$ (1,556)	\$ 247,130
U.S. Agencies	200	—	(1)	199
Mortgage-backed	3,914,289	6,145	(108,223)	3,812,211
State and political subdivisions	2,507,107	7,643	(31,490)	2,483,260
Total	<u>\$ 6,670,090</u>	<u>\$ 13,980</u>	<u>\$ (141,270)</u>	<u>\$ 6,542,800</u>

The following table presents contractual maturity information for securities available for sale at September 30, 2019 (*in thousands*):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 485,239	\$ 485,975
Due after 1 year through 5 years	913,024	923,492
Due after 5 years through 10 years	606,539	617,529
Due after 10 years	1,326,293	1,391,409
Total	<u>3,331,095</u>	<u>3,418,405</u>
Mortgage-backed securities	3,942,467	3,993,503
Total securities available for sale	<u>\$ 7,273,562</u>	<u>\$ 7,411,908</u>

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, 2019, proceeds from the sales of securities available for sale were \$331.4 million compared to \$95.5 million for the same period in 2018. Securities transactions resulted in gross realized gains of \$3.9 million and \$581 thousand for the nine months ended September 30, 2019 and 2018, respectively. There were \$1.4 million and \$3 thousand of gross realized losses for the nine months ended September 30, 2019 and 2018, respectively.

Securities available for sale with a fair value of \$5.7 billion at both September 30, 2019 and December 31, 2018 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 \$712.5 million and \$1.0 billion at September 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018 (*in thousands*):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>September 30, 2019</b>						
<b>Description of Securities</b>						
U.S. Treasury	\$ —	\$ —	\$ 29,782	\$ (239)	\$ 29,782	\$ (239)
U.S. Agencies	—	—	—	—	—	—
Mortgage-backed	669,775	(3,054)	735,844	(12,822)	1,405,619	(15,876)
State and political subdivisions	313,883	(2,009)	32,195	(215)	346,078	(2,224)
Corporates	20,670	(117)	—	—	20,670	(117)
Total temporarily-impaired debt securities available for sale	<u>\$ 1,004,328</u>	<u>\$ (5,180)</u>	<u>\$ 797,821</u>	<u>\$ (13,276)</u>	<u>\$ 1,802,149</u>	<u>\$ (18,456)</u>
<b>December 31, 2018</b>						
<b>Description of Securities</b>						
U.S. Treasury	\$ 18,775	\$ (4)	\$ 38,552	\$ (1,552)	\$ 57,327	\$ (1,556)
U.S. Agencies	—	—	199	(1)	199	(1)
Mortgage-backed	228,406	(1,256)	3,007,233	(106,967)	3,235,639	(108,223)
State and political subdivisions	371,394	(1,490)	1,419,875	(30,000)	1,791,269	(31,490)
Total temporarily-impaired debt securities available for sale	<u>\$ 618,575</u>	<u>\$ (2,750)</u>	<u>\$ 4,465,859</u>	<u>\$ (138,520)</u>	<u>\$ 5,084,434</u>	<u>\$ (141,270)</u>

The unrealized losses in the Company's investments in U.S. Treasury obligations, Government Sponsored Entity (GSE) mortgage-backed securities, state and political subdivisions, and corporates 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, 2019.

#### 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, 2019 and December 31, 2018, respectively (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2019</b>				
<b>State and political subdivisions:</b>				
Due in 1 year or less	\$ 27,512	\$ 30	\$ (106)	\$ 27,436
Due after 1 year through 5 years	83,960	524	(482)	84,002
Due after 5 years through 10 years	375,796	799	(3,876)	372,719
Due after 10 years	614,737	1,468	(10,879)	605,326
Total state and political subdivisions	<u>\$ 1,102,005</u>	<u>\$ 2,821</u>	<u>\$ (15,343)</u>	<u>\$ 1,089,483</u>

<b>December 31, 2018</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>State and political subdivisions:</b>				
Due in 1 year or less	\$ 3,386	\$ 38	\$ (29)	\$ 3,395
Due after 1 year through 5 years	115,162	467	(7,988)	107,641
Due after 5 years through 10 years	380,108	1,894	(24,621)	357,381
Due after 10 years	671,990	2,163	(72,038)	602,115
Total state and political subdivisions	<u>\$ 1,170,646</u>	<u>\$ 4,562</u>	<u>\$ (104,676)</u>	<u>\$ 1,070,532</u>

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, 2019 or 2018.

The following table shows the Company's held to maturity investments' gross unrealized losses and fair value, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2019 and December 31, 2018 (*in thousands*):

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
<b>September 30, 2019</b>						
State and political subdivisions	\$ 108,786	\$ (1,953)	\$ 629,952	\$ (13,390)	\$ 738,738	\$ (15,343)
Total temporarily-impaired debt securities held to maturity	<u>\$ 108,786</u>	<u>\$ (1,953)</u>	<u>\$ 629,952</u>	<u>\$ (13,390)</u>	<u>\$ 738,738</u>	<u>\$ (15,343)</u>
<b>December 31, 2018</b>						
State and political subdivisions	\$ 17,013	\$ (227)	\$ 921,182	\$ (104,449)	\$ 938,195	\$ (104,676)
Total temporarily-impaired debt securities held to maturity	<u>\$ 17,013</u>	<u>\$ (227)</u>	<u>\$ 921,182</u>	<u>\$ (104,449)</u>	<u>\$ 938,195</u>	<u>\$ (104,676)</u>

The unrealized losses in the Company's held to maturity portfolio were caused by changes in the interest rate environment. The underlying bonds are subject to a risk-ranking process similar to the Company's loan portfolio and evaluated for impairment if deemed necessary. 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, 2019.

### Trading Securities

There were net unrealized losses on trading securities of \$97 thousand and \$442 thousand at September 30, 2019 and September 30, 2018, respectively. Net unrealized gains/losses are included in trading and investment banking income on the Company's Consolidated Statements of Income. Securities sold not yet purchased totaled \$26.0 million and \$27.2 million at September 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018 (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2019</b>				
FRB and FHLB stock	\$ 33,262	\$ —	\$ —	\$ 33,262
Other securities – marketable	—	2,914	—	2,914
Other securities – non-marketable	47,834	4,171	(5)	52,000
Total Other securities	<u>\$ 81,096</u>	<u>\$ 7,085</u>	<u>\$ (5)</u>	<u>\$ 88,176</u>
<b>December 31, 2018</b>				
FRB and FHLB stock	\$ 33,262	\$ —	\$ —	\$ 33,262
Other securities – marketable	—	4,385	—	4,385
Other securities – non-marketable	32,011	4,034	—	36,045
Total Other securities	<u>\$ 65,273</u>	<u>\$ 8,419</u>	<u>\$ —</u>	<u>\$ 73,692</u>

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. Also included in other non-marketable securities are equity investments which are held by a subsidiary qualified as a Small Business Investment Company, as well as investments in low-income housing partnerships within the areas the Company serves. The fair value of other marketable securities includes alternative investment securities of \$2.9 million at September 30, 2019 and \$4.4 million at December 31, 2018. The fair value of other non-marketable securities includes alternative investment securities of \$5.8 million at September 30, 2019 and \$5.8 million at December 31, 2018. 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, 2019 and December 31, 2018 by reportable segment are as follows (*in thousands*):

	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Balances as of January 1, 2019	\$ 59,419	\$ 51,332	\$ 70,116	\$ —	\$ 180,867
Balances as of September 30, 2019	<u>\$ 59,419</u>	<u>\$ 51,332</u>	<u>\$ 70,116</u>	<u>\$ —</u>	<u>\$ 180,867</u>
Balances as of January 1, 2018	\$ 59,419	\$ 51,332	\$ 70,116	\$ —	\$ 180,867
Balances as of December 31, 2018	<u>\$ 59,419</u>	<u>\$ 51,332</u>	<u>\$ 70,116</u>	<u>\$ —</u>	<u>\$ 180,867</u>

The following table lists the finite-lived intangible assets that continue to be subject to amortization as of September 30, 2019 and December 31, 2018 (*in thousands*):

	As of September 30, 2019		
	Core Deposit Intangible Assets	Customer Relationships	Total
	Gross carrying amount	\$ 50,059	\$ 77,952
Accumulated amortization	46,673	64,148	110,821
Net carrying amount	<u>\$ 3,386</u>	<u>\$ 13,804</u>	<u>\$ 17,190</u>

	As of December 31, 2018		
	Core Deposit Intangible Assets	Customer Relationships	Total
	Gross carrying amount	\$ 50,059	\$ 71,852
Accumulated amortization	44,998	61,910	106,908
Net carrying amount	<u>\$ 5,061</u>	<u>\$ 9,942</u>	<u>\$ 15,003</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	Aggregate amortization expense	<u>\$ 1,335</u>	<u>\$ 1,385</u>	<u>\$ 3,913</u>

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

For the three months ending December 31, 2019	\$ 1,307
For the year ending December 31, 2020	4,702
For the year ending December 31, 2021	3,697
For the year ending December 31, 2022	2,758
For the year ending December 31, 2023	2,039

## 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, 2019, 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, 2019			
	Remaining Contractual Maturities of the Agreements			
	Overnight	2-29 Days	30 to 90 Days	Total
U.S. Treasury	\$ 211,377	\$ —	\$ —	\$ 211,377
U.S. Agencies	1,260,511	5,035	166,838	1,432,384
Total repurchase agreements	<u>\$ 1,471,888</u>	<u>\$ 5,035</u>	<u>\$ 166,838</u>	<u>\$ 1,643,761</u>



## 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. For comparability purposes, amounts in all periods are based on methodologies in effect at September 30, 2019. 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 varies 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, 2019 and September 30, 2018 were as follows (*in thousands*):

	Three Months Ended September 30, 2019				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	\$ 104,360	\$ 18,726	\$ 33,296	\$ 11,878	\$ 168,260
Provision for loan losses	5,966	256	1,278	—	7,500
Noninterest income	18,874	49,806	26,118	8,837	103,635
Noninterest expense	66,447	55,280	58,328	11,342	191,397
Income (loss) before taxes	50,821	12,996	(192)	9,373	72,998
Income tax expense (benefit)	7,390	1,891	(28)	1,363	10,616
Income (loss) from continuing operations	\$ 43,431	\$ 11,105	\$ (164)	\$ 8,010	\$ 62,382
Average assets	\$ 10,760,000	\$ 5,409,000	\$ 5,264,000	\$ 2,504,000	\$ 23,937,000

	Three Months Ended September 30, 2018				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	\$ 94,782	\$ 15,235	\$ 31,069	\$ 9,404	\$ 150,490
Provision for loan losses	4,063	354	1,333	—	5,750
Noninterest income	20,825	43,171	28,269	8,620	100,885
Noninterest expense	64,076	47,083	56,651	12,575	180,385
Income before taxes	47,468	10,969	1,354	5,449	65,240
Income tax expense	5,378	1,243	153	617	7,391
Income from continuing operations	\$ 42,090	\$ 9,726	\$ 1,201	\$ 4,832	\$ 57,849
Average assets	\$ 9,841,000	\$ 3,919,000	\$ 4,790,000	\$ 2,200,000	\$ 20,750,000

	Nine Months Ended September 30, 2019				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	\$ 306,752	\$ 58,599	\$ 98,933	\$ 34,258	\$ 498,542
Provision for loan losses	25,602	723	4,525	—	30,850
Noninterest income	62,442	142,370	83,855	27,748	316,415
Noninterest expense	201,777	160,308	176,762	36,563	575,410
Income before taxes	141,815	39,938	1,501	25,443	208,697
Income tax expense	21,482	6,049	227	3,854	31,612
Income from continuing operations	\$ 120,333	\$ 33,889	\$ 1,274	\$ 21,589	\$ 177,085
Average assets	\$ 10,616,000	\$ 4,931,000	\$ 5,336,000	\$ 2,466,000	\$ 23,349,000

	Nine Months Ended September 30, 2018				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	\$ 279,842	\$ 47,225	\$ 93,057	\$ 28,514	\$ 448,638
Provision for loan losses	17,179	1,027	4,544	—	22,750
Noninterest income	60,590	132,005	87,708	26,396	306,699
Noninterest expense	189,050	141,517	165,968	36,944	533,479
Income before taxes	134,203	36,686	10,253	17,966	199,108
Income tax expense	19,076	5,215	1,457	2,554	28,302
Income from continuing operations	\$ 115,127	\$ 31,471	\$ 8,796	\$ 15,412	\$ 170,806
Average assets	\$ 9,790,000	\$ 3,894,000	\$ 4,852,000	\$ 2,168,000	\$ 20,704,000

## 9. Revenue Recognition

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

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

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

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

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

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

*Bankcard fees* – Bankcard fees primarily represent income earned from interchange revenue from MasterCard and Visa for the Company’s processing of debit, credit, HSA, and flexible spending account transactions. Additionally, the Company earns income and incentives related to various referrals of customers to card programs. The performance obligation for interchange revenue is the processing of each transaction through the Company’s access to the banking system. This performance obligation is completed for each individual transaction and income is recognized per transaction in accordance with interchange rates established by MasterCard and Visa. The performance obligations for various referral and incentive programs include either referring customers to certain card products or issuing exclusively branded cards for certain customer segments. The pricing of these incentive and referral programs are in accordance with the agreement with the individual card partner. These performance obligations are completed as the referrals are made or over a period of time when the Company is exclusively issuing branded cards. For the three months ended September 30, 2019 and September 30, 2018, the Company also had approximately \$9.9 million and \$9.5 million of expense, respectively, recorded within the Bankcard fees line on the Company’s Consolidated Statements of Income related to rebates and rewards programs that are outside of the scope of ASC 606. For the nine months ended September 30, 2019 and September 30, 2018, the Company also had approximately \$28.1 million and \$26.6 million of expense, respectively, related to rebates and rewards programs. All material performance obligations are satisfied as of the end of each accounting period.

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

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

The Company had no material contract assets, contract liabilities, or remaining performance obligations as of September 30, 2019. Total receivables from revenue recognized under the scope of ASC 606 were \$53.1 million and \$52.2 million as of September 30, 2019 and December 31, 2018, respectively. These receivables are included as part of the Other assets line on the Company’s Consolidated Balance Sheets.

The following table depicts the disaggregation of revenue according to revenue stream and Business Segment for the three and nine months ended September 30, 2019 and September 30, 2018. As stated in Note 8, "Business Segment Reporting," for comparability purposes, amounts in all periods are based on methodologies in effect at September 30, 2019 and previously reported results have been reclassified in this filing to conform to the current organizational structure. Disaggregated revenue is as follows (*in thousands*):

<b>Three Months Ended September 30, 2019</b>						
<b>NONINTEREST INCOME</b>	<b>Commercial Banking</b>	<b>Institutional Banking</b>	<b>Personal Banking</b>	<b>Healthcare Services</b>	<b>Revenue (Expense) out of Scope of ASC 606</b>	<b>Total</b>
Trust and securities processing	\$ —	\$ 28,810	\$ 16,408	\$ —	\$ —	\$ 45,218
Trading and investment banking	—	403	—	—	5,309	5,712
Service charges on deposit accounts	7,539	6,265	2,828	3,951	37	20,620
Insurance fees and commissions	—	—	320	—	—	320
Brokerage fees	54	6,051	1,996	1	—	8,102
Bankcard fees	15,551	1,195	5,617	4,124	(9,592)	16,895
Gains on sales of securities available for sale, net	—	—	—	—	3,057	3,057
Other	288	173	754	204	2,292	3,711
<b>Total Noninterest income</b>	<b>\$ 23,432</b>	<b>\$ 42,897</b>	<b>\$ 27,923</b>	<b>\$ 8,280</b>	<b>\$ 1,103</b>	<b>\$ 103,635</b>

<b>Three Months Ended September 30, 2018</b>						
<b>NONINTEREST INCOME</b>	<b>Commercial Banking</b>	<b>Institutional Banking</b>	<b>Personal Banking</b>	<b>Healthcare Services</b>	<b>Revenue (Expense) out of Scope of ASC 606</b>	<b>Total</b>
Trust and securities processing	\$ —	\$ 27,013	\$ 16,412	\$ —	\$ —	\$ 43,425
Trading and investment banking	—	—	—	—	3,711	3,711
Service charges on deposit accounts	7,502	6,140	2,966	4,292	27	20,927
Insurance fees and commissions	—	—	339	—	—	339
Brokerage fees	49	4,300	2,053	—	—	6,402
Bankcard fees	15,290	1,352	5,591	3,883	(9,278)	16,838
Gains on sales of securities available for sale, net	—	—	—	—	211	211
Other	564	121	961	180	7,206	9,032
<b>Total Noninterest income</b>	<b>\$ 23,405</b>	<b>\$ 38,926</b>	<b>\$ 28,322</b>	<b>\$ 8,355</b>	<b>\$ 1,877</b>	<b>\$ 100,885</b>

**Nine Months Ended September 30, 2019**

<b>NONINTEREST INCOME</b>	<b>Commercial Banking</b>	<b>Institutional Banking</b>	<b>Personal Banking</b>	<b>Healthcare Services</b>	<b>Revenue (Expense) out of Scope of ASC 606</b>	<b>Total</b>
Trust and securities processing	\$ —	\$ 82,750	\$ 47,328	\$ —	\$ —	\$ 130,078
Trading and investment banking	—	665	—	—	16,081	16,746
Service charges on deposit accounts	22,392	19,016	8,225	12,909	106	62,648
Insurance fees and commissions	—	—	1,123	—	—	1,123
Brokerage fees	157	16,499	5,765	1	—	22,422
Bankcard fees	45,252	3,586	16,378	12,532	(27,347)	50,401
Gains on sales of securities available for sale, net	—	—	—	—	2,463	2,463
Other	934	526	2,511	581	25,982	30,534
<b>Total Noninterest income</b>	<b>\$ 68,735</b>	<b>\$ 123,042</b>	<b>\$ 81,330</b>	<b>\$ 26,023</b>	<b>\$ 17,285</b>	<b>\$ 316,415</b>

**Nine Months Ended September 30, 2018**

<b>NONINTEREST INCOME</b>	<b>Commercial Banking</b>	<b>Institutional Banking</b>	<b>Personal Banking</b>	<b>Healthcare Services</b>	<b>Revenue (Expense) out of Scope of ASC 606</b>	<b>Total</b>
Trust and securities processing	\$ —	\$ 81,555	\$ 48,717	\$ —	\$ —	\$ 130,272
Trading and investment banking	—	—	—	—	12,465	12,465
Service charges on deposit accounts	22,917	19,178	8,555	12,808	96	63,554
Insurance fees and commissions	—	—	980	—	—	980
Brokerage fees	150	12,336	6,560	—	—	19,046
Bankcard fees	45,112	4,407	16,488	12,229	(26,091)	52,145
Gains on sales of securities available for sale, net	—	—	—	—	578	578
Other	1,787	499	2,783	515	22,075	27,659
<b>Total Noninterest income</b>	<b>\$ 69,966</b>	<b>\$ 117,975</b>	<b>\$ 84,083</b>	<b>\$ 25,552</b>	<b>\$ 9,123</b>	<b>\$ 306,699</b>

## 10. Leases

The Company adopted ASC 842, *Leases*, using the effective date as the date of initial application of ASC 842 and will not recast comparative financial periods.

The Company primarily has leases of real estate, including buildings, or portions of buildings, used for bank branches or general office operations. These leases have remaining lease terms that range from less than one year to 28 years and most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 40 years or more. The exercise of lease renewal options is at the Company's sole discretion. No renewal options were included in the Company's calculation of its lease liabilities or right of use assets since it is not reasonably certain that the Company will exercise these options. No leases include options to purchase the leased property. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. An insignificant number of leases include variable lease payments that are based on the Consumer Price Index (CPI). For the calculation of the lease liability and right of use asset for these leases, the Company has included lease payments based on CPI as of the effective date of ASC 842. The Company has made the election not to separate lease and non-lease components for existing real estate leases when determining consideration within the lease contract. All of the Company's lease agreements are classified as operating leases under ASC 842.

As of September 30, 2019, a right-of-use asset of \$68.5 million and a lease liability of \$74.6 million were included as part of Other assets and Other liabilities, respectively, on the Company's Consolidated Balance Sheets.

For the three and nine months ended September 30, 2019, lease expense of \$3.1 million and \$9.2 million, respectively, was recognized as part of Occupancy expense on the Company's Consolidated Statements of Income. For the nine months ended September 30, 2019, cash payments of \$9.0 million were made for leases included in the measurement of lease liabilities, classified as cash flows from operating activities in the Company's Consolidated Statements of Cash Flows. For the nine months ended September 30, 2019, leased assets obtained in exchange for new operating lease liabilities were \$18.2 million. As of September 30, 2019, the weighted average remaining lease term of the Company's leases was 8.8 years and the weighted average discount rate was 3.06 percent.

As of September 30, 2019, future minimum lease payments under non-cancelable operating leases were as follows (*in thousands*):

For the three months ending December 31, 2019	\$	3,083
2020		12,084
2021		11,100
2022		10,308
2023		8,642
Thereafter		40,535
Total lease payments		<u>85,752</u>
Less: Interest		<u>11,132</u>
Present value of lease liabilities	\$	<u><u>74,620</u></u>

The adoption of the lease standard using the effective date as of the date of initial application requires the inclusion of the disclosure for periods prior to adoption, which is included in the table below. Minimum future rental commitments as of December 31, 2018, for all non-cancelable operating leases were as follows (*in thousands*):

2019	\$	12,257
2020		11,592
2021		8,886
2022		8,078
2023		6,457
Thereafter		27,092
Total	\$	<u><u>74,362</u></u>

## 11. Commitments, Contingencies and Guarantees

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

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

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

	<b>Contract or Notional Amount</b>	
	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Commitments to extend credit for loans (excluding credit card loans)	\$ 7,064,308	\$ 6,870,451
Commitments to extend credit under credit card loans	3,079,826	3,152,439
Commercial letters of credit	2,042	1,892
Standby letters of credit	304,603	298,915
Forward contracts	83,148	29,796
Spot foreign exchange contracts	724	11,183

## 12. Derivatives and Hedging Activities

### Risk Management Objective of Using Derivatives

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

### Fair Values of Derivative Instruments on the Consolidated Balance Sheets

The table below presents the fair value of the Company's derivative financial instruments as of September 30, 2019 and December 31, 2018. The Company's derivative assets and derivative liabilities are located within Other assets and Other liabilities, respectively, on the Company's Consolidated Balance Sheets.

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

This table provides a summary of the fair value of the Company's derivative assets and liabilities as of September 30, 2019 and December 31, 2018 (*in thousands*):

<b>Fair Value</b>	<b>Derivative Assets</b>		<b>Derivative Liabilities</b>	
	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>Interest Rate Products:</b>				
Derivatives not designated as hedging instruments	\$ 58,101	\$ 9,339	\$ 7,393	\$ 5,498
Derivatives designated as hedging instruments	13,416	—	17	15
Total	<u>\$ 71,517</u>	<u>\$ 9,339</u>	<u>\$ 7,410</u>	<u>\$ 5,513</u>



### **Fair Value Hedges of Interest Rate Risk**

The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in the benchmark interest rate, London Interbank Offered Rate (LIBOR). Interest rate swaps designated as fair value hedges involve making fixed rate payments to a counterparty in exchange for the Company receiving variable rate payments over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2019, the Company had one interest rate swap with a notional amount of \$5.4 million that was designated as a fair value hedge of interest rate risk associated with the Company's fixed rate loan assets.

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

### **Cash Flow Hedges of Interest Rate Risk**

The Company's objective in using interest rate derivatives is to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and floors as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of September 30, 2019, the Company had two interest rate swaps with an aggregate notional amount of \$51.5 million that were designated as cash flow hedges of interest rate risk associated with the Company's variable-rate subordinated debentures issued by Marquette Capital Trusts III and IV. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an upfront premium. As of September 30, 2019, the Company had one interest rate floor with a notional amount of \$750.0 million that was designated as a cash flow hedge of interest rate risk.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in AOCI and is subsequently reclassified into interest expense and interest income in the period during which the hedged forecasted transaction affects earnings. Amounts reported in AOCI related to interest rate swap derivatives will be reclassified to Interest expense as interest payments are received or paid on the Company's derivatives. Amounts reported in AOCI related to interest rate floor derivatives will be reclassified to Interest income as interest payments are received or paid on the Company's derivatives. The Company expects to reclassify \$2.6 million from AOCI as a reduction to Interest income and \$481 thousand from AOCI to Interest expense during the next 12 months. As of September 30, 2019, the Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 16.97 years.

### **Non-designated Hedges**

The remainder of the Company's derivatives are not designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously offset by interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of September 30, 2019, the Company had 134 interest rate swaps with an aggregate notional amount of \$1.7 billion related to this program.

## Effect of Derivative Instruments on the Consolidated Statements of Income and Accumulated Other Comprehensive Income

This table provides a summary of the amount of gain or loss recognized in Other noninterest expense in the Consolidated Statements of Income related to the Company's derivative assets and liabilities for the three and nine months ended September 30, 2019 and September 30, 2018 (in thousands):

	Amount of (Loss) Gain Recognized			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
<b>Interest Rate Products</b>				
Derivatives not designated as hedging instruments	\$ (1,123)	\$ 67	\$ (3,472)	\$ 538
Total	\$ (1,123)	\$ 67	\$ (3,472)	\$ 538
<b>Interest Rate Products</b>				
Derivatives designated as hedging instruments:				
Fair value adjustments on derivatives	\$ (35)	\$ 36	\$ (198)	\$ 170
Fair value adjustments on hedged items	35	(37)	198	(167)
Total	\$ —	\$ (1)	\$ —	\$ 3

The following table provides a summary of the effect of cash flow hedges on AOCI in the Consolidated Statements of Comprehensive Income related to the Company's derivative assets and liabilities for the three and nine months ended September 30, 2019 and September 30, 2018 (in thousands):

	For the Three Months Ended September 30, 2019					
	Loss Recognized in OCI on Derivative	Loss Recognized in OCI Included Component	Gain Recognized in OCI Excluded Component	Loss Reclassified from AOCI into Earnings	Loss Reclassified from AOCI into Earnings Included Component	Loss Reclassified from AOCI into Earnings Excluded Component
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Interest rate floor	\$ (3,633)	\$ (4,166)	\$ 533	\$ (230)	\$ —	\$ (230)
Interest rate swaps	(3,836)	(3,836)	—	(50)	(50)	—
Total	\$ (7,469)	\$ (8,002)	\$ 533	\$ (280)	\$ (50)	\$ (230)

	For the Three Months Ended September 30, 2018					
	Gain Recognized in OCI on Derivative	Gain Recognized in OCI Included Component	Gain Recognized in OCI Excluded Component	Gain Reclassified from AOCI into Earnings	Gain Reclassified from AOCI into Earnings Included Component	Gain Reclassified from AOCI into Earnings Excluded Component
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Interest rate swaps	\$ 1,162	\$ 1,162	\$ —	\$ —	\$ —	\$ —
Total	\$ 1,162	\$ 1,162	\$ —	\$ —	\$ —	\$ —

For the Nine Months Ended September 30, 2019						
	Loss Recognized in OCI on Derivative	Loss Recognized in OCI Included Component	Gain Recognized in OCI Excluded Component	Loss Reclassified from AOCI into Earnings	Loss Reclassified from AOCI into Earnings Included Component	Loss Reclassified from AOCI into Earnings Excluded Component
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Interest rate floor	\$ (3,633)	\$ (4,166)	\$ 533	\$ (230)	\$ —	\$ (230)
Interest rate swaps	(8,985)	(8,985)	—	(64)	(64)	—
Total	<u>\$ (12,618)</u>	<u>\$ (13,151)</u>	<u>\$ 533</u>	<u>\$ (294)</u>	<u>\$ (64)</u>	<u>\$ (230)</u>

For the Nine Months Ended September 30, 2018						
	Gain Recognized in OCI on Derivative	Gain Recognized in OCI Included Component	Gain Recognized in OCI Excluded Component	Gain Reclassified from AOCI into Earnings	Gain Reclassified from AOCI into Earnings Included Component	Gain Reclassified from AOCI into Earnings Excluded Component
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Interest rate swaps	\$ 4,274	\$ 4,274	\$ —	\$ —	\$ —	\$ —
Total	<u>\$ 4,274</u>	<u>\$ 4,274</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

### Credit-risk-related Contingent Features

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

As of September 30, 2019, the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was \$226 thousand. The Company has minimum collateral posting thresholds with certain of its derivative counterparties. At September 30, 2019, the Company had posted \$435 thousand of collateral. If the Company had breached any of these provisions at September 30, 2019, it could have been required to settle its obligations under the agreements at the termination value.

### 13. Fair Value Measurements

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2019, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

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

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018 (*in thousands*):

Description	Fair Value Measurement at September 30, 2019			
	September 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
U.S. Agencies	\$ 8,015	\$ —	\$ 8,015	\$ —
Mortgage-backed	—	—	—	—
State and political subdivisions	54,652	—	54,652	—
Corporates	8,308	8,308	—	—
Trading – other	15,099	15,099	—	—
Trading securities	86,074	23,407	62,667	—
U.S. Treasury	250,830	250,830	—	—
U.S. Agencies	93,552	—	93,552	—
Mortgage-backed	3,993,503	—	3,993,503	—
State and political subdivisions	2,897,482	—	2,897,482	—
Corporates	176,541	176,541	—	—
Available for sale securities	7,411,908	427,371	6,984,537	—
Company-owned life insurance	61,303	—	61,303	—
Bank-owned life insurance	279,254	—	279,254	—
Derivatives	71,517	—	71,517	—
Total	\$ 7,910,056	\$ 450,778	\$ 7,459,278	\$ —
<b>Liabilities</b>				
Derivatives	\$ 7,410	\$ —	\$ 7,410	\$ —
Securities sold not yet purchased	26,028	—	26,028	—
Total	\$ 33,438	\$ —	\$ 33,438	\$ —

**Fair Value Measurement at December 31, 2018**

Description	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
U.S. Agencies	\$ 3,063	\$ —	\$ 3,063	\$ —
Mortgage-backed	713	—	713	—
State and political subdivisions	37,974	—	37,974	—
Corporates	7,125	7,125	—	—
Trading – other	12,136	12,136	—	—
Trading securities	61,011	19,261	41,750	—
U.S. Treasury	247,130	247,130	—	—
U.S. Agencies	199	—	199	—
Mortgage-backed	3,812,211	—	3,812,211	—
State and political subdivisions	2,483,260	—	2,483,260	—
Available for sale securities	6,542,800	247,130	6,295,670	—
Company-owned life insurance	54,152	—	54,152	—
Bank-owned life insurance	273,553	—	273,553	—
Derivatives	9,339	—	9,339	—
Total	<u>\$ 6,940,855</u>	<u>\$ 266,391</u>	<u>\$ 6,674,464</u>	<u>\$ —</u>
<b>Liabilities</b>				
Derivatives	\$ 5,513	\$ —	\$ 5,513	\$ —
Securities sold not yet purchased	27,238	—	27,238	—
Total	<u>\$ 32,751</u>	<u>\$ —</u>	<u>\$ 32,751</u>	<u>\$ —</u>

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

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

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

**Securities Available for Sale** Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Prices are provided by third-party pricing services and are based on observable market inputs. On an annual basis, the Company compares a sample of these prices to other independent sources for the same securities. Additionally, throughout the year, if securities are sold, comparisons are made between the pricing services prices and the market prices at which the securities were sold. Variances are analyzed, and, if appropriate, additional research is conducted with the third-party pricing services. Based on this research, the pricing services may affirm or revise their quoted price. No significant adjustments have been made to the prices provided by the pricing services. The pricing services also provide documentation on an ongoing basis that includes reference data, inputs and methodology by asset class, which is reviewed to ensure that security placement within the fair value hierarchy is appropriate.

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

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

**Derivatives** Fair values are determined using valuation techniques including discounted cash flow analysis on the expected cash flows from each derivative. This analysis reflects the contractual terms of the derivatives,

including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

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

Assets measured at fair value on a non-recurring basis as of September 30, 2019 and December 31, 2018 (*in thousands*):

Description	Fair Value Measurement at September 30, 2019 Using				Total (Losses) Gains Recognized During the Nine Months Ended September 30
	September 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 18,991	\$ —	\$ —	\$ 18,991	\$ (4,282)
Other real estate owned	17	—	—	17	7
Total	\$ 19,008	\$ —	\$ —	\$ 19,008	\$ (4,275)

Description	Fair Value Measurement at December 31, 2018 Using				Total Gains Recognized During the Twelve Months Ended December 31
	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 10,085	\$ —	\$ —	\$ 10,085	\$ 1,972
Other real estate owned	3,132	—	—	3,132	6
Total	\$ 13,217	\$ —	\$ —	\$ 13,217	\$ 1,978

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

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

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

**Other real estate owned** Other real estate owned consists of loan collateral which has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including auto, recreational and marine vehicles. Other real estate owned is recorded as held for sale initially at the fair value of the collateral less estimated selling costs. The initial valuation of the foreclosed property

is obtained through an appraisal process similar to the process described in the impaired loans paragraph above. Subsequent to foreclosure, valuations are reviewed quarterly and updated periodically, and the assets may be marked down further, reflecting a new cost basis. Fair value measurements may be based upon appraisals, third-party price opinions, or internally developed pricing methods and those measurements are classified as Level 3.

Fair value disclosures require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value of the Company's financial instruments at September 30, 2019 and December 31, 2018 are as follows (*in thousands*):

	<b>Fair Value Measurement at September 30, 2019 Using</b>				
	<b>Carrying Amount</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Estimated Fair Value</b>
<b>FINANCIAL ASSETS</b>					
Cash and short-term investments	\$ 1,279,929	\$ 816,842	\$ 463,087	\$ —	\$ 1,279,929
Securities available for sale	7,411,908	427,371	6,984,537	—	7,411,908
Securities held to maturity	1,102,005	—	1,089,483	—	1,089,483
Trading securities	86,074	23,407	62,667	—	86,074
Other securities	88,176	—	88,176	—	88,176
Loans (exclusive of allowance for loan loss)	13,054,865	—	13,238,328	—	13,238,328
Derivatives	71,517	—	71,517	—	71,517
<b>FINANCIAL LIABILITIES</b>					
Demand and savings deposits	18,342,758	18,342,758	—	—	18,342,758
Time deposits	966,587	—	968,793	—	968,793
Other borrowings	1,791,000	147,239	1,643,761	—	1,791,000
Long-term debt	86,951	—	87,241	—	87,241
Derivatives	7,410	—	7,410	—	7,410
<b>OFF-BALANCE SHEET ARRANGEMENTS</b>					
Commitments to extend credit for loans					4,189
Commercial letters of credit					75
Standby letters of credit					2,220

Fair Value Measurement at December 31, 2018 Using					
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
<b>FINANCIAL ASSETS</b>					
Cash and short-term investments	\$ 2,319,954	\$ 1,693,453	\$ 626,501	\$ —	\$ 2,319,954
Securities available for sale	6,542,800	247,130	6,295,670	—	6,542,800
Securities held to maturity	1,170,646	—	1,070,532	—	1,070,532
Trading securities	61,011	19,261	41,750	—	61,011
Other securities	73,692	—	73,692	—	73,692
Loans (exclusive of allowance for loan loss)	12,181,342	—	12,190,599	—	12,190,599
Derivatives	9,339	—	9,339	—	9,339
<b>FINANCIAL LIABILITIES</b>					
Demand and savings deposits	18,134,512	18,134,512	—	—	18,134,512
Time deposits	1,146,748	—	1,146,748	—	1,146,748
Other borrowings	1,518,920	6,679	1,512,241	—	1,518,920
Long-term debt	82,671	—	82,818	—	82,818
Derivatives	5,513	—	5,513	—	5,513
<b>OFF-BALANCE SHEET ARRANGEMENTS</b>					
Commitments to extend credit for loans					5,425
Commercial letters of credit					115
Standby letters of credit					2,658

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

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

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

**Loans** Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as commercial, real estate, consumer, and credit card. Each loan category is further segmented into fixed and variable interest rate categories. The fair value of loans are estimated by discounting the future cash flows. The discount rates used are estimated using comparable market rates for similar types of instruments adjusted to be commensurate with the credit risk, overhead costs, and optionality of such instruments.

**Demand and savings deposits** The fair value of demand deposits and savings accounts was the amount payable on demand at September 30, 2019 and December 31, 2018.

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

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



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

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

#### 14. Divestitures

On November 17, 2017, the Company closed on the sale of all of the outstanding stock of Scout, an institutional investment management subsidiary, for \$172.5 million in cash, which was subject to customary post-closing purchase adjustments. The gain recorded on the disposal of Scout was \$103.6 million.

This table summarizes the components of loss from discontinued operations, net of taxes, for the three and nine months ended September 30, 2019 and September 30, 2018 presented in the Company's Consolidated Statements of Income (*in thousands*):

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2018</u>	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2018</u>
Total noninterest income	\$ —	\$ —	\$ —	\$ —
Total noninterest expense	—	—	—	917
Loss from discontinued operations	—	—	—	(917)
Income tax benefit	—	—	—	(170)
Net loss on discontinued operations	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (747)</u>

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

	<u>For the Nine Months Ended</u>	
	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2018</u>
Loss from discontinued operations	\$ —	\$ (747)
Depreciation and amortization	—	—
Net cash used in operating activities of discontinued operations	<u>\$ —</u>	<u>\$ (747)</u>

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations highlights the material changes in the results of operations and changes in financial condition of the Company for the three and nine-month periods ended September 30, 2019. It should be read in conjunction with the accompanying Consolidated Financial Statements, Notes to Consolidated Financial Statements and other financial information appearing elsewhere in this Form 10-Q and the Form 10-K. Results of operations for the periods included in this review are not necessarily indicative of results to be attained during any future period.

### CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

## Overview

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

The first strategic objective is to continuously improve operating efficiencies. The Company has focused on identifying efficiencies that simplify our organizational and reporting structures, streamline back office functions and take advantage of synergies and newer technologies among various platforms and distribution networks. The Company has identified and expects to continue identifying ongoing efficiencies through the normal course of business that, when combined with increased revenue, will contribute to improved operating leverage. During the three-month period ended September 30, 2019, total revenue increased 8.2 percent compared to the same period in

2018, while noninterest expense increased 6.1 percent. As part of this initiative, the Company continues to invest in technological advances that it believes will help management drive operating leverage in the future through improved data analysis and automation. The Company also continues to evaluate core systems and will invest in enhancements that it believes will yield operating efficiencies.

The second strategic objective is to increase net interest income through profitable loan and deposit growth and the optimization of the balance sheet. During the three-month period ended September 30, 2019, the Company continued to make progress on this strategy as illustrated by an increase in net interest income of \$17.8 million, or 11.8 percent, from the same period in 2018. The Company has shown increased net interest income through the effects of volume and mix changes of average earning assets and interest-bearing liabilities in its Consolidated Balance Sheets. Average loan balances increased \$1.2 billion, or 10.0 percent, compared to the same period in 2018. The funding for these assets was driven primarily by a 17.2 percent increase in average interest-bearing liabilities. Net interest margin, on a tax-equivalent basis, decreased nine basis points compared to the same period in 2018.

The third strategic objective is to grow the Company's revenue from noninterest sources. The Company has continued to emphasize its diverse operations throughout all economic cycles. This strategy has provided revenue diversity, helped to reduce the impact of sustained low interest rates, and positioned the Company to benefit in periods of growth. Noninterest income increased \$2.8 million, or 2.7 percent, to \$103.6 million for the three-month period ended September 30, 2019, compared to the same period in 2018. This increase was driven by a combination of increases in corporate trust income, bond trading income from increased trading volume, and brokerage fees. This change is discussed in greater detail below under Noninterest Income. The Company continues to emphasize its asset management, brokerage, bankcard services, healthcare services, and treasury management businesses. At September 30, 2019, noninterest income represented 38.1 percent of total revenues, compared to 40.1 percent at September 30, 2018.

The fourth strategic objective is effective capital management. The Company places a significant emphasis on maintaining a strong capital position, which management believes promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company's ability to capitalize on business growth and acquisition opportunities. The Company continues to maximize shareholder value through a mix of reinvesting in organic growth, evaluating acquisition opportunities that complement the Company's strategies, increasing dividends over time, and appropriately utilizing a share repurchase program. At September 30, 2019, the Company had \$2.6 billion in total shareholders' equity. This is an increase of \$360.4 million, or 16.4 percent, compared to total shareholders' equity at September 30, 2018. At September 30, 2019, the Company had a total risk-based capital ratio of 13.51 percent. The Company repurchased 3,302 shares of common stock at an average price of \$66.94 per share during the three-month period ended September 30, 2019.

## Earnings Summary

The following is a summary regarding the Company's earnings for the third quarter of 2019. The changes identified in the summary are explained in greater detail below. The Company recorded net income from continuing operations of \$62.4 million for the three-month period ended September 30, 2019, compared to \$57.8 million for the same period in 2018. This represents a 7.8 percent increase over the three-month period ended September 30, 2018. Basic earnings per share from continuing operations for the three-month period ended September 30, 2019 were \$1.28 per share (\$1.27 per share fully-diluted) compared to \$1.17 per share (\$1.16 per share fully-diluted) for the three-month period ended September 30, 2018. Return on average assets and return on average common shareholders' equity for the three-month period ended September 30, 2019 were 1.03 and 9.69 percent, respectively, compared to 1.11 and 10.32 percent, respectively, for the same period in 2018.

The Company recorded net income from continuing operations of \$177.1 million for the nine-month period ended September 30, 2019, compared to \$170.8 million for the same period in 2018. This represents a 3.7 percent increase over the nine-month period ended September 30, 2018. Basic earnings per share from continuing operations for the nine-month period ended September 30, 2019 were \$3.63 per share (\$3.61 per share fully-diluted) compared to \$3.45 per share (\$3.41 per share fully-diluted) for the same period in 2018. Return on average assets and return on average common shareholders' equity for the nine-month period ended September 30, 2019 were 1.01 and 9.86 percent, respectively, compared to 1.10 and 10.43 percent, respectively, for the same period in 2018.

Net interest income for the three and nine-month periods ended September 30, 2019 increased \$17.8 million, or 11.8 percent, and \$49.9 million, or 11.1 percent, respectively, compared to the same periods in 2018. For the three-month period ended September 30, 2019, average earning assets increased by \$3.0 billion, or 15.5 percent, and for the nine-month period ended September 30, 2019, they increased by \$2.5 billion, or 13.0 percent, compared to the same periods in 2018. Net interest margin, on a tax-equivalent basis, decreased to 3.09 percent and 3.16 for the three and nine-month periods ended September 30, 2019, respectively. This is compared to 3.18 percent and 3.20 percent, respectively, for the same periods in 2018.

The provision for loan losses increased by \$1.8 million to \$7.5 million for the three-month period ended September 30, 2019, and increased by \$8.1 million to \$30.9 million for the nine-month period ended September 30, 2019, compared to the same periods in 2018. This change is the result of applying the Company's methodology for computing the allowance for loan losses, which considers the inherent risk in the loan portfolio, as well as other qualitative factors, such as macroeconomic conditions, loan growth, loan impairment changes, loan risk grading changes, and net charge-off levels. The Company's nonperforming loans increased \$21.3 million to \$71.8 million at September 30, 2019, compared to September 30, 2018, and increased \$28.8 million, compared to December 31, 2018. The allowance for loan losses as a percentage of total loans decreased to 0.82 percent as of September 30, 2019, compared to 0.85 percent at September 30, 2018. For a description of the Company's methodology for computing the allowance for loan losses, please see the summary discussion of the Allowance for Loan Losses within the Critical Accounting Policies and Estimates subsection of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K.

Noninterest income increased by \$2.8 million, or 2.7 percent, for the three-month period ended September 30, 2019, and increased by \$9.7 million, or 3.2 percent, for the nine-month period ended September 30, 2019, compared to the same periods in 2018. These changes are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by \$11.0 million, or 6.1 percent, for the three-month period ended September 30, 2019, and increased by \$41.9 million, or 7.9 percent, for the nine-month period ended September 30, 2019, compared to the same periods in 2018. These changes are discussed in greater detail below under Noninterest Expense.

## **Net Interest Income**

Net interest income is a significant source of the Company's earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest-earning assets and the related funding sources, the overall mix of these assets and liabilities, and the interest rates paid on each affect net interest income. Net interest income for the three and nine-month periods ended September 30, 2019 increased \$17.8 million, or 11.8 percent, and \$49.9 million, or 11.1 percent, respectively, compared to the same periods in 2018.

Table 1 shows the impact of earning asset rate changes compared to changes in the cost of interest-bearing liabilities. As illustrated in this table, net interest spread for the three-month period ended September 30, 2019 decreased by 17 basis points as compared to the same period in 2018. Net interest margin for the three-month period ended September 30, 2019 decreased by nine basis points compared to the same period in 2018. Net interest spread for the nine-month period ended September 30, 2019 decreased by 19 basis points as compared to the same period in 2018. Net interest margin for the nine-month period ended September 30, 2019 decreased by four basis points compared to the same period in 2018. The changes compared to 2018 are primarily due to favorable volume, mix, and rate variances on loans, offset by unfavorable rate variances in interest-bearing deposits. These interest rate variances have led to decreased net interest spreads and margins. These variances have also driven an increase in interest income partially offset by an increase in interest expense, resulting in an increase in the Company's net interest income during 2019 as compared to results for the same period in 2018. For the impact of the contribution from free funds, see the Analysis of Net Interest Margin within Table 2 below. Table 2 also illustrates how the changes in volume and interest rates have resulted in an increase in net interest income.

Table 1

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

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates. All average balances are daily average balances. The average yield on earning assets without the tax-equivalent basis adjustment would have been 3.88 percent for the three-month period ended September 30, 2019 and 3.79 percent for the same period in 2018. The average yield on earning assets without the tax-equivalent basis adjustment would have been 3.96 percent for the nine-month period ended September 30, 2019 and 3.66 percent for the same period in 2018.

	Three Months Ended September 30,			
	2019		2018	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
<b>ASSETS</b>				
Loans, net of unearned interest	\$ 12,890,878	4.99%	\$ 11,718,552	4.87%
Securities:				
Taxable	4,636,243	2.31	3,760,332	2.14
Tax-exempt	3,841,483	3.03	3,431,206	2.67
Total securities	8,477,726	2.63	7,191,538	2.39
Federal funds and resell agreements	394,587	2.83	101,223	2.61
Interest-bearing due from banks	582,116	2.35	322,882	1.86
Other earning assets	44,571	4.32	45,476	4.35
Total earning assets	22,389,878	3.99	19,379,671	3.89
Allowance for loan losses	(104,795)		(99,289)	
Other assets	1,652,033		1,469,283	
Total assets	<u>\$ 23,937,116</u>		<u>\$ 20,749,665</u>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Interest-bearing deposits	\$ 13,226,432	1.23%	\$ 10,984,419	0.93%
Federal funds and repurchase agreements	1,683,072	1.96	1,733,884	1.72
Borrowed funds	88,100	6.24	78,764	6.50
Total interest-bearing liabilities	14,997,604	1.34	12,797,067	1.07
Noninterest-bearing demand deposits	6,082,498		5,547,880	
Other liabilities	303,736		179,775	
Shareholders' equity	2,553,278		2,224,943	
Total liabilities and shareholders' equity	<u>\$ 23,937,116</u>		<u>\$ 20,749,665</u>	
Net interest spread		2.65%		2.82%
Net interest margin		3.09		3.18

	Nine Months Ended September 30,			
	2019		2018	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
<b>ASSETS</b>				
Loans, net of unearned interest	\$ 12,607,157	5.10%	\$ 11,484,757	4.72%
Securities:				
Taxable	4,481,242	2.36	3,830,164	2.11
Tax-exempt	3,730,744	2.98	3,519,060	2.66
Total securities	8,211,986	2.64	7,349,224	2.37
Federal funds and resell agreements	414,560	2.89	122,961	2.67
Interest-bearing due from banks	563,810	2.40	336,144	1.65
Other earning assets	50,841	5.05	45,206	5.21
Total earning assets	21,848,354	4.07	19,338,292	3.76
Allowance for loan losses	(106,565)		(100,856)	
Other assets	1,607,087		1,467,036	
Total assets	<u>\$ 23,348,876</u>		<u>\$ 20,704,472</u>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Interest-bearing deposits	\$ 12,897,172	1.23%	\$ 10,831,775	0.72%
Federal funds and repurchase agreements	1,655,934	2.09	1,678,108	1.51
Borrowed funds	84,107	6.54	78,770	6.32
Total interest-bearing liabilities	14,637,213	1.36	12,588,653	0.86
Noninterest-bearing demand deposits	6,040,019		5,753,237	
Other liabilities	269,425		172,560	
Shareholders' equity	2,402,219		2,190,022	
Total liabilities and shareholders' equity	<u>\$ 23,348,876</u>		<u>\$ 20,704,472</u>	
Net interest spread		2.71%		2.90%
Net interest margin		3.16		3.20

Table 2 presents the dollar amount of change in net interest income and margin due to volume and rate. Table 2 also reflects the effect that interest-free funds have on net interest margin. The average balance of interest-free funds (total earning assets less interest-bearing liabilities) increased \$809.7 million for the three-month period and increased \$461.5 million for the nine-month period ended September 30, 2019, compared to the same periods in 2018. The benefit from interest-free funds increased by eight and 15 basis points in the three and nine-month periods, respectively, due to increased yields on earning assets, offset by an increase in interest rates of interest-bearing liabilities.

Table 2

## ANALYSIS OF CHANGES IN NET INTEREST INCOME AND MARGIN (unaudited, dollars in thousands)

## ANALYSIS OF CHANGES IN NET INTEREST INCOME

	Three Months Ended			Nine Months Ended		
	September 30, 2019 and 2018			September 30, 2019 and 2018		
	Volume	Rate	Total	Volume	Rate	Total
Change in interest earned on:						
Loans	\$ 14,686	\$ 3,610	\$ 18,296	\$ 41,372	\$ 34,739	\$ 76,111
Securities:						
Taxable	5,000	1,703	6,703	11,004	7,487	18,491
Tax-exempt	2,331	2,590	4,921	3,507	7,106	10,613
Federal funds sold and resell agreements	2,089	63	2,152	6,291	222	6,513
Interest-bearing due from banks	1,456	481	1,937	3,573	2,395	5,968
Trading	(2)	(1)	(3)	193	(59)	134
Interest income	25,560	8,446	34,006	65,940	51,890	117,830
Change in interest incurred on:						
Interest-bearing deposits	5,924	9,428	15,352	12,717	47,816	60,533
Federal funds purchased and repurchase agreements	(225)	1,014	789	(253)	7,255	7,002
Other borrowed funds	149	(54)	95	258	133	391
Interest expense	5,848	10,388	16,236	12,722	55,204	67,926
Net interest income	\$ 19,712	\$ (1,942)	\$ 17,770	\$ 53,218	\$ (3,314)	\$ 49,904

## ANALYSIS OF NET INTEREST MARGIN

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Average earning assets	\$22,389,878	\$19,379,671	\$3,010,207	\$21,848,354	\$19,338,292	\$2,510,062
Interest-bearing liabilities	14,997,604	12,797,067	2,200,537	14,637,213	12,588,653	2,048,560
Interest-free funds	\$ 7,392,274	\$ 6,582,604	\$ 809,670	\$ 7,211,141	\$ 6,749,639	\$ 461,502
Free funds ratio (interest free funds to average earning assets)	33.02%	33.97%	(0.95)%	33.01%	34.90%	(1.89)%
Tax-equivalent yield on earning assets	3.99	3.89	0.10	4.07	3.76	0.31
Cost of interest-bearing liabilities	1.34	1.07	0.27	1.36	0.86	0.50
Net interest spread	2.65	2.82	(0.17)	2.71	2.90	(0.19)
Benefit of interest-free funds	0.44	0.36	0.08	0.45	0.30	0.15
Net interest margin	3.09%	3.18%	(0.09)%	3.16%	3.20%	(0.04)%

## Provision and Allowance for Loan Losses

The ALL represents management's judgment of the losses inherent in the Company's loan portfolio as of the balance sheet date. An analysis is performed quarterly to determine the appropriate balance of the ALL. This analysis considers items such as historical loss trends, a review of individual loans, migration analysis, current economic conditions, loan growth and characteristics, industry or segment concentration, and other factors. After the balance sheet analysis is performed for the ALL, the provision for loan losses is computed as the amount required to adjust the ALL to the appropriate level.



Based on the factors above, management of the Company recorded \$7.5 million and \$30.9 million as provision for loan losses for the three and nine-month periods ended September 30, 2019, respectively, compared to \$5.8 million and \$22.8 million for the same periods in 2018, respectively. As illustrated in Table 3 below, the ALL decreased to 0.82 percent of total loans as of September 30, 2019, compared to 0.85 percent of total loans as of September 30, 2018.

Table 3 presents a summary of the Company's ALL for the nine-month periods ended September 30, 2019 and 2018, and for the year ended December 31, 2018. Net charge-offs were \$27.1 million for the nine-month period ended September 30, 2019, compared to \$22.1 million for the same period in 2018. See "Credit Risk Management" under "Item 3. Quantitative and Qualitative Disclosures About Market Risk" in this report for information relating to nonaccrual loans, past due loans, restructured loans and other credit risk matters.

*Table 3*  
**ANALYSIS OF ALLOWANCE FOR LOAN LOSSES** (unaudited, dollars in thousands)

	<b>Nine Months Ended</b>		<b>Year Ended</b>
	<b>September 30,</b>		<b>December 31,</b>
	<b>2019</b>	<b>2018</b>	<b>2018</b>
Allowance-January 1	\$ 103,635	\$ 100,604	\$ 100,604
Provision for loan losses	30,850	22,750	70,750
Charge-offs:			
Commercial	(26,469)	(15,186)	(64,371)
Consumer:			
Credit card	(5,995)	(6,524)	(8,601)
Other	(676)	(979)	(1,143)
Real estate	(442)	(3,312)	(3,428)
Total charge-offs	<u>(33,582)</u>	<u>(26,001)</u>	<u>(77,543)</u>
Recoveries:			
Commercial	3,574	1,578	6,753
Consumer:			
Credit card	1,606	1,257	1,728
Other	369	757	898
Real estate	954	357	445
Total recoveries	<u>6,503</u>	<u>3,949</u>	<u>9,824</u>
Net charge-offs	<u>(27,079)</u>	<u>(22,052)</u>	<u>(67,719)</u>
Allowance-end of period	\$ 107,406	\$ 101,302	\$ 103,635
Average loans, net of unearned interest	\$ 12,603,268	\$ 11,482,913	\$ 11,604,633
Loans at end of period, net of unearned interest	13,043,840	11,964,724	12,178,150
Allowance to loans at end of period	0.82%	0.85%	0.85%
Allowance as a multiple of net charge-offs	2.97x	3.44x	1.53x
Net charge-offs to:			
Provision for loan losses	87.78%	96.93%	95.72%
Average loans	0.29	0.26	0.58

### **Noninterest Income**

A key objective of the Company is the growth of noninterest income to provide a diverse source of revenue not directly tied to interest rates. This income is non-credit related and not generally affected by fluctuations in interest rates.

The Company offers products and services which management believes will more closely align the customer with the Company to generate noninterest income. The Company generates noninterest income from trust and securities processing, bankcard, brokerage, healthcare services, and treasury management.

Table 4  
**SUMMARY OF NONINTEREST INCOME** (unaudited, dollars in thousands)

	Three Months Ended		Dollar Change	Percent Change
	September 30,			
	2019	2018	19-18	19-18
Trust and securities processing	\$ 45,218	\$ 43,425	\$ 1,793	4.1%
Trading and investment banking	5,712	3,711	2,001	53.9
Service charges on deposits	20,620	20,927	(307)	(1.5)
Insurance fees and commissions	320	339	(19)	(5.6)
Brokerage fees	8,102	6,402	1,700	26.6
Bankcard fees	16,895	16,838	57	0.3
Gains on sales of securities available for sale, net	3,057	211	2,846	>100.0
Other	3,711	9,032	(5,321)	(58.9)
<b>Total noninterest income</b>	<b>\$ 103,635</b>	<b>\$ 100,885</b>	<b>\$ 2,750</b>	<b>2.7%</b>

	Nine Months Ended		Dollar Change	Percent Change
	September 30,			
	2019	2018	19-18	19-18
Trust and securities processing	\$ 130,078	\$ 130,272	\$ (194)	(0.1)%
Trading and investment banking	16,746	12,465	4,281	34.3
Service charges on deposits	62,648	63,554	(906)	(1.4)
Insurance fees and commissions	1,123	980	143	14.6
Brokerage fees	22,422	19,046	3,376	17.7
Bankcard fees	50,401	52,145	(1,744)	(3.3)
Gains on sales of securities available for sale, net	2,463	578	1,885	>100.0
Other	30,534	27,659	2,875	10.4
<b>Total noninterest income</b>	<b>\$ 316,415</b>	<b>\$ 306,699</b>	<b>\$ 9,716</b>	<b>3.2%</b>

Noninterest income increased by \$2.8 million, or 2.7 percent, during the three-month period ended September 30, 2019, and increased by \$9.7 million, or 3.2 percent, during the nine-month period ended September 30, 2019, compared to the same periods in 2018. Table 4 above summarizes the components of noninterest income and the respective year-over-year comparison for each category.

Trust and securities processing consists of fees earned on personal and corporate trust accounts, custody of securities services, trust investments and investment management services, and servicing of mutual fund assets. The fees for the three-month period increased \$1.8 million and were flat for the nine-month period ended September 30, 2019, compared to the same periods in 2018. The increase for the three-month period was primarily due to an increase in corporate trust revenue. The change for the nine-month period was driven by decreases of \$4.1 million in fund services revenue and \$0.8 million in trust services revenue. The decrease in fund services revenue was primarily driven by customer repricing and losses. These decreases were largely offset by an increase of \$4.7 million in corporate trust revenue. Since trust and securities processing fees are primarily asset-based, which are highly correlated to the change in market value of the assets, the related income for the remainder of the year will be affected by changes in the securities markets. Management continues to emphasize sales of services to both new and existing clients as well as increasing and improving distribution channels.

Trading and investment banking fees for the three and nine-month periods ended September 30, 2019 increased \$2.0 million, or 53.9 percent, and \$4.3 million, or 34.3 percent, respectively, compared to the same periods in 2018. These increases were driven by higher trading volume. The income in this category is market driven and impacted by general increases or decreases in trading volume.

Brokerage fees for the three and nine-month periods ended September 30, 2019, increased \$1.7 million, or 26.6 percent, and \$3.4 million, or 17.7 percent, respectively, compared to the same periods in 2018. These increases were driven by higher levels of money market balances and the related 12b-1 fees.

Bankcard fees for the three and nine-month periods ended September 30, 2019, were flat and decreased \$1.7 million, or 3.3 percent, respectively, compared to the same periods in 2018. The decrease for the nine-month period was driven by lower interchange income coupled with increased rewards and rebates expense recorded as an offset to bankcard fees.

During the three and nine-month periods ended September 30, 2019, \$3.1 million and \$2.5 million in gains, respectively, were recognized on the sales of securities available for sale, compared to gains on the sales of securities available for sale of \$0.2 million and \$0.6 million for the same periods in 2018. The investment portfolio is continually evaluated for opportunities to improve its performance and risk profile relative to market conditions and the Company's interest rate expectations. This can result in differences from quarter to quarter in the amount of realized gains.

Other noninterest income for the three and nine-month periods ended September 30, 2019, decreased \$5.3 million, or 58.9 percent, and increased \$2.9 million, or 10.4 percent, respectively, compared to the same periods in 2018. The decrease in the three-month period is driven by decreases in equity in earnings on alternative investments, company-owned life insurance, and derivative income. The increase for the nine-month period was primarily driven by increases in company-owned life insurance and derivative income.

Table 5  
SUMMARY OF NONINTEREST EXPENSE (unaudited, dollars in thousands)

	Three Months Ended		Dollar	Percent
	September 30,		Change	Change
	2019	2018	19-18	19-18
Salaries and employee benefits	\$ 110,153	\$ 102,956	\$ 7,197	7.0%
Occupancy, net	12,240	11,628	612	5.3
Equipment	19,775	18,533	1,242	6.7
Supplies and services	4,261	4,528	(267)	(5.9)
Marketing and business development	5,655	6,671	(1,016)	(15.2)
Processing fees	13,619	12,331	1,288	10.4
Legal and consulting	8,374	8,470	(96)	(1.1)
Bankcard	4,643	4,407	236	5.4
Amortization of other intangible assets	1,335	1,385	(50)	(3.6)
Regulatory fees	2,749	3,337	(588)	(17.6)
Other	8,593	6,139	2,454	40.0
Total noninterest expense	\$ 191,397	\$ 180,385	\$ 11,012	6.1%

	Nine Months Ended		Dollar	Percent
	September 30,		Change	Change
	2019	2018	19-18	19-18
Salaries and employee benefits	\$ 340,639	\$ 315,099	\$ 25,540	8.1%
Occupancy, net	35,522	33,394	2,128	6.4
Equipment	58,283	56,201	2,082	3.7
Supplies and services	12,419	12,434	(15)	(0.1)
Marketing and business development	17,872	17,889	(17)	(0.1)
Processing fees	38,847	35,029	3,818	10.9
Legal and consulting	21,503	18,774	2,729	14.5
Bankcard	13,689	13,198	491	3.7
Amortization of other intangible assets	3,913	4,432	(519)	(11.7)
Regulatory fees	8,549	10,014	(1,465)	(14.6)
Other	24,174	17,015	7,159	42.1
Total noninterest expense	\$ 575,410	\$ 533,479	\$ 41,931	7.9%

Noninterest expense increased by \$11.0 million, or 6.1 percent, for the three-month period ended September 30, 2019 and increased \$41.9 million, or 7.9 percent, for the nine-month period ended September 30, 2019, compared to the same periods in 2018. Table 5 above summarizes the components of noninterest expense and the respective year-over-year comparison for each category.

Salaries and employee benefits increased by \$7.2 million, or 7.0 percent, and increased \$25.5 million, or 8.1 percent, for the three and nine-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. Salaries and wages increased \$5.5 million, or 8.3 percent, for the three-month period ended September 30, 2019, and increased \$11.2 million, or 5.6 percent, for the nine-month period ended September 30, 2019, compared to the same periods in 2018. Commissions and bonuses increased \$1.3 million, or 6.9 percent, and increased \$7.4 million, or 12.7 percent, for the three and nine-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. Employee benefits expense increased \$0.3 million, or 2.0 percent for the three-month period ended September 30, 2019, and increased \$6.9 million, or 12.1 percent, for the nine-month period ended September 30, 2019, compared to the same periods in 2018.

Occupancy expense increased \$0.6 million, or 5.3 percent, and increased \$2.1 million, or 6.4 percent, for the three and nine-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to lower tenant rent income and higher lease expense.

Furniture and equipment expense increased \$1.2 million, or 6.7 percent, and increased \$2.1 million, or 3.7 percent, for the three and nine-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to higher software expense.

Marketing and business development expense decreased \$1.0 million, or 15.2 percent, and was flat for the three and nine-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, due to the timing of multiple technology and product initiatives.

Processing fees expense increased \$1.3 million, or 10.4 percent, and \$3.8 million, or 10.9 percent, for the three and nine-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to higher system processing expenses supporting the commercial, personal, healthcare, and institutional businesses.

Legal and consulting expense decreased \$0.1 million, or 1.1 percent, and increased \$2.7 million, or 14.5 percent, for the three and nine-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to consulting costs on system investments to support growth across the Company's business lines.

Regulatory agency expense decreased \$0.6 million, or 17.6 percent, and \$1.5 million, or 14.6 percent, for the three and nine-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, due to lower depository insurance expense.

Other noninterest expense increased \$2.5 million, or 40.0 percent, and \$7.2 million, or 42.1 percent, for the three and nine-month periods ended September 30, 2019. The increases are primarily due to higher derivative expense and higher operating losses.

### **Income Tax Expense**

The Company's effective tax rate was 15.1 percent for the nine-month period ended September 30, 2019 compared to 14.2 percent for the same period in 2018.

## Strategic Lines of Business

Table 6

### Commercial Banking Operating Results (unaudited, dollars in thousands)

	Three Months Ended		Dollar Change	Percent Change
	September 30,			
	2019	2018	19-18	19-18
Net interest income	\$ 104,360	\$ 94,782	\$ 9,578	10.1%
Provision for loan losses	5,966	4,063	1,903	46.8
Noninterest income	18,874	20,825	(1,951)	(9.4)
Noninterest expense	66,447	64,076	2,371	3.7
Income before taxes	50,821	47,468	3,353	7.1
Income tax expense	7,390	5,378	2,012	37.4
Income from continuing operations	\$ 43,431	\$ 42,090	\$ 1,341	3.2%

  

	Nine Months Ended		Dollar Change	Percent Change
	September 30,			
	2019	2018	19-18	19-18
Net interest income	\$ 306,752	\$ 279,842	\$ 26,910	9.6%
Provision for loan losses	25,602	17,179	8,423	49.0
Noninterest income	62,442	60,590	1,852	3.1
Noninterest expense	201,777	189,050	12,727	6.7
Income before taxes	141,815	134,203	7,612	5.7
Income tax expense	21,482	19,076	2,406	12.6
Income from continuing operations	\$ 120,333	\$ 115,127	\$ 5,206	4.5%

For the nine-month period ended September 30, 2019, Commercial Banking income from continuing operations increased by \$5.2 million, or 4.5 percent, to \$120.3 million compared to the same period in 2018. Net interest income increased \$26.9 million, or 9.6 percent, for the nine-month period ended September 30, 2019, compared to the same period in 2018, primarily driven by strong loan growth and earning asset mix changes. Provision for loan losses increased by \$8.4 million, or 49.0 percent, consistent with our methodology, which considers the inherent risk in our loan portfolio, as well as other qualitative factors, such as macroeconomic conditions, loan growth, loan impairment changes, loan risk grading changes, and net charge-off levels. Noninterest income increased \$1.9 million, or 3.1 percent, primarily due to an increase of \$4.0 million in other noninterest income driven by increased company-owned life insurance income and derivative income. These increases were partially offset by a decrease of \$1.4 million in bankcard fees due to higher rebate expense, recorded as an offset to revenue, and a decrease of \$0.5 million in deposit service charges. Noninterest expense increased \$12.7 million, or 6.7 percent, to \$201.8 million. This increase is primarily driven by an increase of \$7.3 million in technology, service, and overhead expense for investments to support growth across the segment's lines of business, coupled with increases of \$3.2 million and \$1.1 million in salary and benefit expense and legal and professional fees expense, respectively.

Table 7

**Institutional Banking Operating Results** (unaudited, dollars in thousands)

	<b>Three Months Ended</b>		<b>Dollar</b>	<b>Percent</b>
	<b>September 30,</b>			
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>Change</b>
Net interest income	\$ 18,726	\$ 15,235	\$ 3,491	22.9%
Provision for loan losses	256	354	(98)	(27.7)
Noninterest income	49,806	43,171	6,635	15.4
Noninterest expense	55,280	47,083	8,197	17.4
Income before taxes	12,996	10,969	2,027	18.5
Income tax expense	1,891	1,243	648	52.1
Income from continuing operations	\$ 11,105	\$ 9,726	\$ 1,379	14.2%

  

	<b>Nine Months Ended</b>		<b>Dollar</b>	<b>Percent</b>
	<b>September 30,</b>			
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>Change</b>
Net interest income	\$ 58,599	\$ 47,225	\$ 11,374	24.1%
Provision for loan losses	723	1,027	(304)	(29.6)
Noninterest income	142,370	132,005	10,365	7.9
Noninterest expense	160,308	141,517	18,791	13.3
Income before taxes	39,938	36,686	3,252	8.9
Income tax expense	6,049	5,215	834	16.0
Income from continuing operations	\$ 33,889	\$ 31,471	\$ 2,418	7.7%

For the nine-month period ended September 30, 2019, Institutional Banking income from continuing operations increased \$2.4 million, or 7.7 percent, compared to the same period last year. Net interest income increased \$11.4 million, or 24.1 percent, compared to the same period last year, due to an increase in deposits, coupled with increased funds transfer pricing credits on deposits from higher interest rates in 2019 as compared to 2018. Provision for loan losses decreased \$0.3 million, or 29.6 percent, consistent with our methodology, which considers the inherent risk in our loan portfolio, as well as other qualitative factors, such as macroeconomic conditions, loan growth, loan impairment changes, loan risk grading changes, and net charge-off levels. Noninterest income increased \$10.4 million, or 7.9 percent due to an increase in brokerage fees of \$4.2 million, increased bond trading fees of \$4.0 million, and increased corporate trust income of \$4.7 million. These increases were partially offset by a decrease in fund services revenue of \$4.1 million. Noninterest expense increased \$18.8 million, or 13.3 percent, primarily driven by increases of \$8.3 million in salary and employee benefits expense, \$6.0 million in technology, service, and overhead expense for investments to support growth across the segment's lines of business, and increased other noninterest expense of \$2.6 million, primarily due to operational losses in 2019. Additionally, there were increases of \$0.7 million in both legal and consulting expense and marketing business development expense.

Table 8

**Personal Banking Operating Results** (unaudited, dollars in thousands)

	Three Months Ended September 30,		Dollar Change	Percent Change
	2019	2018	19-18	19-18
Net interest income	\$ 33,296	\$ 31,069	\$ 2,227	7.2%
Provision for loan losses	1,278	1,333	(55)	(4.1)
Noninterest income	26,118	28,269	(2,151)	(7.6)
Noninterest expense	58,328	56,651	1,677	3.0
(Loss) income before taxes	(192)	1,354	(1,546)	(>100.0)
Income tax (benefit) expense	(28)	153	(181)	(>100.0)
(Loss) income from continuing operations	\$ (164)	\$ 1,201	\$ (1,365)	(>100.0)%

  

	Nine Months Ended September 30,		Dollar Change	Percent Change
	2019	2018	19-18	19-18
Net interest income	\$ 98,933	\$ 93,057	\$ 5,876	6.3%
Provision for loan losses	4,525	4,544	(19)	(0.4)
Noninterest income	83,855	87,708	(3,853)	(4.4)
Noninterest expense	176,762	165,968	10,794	6.5
Income before taxes	1,501	10,253	(8,752)	(85.4)
Income tax expense	227	1,457	(1,230)	(84.4)
Income from continuing operations	\$ 1,274	\$ 8,796	\$ (7,522)	(85.5)%

For the nine-month period ended September 30, 2019, Personal Banking income from continuing operations decreased \$7.5 million, or 85.5 percent, compared to the same period last year. Net interest income increased \$5.9 million, or 6.3 percent, compared to the same period last year due to increased interest rates during the nine-month period ended September 30, 2019, as compared to the same period in 2018. Provision for loan loss remained flat, consistent with our methodology, which considers the inherent risk in our loan portfolio, as well as other qualitative factors, such as macroeconomic conditions, loan growth, loan impairment changes, loan risk grading changes, and net charge-off levels. Noninterest income decreased \$3.9 million, or 4.4 percent, compared to the same period last year, primarily driven by a decrease of \$2.4 million in equity earnings on alternative investments and a decrease of \$1.4 million in trust services revenue. Noninterest expense increased \$10.8 million, or 6.5 percent, primarily due to an increase of \$7.8 million in technology, service, and overhead expense for investments to support growth across the segment's lines of business, and an increase of \$2.5 million in salary and employee benefits expense.

Table 9

**Healthcare Services Operating Results** (unaudited, dollars in thousands)

	Three Months Ended September 30,		Dollar Change	Percent Change
	2019	2018	19-18	19-18
Net interest income	\$ 11,878	\$ 9,404	\$ 2,474	26.3%
Provision for loan losses	—	—	—	—
Noninterest income	8,837	8,620	217	2.5
Noninterest expense	11,342	12,575	(1,233)	(9.8)
Income before taxes	9,373	5,449	3,924	72.0
Income tax expense	1,363	617	746	>100.0
Income from continuing operations	\$ 8,010	\$ 4,832	\$ 3,178	65.8%

	Nine Months Ended		Dollar Change	Percent Change
	September 30,			
	2019	2018	19-18	19-18
Net interest income	\$ 34,258	\$ 28,514	\$ 5,744	20.1%
Provision for loan losses	—	—	—	—
Noninterest income	27,748	26,396	1,352	5.1
Noninterest expense	36,563	36,944	(381)	(1.0)
Income before taxes	25,443	17,966	7,477	41.6
Income tax expense	3,854	2,554	1,300	50.9
Income from continuing operations	<u>\$ 21,589</u>	<u>\$ 15,412</u>	<u>\$ 6,177</u>	<u>40.1%</u>

For the nine-month period ended September 30, 2019, Healthcare Services income from continuing operations increased \$6.2 million, or 40.1 percent, compared to the same period last year. Net interest income increased \$5.7 million, or 20.1 percent, compared to the same period last year, due to an increase in number of accounts and deposits, coupled with increased funds transfer pricing credits on deposits from higher interest rates in 2019 as compared to 2018. Noninterest income increased \$1.4 million, or 5.1 percent, driven by increased company-owned life insurance and bankcard fee income. Noninterest expense decreased \$0.4 million, or 1.0 percent, primarily due to decreases of \$1.0 million in salary and employee benefits expense, \$0.4 million in marketing and business development expense and \$0.4 million in processing fees expense, partially offset by an increase of \$1.3 million in technology, service, and overhead expense for investments to support growth across the segment's lines of business.

### Balance Sheet Analysis

Total assets of the Company increased by \$792.0 million, or 3.4 percent, as of September 30, 2019, compared to December 31, 2018, primarily due to an increase in AFS securities of \$869.1 million, or 13.3 percent and an increase in loan balances of \$865.7 million, or 7.1 percent. These increases were partially offset by a decrease of \$894.2 million, or 86.9 percent in FRB account balances.

Total assets of the Company increased \$2.7 billion, or 12.5 percent, as of September 30, 2019, compared to September 30, 2018, primarily due to an increase in AFS securities of \$1.5 billion, or 24.9 percent, an increase in loan balances of \$1.1 billion, or 9.0 percent, and an increase in securities purchased under agreements to resell of \$263.4 million.

Table 10  
SELECTED FINANCIAL INFORMATION (unaudited, dollars in thousands)

	September 30,		December 31,
	2019	2018	2018
Total assets	\$ 24,143,092	\$ 21,462,360	\$ 23,351,119
Loans, net of unearned interest	13,054,865	11,966,946	12,181,342
Total investment securities	8,688,163	7,278,266	7,848,149
Interest-bearing due from banks	158,339	668,990	1,047,830
Total earning assets	22,257,353	20,019,312	21,600,687
Total deposits	19,309,345	17,736,704	19,281,260
Total borrowed funds	1,877,951	1,271,508	1,601,591

Loans represent the Company's largest source of interest income. In addition to growing the commercial loan portfolio, management believes its middle market commercial business and its consumer business, including home equity and credit card loan products, are the market niches that represent its best opportunity to cross-sell fee-related services and generate additional noninterest income for the Company.



Actual loan balances totaled \$13.0 billion as of September 30, 2019, and increased \$865.7 million, or 7.1 percent, compared to December 31, 2018, and increased \$1.1 billion, or 9.0 percent, compared to September 30, 2018. Compared to December 31, 2018, commercial real estate loans increased \$508.3 million, or 13.7 percent, commercial loans increased \$283.6 million, or 5.4 percent, and residential real estate loans increased \$130.2 million, or 18.4 percent. Compared to September 30, 2018, commercial loans increased \$604.9 million, or 12.3 percent, commercial real estate loans increased \$505.5 million, or 13.6 percent, and residential real estate loans increased \$149.2 million, or 21.7 percent, and were partially offset by a decrease in factoring loans of \$95.2 million, or 33.1 percent. The increase in total loans is driven by the Company's focus on optimizing the balance sheet.

Nonaccrual, past due and restructured loans are discussed under "Credit Risk Management" within "Item 3. Quantitative and Qualitative Disclosures About Market Risk" in this report.

### **Investment Securities**

The Company's investment portfolio contains trading, AFS, and held-to-maturity (HTM) securities as well as FRB stock, FHLB stock, and other miscellaneous investments. Investment securities totaled \$8.7 billion as of September 30, 2019, and \$7.8 billion as of December 31, 2018, and comprised 39.0 percent and 36.3 percent of the Company's earning assets, respectively, as of those dates.

The Company's AFS securities portfolio comprised 85.3 percent of the Company's investment securities portfolio at September 30, 2019, compared to 83.4 percent at December 31, 2018. The Company's AFS securities portfolio provides liquidity as a result of the composition and average life of the underlying securities. This liquidity can be used to fund loan growth or to offset the outflow of traditional funding sources. The average life of the AFS securities portfolio was 60.8 months at September 30, 2019, compared to 56.8 months at December 31, 2018, and 56.4 months at September 30, 2018. In addition to providing a potential source of liquidity, the AFS securities portfolio can be used as a tool to manage interest rate sensitivity. The Company's goal in the management of its AFS securities portfolio is to maximize return within the Company's parameters of liquidity goals, interest rate risk, and credit risk.

Management expects collateral pledging requirements for public funds, loan demand, and deposit funding to be the primary factors impacting changes in the level of AFS securities. There were \$5.7 billion of AFS securities pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, derivative transactions, and repurchase agreements at September 30, 2019. Of this amount, securities with a market value of \$712.5 million at September 30, 2019 were pledged at the Federal Reserve Discount Window but were unencumbered as of that date.

The Company's HTM securities portfolio consists of private placement bonds, which are issued primarily to refinance existing revenue bonds in the healthcare and education sectors. The HTM portfolio totaled \$1.1 billion as of September 30, 2019, a decrease of \$68.6 million, or 5.9 percent, from December 31, 2018. The average life of the HTM portfolio was 6.4 years at September 30, 2019, compared to 6.9 years at December 31, 2018, and 6.8 years at September 30, 2018.

The securities portfolio generates the Company's second largest component of interest income. The securities portfolio achieved an average yield on a tax-equivalent basis of 2.64 percent for the nine-month period ended September 30, 2019, compared to 2.37 percent for the same period in 2018.

### **Deposits and Borrowed Funds**

Deposits increased \$28.1 million, or 0.1 percent, from December 31, 2018 to September 30, 2019 and increased \$1.6 billion, or 8.9 percent, from September 30, 2018 to September 30, 2019. Total noninterest-bearing deposits decreased \$27.2 million, and interest-bearing deposits increased \$55.3 million as compared to December 31, 2018. Total noninterest-bearing deposits increased \$895.5 million and interest-bearing deposits increased \$677.1 million from September 30, 2018.

Deposits represent the Company's primary funding source for its asset base. In addition to the core deposits garnered by the Company's retail branch structure, the Company continues to focus on its cash management

services, its trust and mutual fund servicing businesses, and its healthcare business, in order to attract and retain additional deposits. Management believes a strong core deposit composition is one of the Company's key strengths given its competitive product mix.

Long-term debt totaled \$87.0 million at September 30, 2019, compared to \$82.7 million as of December 31, 2018, and \$78.5 million as of September 30, 2018. The majority of the Company's long-term debt was assumed from the acquisition of Marquette Financial Companies (Marquette) and consists of debt obligations payable to four unconsolidated trusts (Marquette Capital Trust I, Marquette Capital Trust II, Marquette Capital Trust III, and Marquette Capital Trust IV) that previously issued trust preferred securities. These long-term debt obligations had an aggregate contractual balance of \$103.1 million and had an aggregate carrying value of \$70.1 million as of September 30, 2019. Interest rates on trust preferred securities are tied to the three-month LIBOR rate with spreads ranging from 133 basis points to 160 basis points, and reset quarterly. The trust preferred securities have maturity dates ranging from January 2036 to September 2036.

Federal funds purchased and securities sold under agreements to repurchase totaled \$1.8 billion at September 30, 2019, \$1.5 billion at December 31, 2018, and \$1.2 billion at September 30, 2018. Repurchase agreements are transactions involving the exchange of investment funds by the customer for securities by the Company under an agreement to repurchase the same or similar issues at an agreed-upon price and date.

### **Capital and Liquidity**

The Company places a significant emphasis on the maintenance of a strong capital position, which promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company's ability to capitalize on business growth and acquisition opportunities. Higher levels of liquidity, however, bear corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher expenses for extended liability maturities. The Company manages capital for each subsidiary based upon the subsidiary's respective risks and growth opportunities as well as regulatory requirements.

Total shareholders' equity was \$2.6 billion at September 30, 2019, a \$335.4 million increase compared to December 31, 2018, and a \$360.4 million increase compared to September 30, 2018.

The Company's Board of Directors authorized, at its April 23, 2019, April 24, 2018, and April 25, 2017 meetings, the repurchase of up to two million shares of the Company's common stock during the twelve months following each meeting (each a Repurchase Authorization). During the nine-month periods ended September 30, 2019 and 2018, the Company acquired 65,463 shares and 354,884 shares, respectively, of its common stock pursuant to the applicable Repurchase Authorization. The Company has not made any repurchase of its securities other than pursuant to the Repurchase Authorizations.

At the Company's quarterly board meeting, the Board of Directors declared a \$0.31 per share quarterly cash dividend payable on January 2, 2020, to shareholders of record at the close of business on December 9, 2019.

Through the Company's relationship with the FHLB of Des Moines, the Company owns \$10.0 million of FHLB stock and has access to additional liquidity and funding sources through FHLB advances. The Company's borrowing capacity is dependent upon the amount of collateral the Company places at the FHLB. The Company's borrowing capacity with the FHLB was \$1.2 billion as of September 30, 2019. The Company had no outstanding FHLB advances at FHLB of Des Moines as of September 30, 2019.

Risk-based capital guidelines established by regulatory agencies set minimum capital standards based on the level of risk associated with a financial institution's assets. The Company has implemented the Basel III regulatory capital rules adopted by the FRB. Basel III capital rules include a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5 percent and a minimum tier 1 risk-based capital ratio of 6 percent. A financial institution's total capital is also required to equal at least 8 percent of risk-weighted assets.

The risk-based capital guidelines indicate the specific risk weightings by type of asset. Certain off-balance sheet items (such as standby letters of credit and binding loan commitments) are multiplied by credit conversion factors to translate them into balance sheet equivalents before assigning them specific risk weightings. The Company is also required to maintain a leverage ratio equal to or greater than 4 percent. The leverage ratio is calculated as the ratio of tier 1 core capital to total average assets, less goodwill and intangibles. The Company's capital position as of September 30, 2019 is summarized in the table below and exceeded regulatory requirements.

Table 11

RATIOS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Common equity Tier 1 capital ratio	12.53%	13.47%	12.53%	13.47%
Tier 1 risk-based capital ratio	12.53	13.47	12.53	13.47
Total risk-based capital ratio	13.51	14.54	13.51	14.54
Leverage ratio	9.62	10.58	9.62	10.58
Return on average assets	1.03	1.11	1.01	1.10
Return on average equity	9.69	10.32	9.86	10.43
Average equity to assets	10.67	10.72	10.29	10.58

The Company's per share data is summarized in the table below.

Per Share Data	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Earnings from continuing operations basic	\$ 1.28	\$ 1.17	\$ 3.63	\$ 3.45
Earnings from continuing operations diluted	1.27	1.16	3.61	3.41
Cash dividends	0.30	0.29	0.90	0.87
Dividend payout ratio	23.44%	24.79%	24.79%	25.22%
Book value	\$ 52.23	\$ 44.20	\$ 52.23	\$ 44.20

#### Off-balance Sheet Arrangements

The Company's main off-balance sheet arrangements are loan commitments, commercial and standby letters of credit, futures contracts and forward exchange contracts, which have maturity dates rather than payment due dates. Please see Note 11, "Commitments, Contingencies and Guarantees" in the Notes to Consolidated Financial Statements for detailed information on these arrangements.

#### Critical Accounting Policies and Estimates

The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to customers and suppliers, allowance for loan losses, bad debts, investments, financing operations, long-lived assets, taxes, other contingencies, and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which have formed the basis for making such judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from the recorded estimates.

A summary of critical accounting policies is listed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Form 10-K.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Risk Management**

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange prices, commodity prices, or equity prices. Financial instruments that are subject to market risk can be classified either as held for trading or held for purposes other than trading.

The Company is subject to market risk primarily through the effect of changes in interest rates of its assets held for purposes other than trading. The following discussion of interest rate risk, however, combines instruments held for trading and instruments held for purposes other than trading because the instruments held for trading represent such a small portion of the Company's portfolio that the interest rate risk associated with them is immaterial.

#### **Interest Rate Risk**

In the banking industry, a major risk exposure is changing interest rates. To minimize the effect of interest rate changes to net interest income and exposure levels to economic losses, the Company manages its exposure to changes in interest rates through asset and liability management within guidelines established by its Asset Liability Committee (ALCO) and approved by the Board. The ALCO is responsible for approving and ensuring compliance with asset/liability management policies, including interest rate exposure. The Company's primary method for measuring and analyzing consolidated interest rate risk is the Net Interest Income Simulation Analysis. The Company also uses a Net Portfolio Value model to measure market value risk under various rate change scenarios and a gap analysis to measure maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time. On a limited basis, the Company uses hedges such as swaps and futures contracts to manage interest rate risk on certain loans, trading securities, trust preferred securities, and deposits. See further information in Note 12 "Derivatives and Hedging Activities" in the Notes to the Consolidated Financial Statements.

Overall, the Company manages interest rate risk by positioning the balance sheet to maximize net interest income while maintaining an acceptable level of interest rate and credit risk, remaining mindful of the relationship among profitability, liquidity, interest rate risk, and credit risk.

#### **Net Interest Income Modeling**

The Company's primary interest rate risk tool, the Net Interest Income Simulation Analysis, measures interest rate risk and the effect of interest rate changes on net interest income and net interest margin. This analysis incorporates all of the Company's assets and liabilities together with assumptions that reflect the current interest rate environment. Through these simulations, management estimates the impact on net interest income of a 300 basis point upward or a 200 basis point downward gradual change (e.g. ramp) and immediate change (e.g. shock) of market interest rates over a two year period. In ramp scenarios, rates change gradually for a one-year period and remain constant in year two. In shock scenarios, rates change immediately and the change is sustained for the remainder of the two-year scenario horizon. Assumptions are made to project rates for new loans and deposits based on historical analysis, management outlook and repricing strategies. Asset prepayments and other market risks are developed from industry estimates of prepayment speeds and other market changes. The results of these simulations can be significantly influenced by assumptions utilized and management evaluates the sensitivity of the simulation results on a regular basis.

Table 12 shows the net interest income increase or decrease over the next two years as of September 30, 2019 and 2018 based on hypothetical changes in interest rates and a constant sized balance sheet with runoff being replaced.

Table 12  
**MARKET RISK** (unaudited)

(basis points)	Hypothetical change in interest rate – Rate Ramp			
	Year One		Year Two	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	Percentage change	Percentage change	Percentage change	Percentage change
300	(0.2)%	2.3%	5.0%	9.2%
200	(0.1)	1.3	3.4	5.7
100	(0.2)	0.3	1.3	2.1
Static	—	—	—	—
(100)	(0.2)	(2.2)	(4.2)	(5.1)
(200)	(0.7)	n/a	(8.6)	n/a

  

(basis points)	Hypothetical change in interest rate – Rate Shock			
	Year One		Year Two	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	Percentage change	Percentage change	Percentage change	Percentage change
300	3.5%	5.8%	7.9%	12.2%
200	2.4	3.6	5.3	7.7
100	1.2	1.4	2.6	3.1
Static	—	—	—	—
(100)	(2.2)	(4.8)	(6.2)	(6.7)
(200)	(4.5)	n/a	(11.2)	n/a

The Company is positioned slightly asset sensitive to changes in interest rates except for year one rising interest rate ramps. In most cases, interest income is predicted to increase in rising rate scenarios and decrease in falling rate scenarios. Increases and decreases in net interest income in rising and falling rate scenarios are due to yields on earning assets increasing and decreasing more due to changes in market rates than the cost of paying liabilities is projected to increase or decrease. In year one interest rate ramps, the Company is slightly liability sensitive in rising rate scenarios. In these scenarios, increases in liability expense will slightly outpace increases in interest income. A key assumption underlying these projections is how the Company is projected to price deposits in a rising rate environment being consistent with our history. This conservative assumption has overstated projected interest expense as rates have risen and could continue to do so in the future.

### Trading Account

The Company carries securities in a trading account that is maintained according to Board-approved policy and procedures. The policy limits the amount and type of securities that can be carried in the trading account and requires compliance with any limits under applicable law and regulations, and mandates the use of a value-at-risk methodology to manage price volatility risks within financial parameters. The risk associated with the carrying of trading securities is offset by utilizing financial instruments including exchange-traded financial futures as well as short sales of U.S. Treasury and Corporate securities. The trading securities and related hedging instruments are marked-to-market daily. The trading account had a balance of \$86.1 million as of September 30, 2019, \$61.0 million as of December 31, 2018, and \$81.2 million as of September 30, 2018. Securities sold not yet purchased (i.e. short positions) totaled \$26.0 million at September 30, 2019, \$27.2 million as of December 31, 2018, and \$40.3 million at September 30, 2018 and are classified within the Other liabilities line of the Company's Consolidated Balance Sheets.

The Company is subject to market risk primarily through the effect of changes in interest rates of its assets held for purposes other than trading. The discussion in Table 12 above of interest rate risk, however, combines instruments held for trading and instruments held for purposes other than trading, because the instruments held for trading represent such a small portion of the Company's portfolio that the interest rate risk associated with them is immaterial.

### **Other Market Risk**

The Company has minimal foreign currency risk as a result of foreign exchange contracts. See Note 11 "Commitments, Contingencies and Guarantees" in the notes to the Consolidated Financial Statements.

### **Credit Risk Management**

Credit risk represents the risk that a customer or counterparty may not perform in accordance with contractual terms. The Company utilizes a centralized credit administration function, which provides information on the Bank's risk levels, delinquencies, an internal ranking system and overall credit exposure. Loan requests are centrally reviewed to ensure the consistent application of the loan policy and standards. In addition, the Company has an internal loan review staff that operates independently of the Bank. This review team performs periodic examinations of the Bank's loans for credit quality, documentation and loan administration. The respective regulatory authorities governing the Bank also review loan portfolios.

A primary indicator of credit quality and risk management is the level of nonperforming loans. Nonperforming loans include both nonaccrual loans and restructured loans on nonaccrual. The Company's nonperforming loans increased \$28.8 million to \$71.8 million at September 30, 2019, compared to December 31, 2018, and increased \$21.3 million, compared to September 30, 2018.

The Company had \$2.9 million, \$3.3 million, and \$4.8 million of other real estate owned as of September 30, 2019, December 31, 2018, and September 30, 2018, respectively. Loans past due more than 90 days and still accruing interest totaled \$2.5 million as of September 30, 2019, compared to \$6.0 million as of December 31, 2018, and \$1.9 million at September 30, 2018.

A loan is generally placed on nonaccrual status when payments are past due 90 days or more and/or when management has considerable doubt about the borrower's ability to repay on the terms originally contracted. The accrual of interest is discontinued and recorded thereafter only when actually received in cash.

Certain loans are restructured to provide a reduction or deferral of interest or principal due to deterioration in the financial condition of the respective borrowers. The Company had \$29.3 million of restructured loans at September 30, 2019, \$21.1 million at December 31, 2018, and \$20.5 million at September 30, 2018.

Table 13  
**LOAN QUALITY** (unaudited, dollars in thousands)

	<b>September 30,</b>		<b>December 31,</b>
	<b>2019</b>	<b>2018</b>	<b>2018</b>
Nonaccrual loans	\$ 57,542	\$ 30,434	\$ 22,376
Restructured loans on nonaccrual	14,296	20,134	20,642
<b>Total nonperforming loans</b>	<b>71,838</b>	<b>50,568</b>	<b>43,018</b>
Other real estate owned	2,939	4,786	3,338
<b>Total nonperforming assets</b>	<b>\$ 74,777</b>	<b>\$ 55,354</b>	<b>\$ 46,356</b>
Loans past due 90 days or more	\$ 2,466	\$ 1,927	\$ 6,009
Restructured loans accruing	14,984	415	411
Allowance for loan losses	107,406	101,302	103,635
<b>Ratios</b>			
Nonperforming loans as a percent of loans	0.55%	0.42%	0.35%
Nonperforming assets as a percent of loans plus other real estate owned	0.57	0.46	0.38
Nonperforming assets as a percent of total assets	0.31	0.26	0.20
Loans past due 90 days or more as a percent of loans	0.02	0.02	0.05
Allowance for loan losses as a percent of loans	0.82	0.85	0.85
Allowance for loan losses as a multiple of nonperforming loans	1.50x	2.00x	2.41x

### Liquidity Risk

Liquidity represents the Company's ability to meet financial commitments through the maturity and sale of existing assets or availability of additional funds. The Company believes that the most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and wholesale funds. Ultimately, the Company believes public confidence is generated through profitable operations, sound credit quality, and a strong capital position. The primary source of liquidity for the Company is regularly scheduled payments on and maturity of assets, which include \$7.4 billion of high-quality securities available for sale. The liquidity of the Company and the Bank is also enhanced by its activity in the federal funds market and by its core deposits. Additionally, management believes it can raise debt or equity capital on favorable terms in the future, should the need arise.

Another factor affecting liquidity is the amount of deposits and customer repurchase agreements that have pledging requirements. All customer repurchase agreements require collateral in the form of a security. The U.S. Government, other public entities, and certain trust depositors require the Company to pledge securities if their deposit balances are greater than the FDIC-insured deposit limitations. These pledging requirements affect liquidity risk in that the related security cannot otherwise be disposed due to the pledging restriction. At September 30, 2019, \$5.7 billion, or 76.5 percent, of the securities available-for-sale were pledged or used as collateral, compared to \$5.7 billion, or 87.1 percent, at December 31, 2018. However, of these amounts, securities with a market value of \$712.5 million at September 30, 2019 and \$1.0 billion at December 31, 2018 were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

The Company also has other commercial commitments that may impact liquidity. These commitments include unused commitments to extend credit, standby letters of credit and financial guarantees, and commercial letters of credit. The total amount of these commercial commitments at September 30, 2019 was \$10.5 billion. Since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Company.

The Company's cash requirements consist primarily of dividends to shareholders, debt service, operating expenses, and treasury stock purchases. Management fees and dividends received from bank and non-bank subsidiaries traditionally have been sufficient to satisfy these requirements and are expected to be sufficient in the future. The Bank is subject to various rules regarding payment of dividends to the Company. For the most part, the Bank can pay dividends at least equal to its current year's earnings without seeking prior regulatory approval. The Company also uses cash to inject capital into its bank and non-bank subsidiaries to maintain adequate capital as well as fund strategic initiatives.

To enhance general working capital needs, the Company has a revolving line of credit with Wells Fargo Bank, N.A., which allows the Company to borrow up to \$50.0 million for general working capital purposes. The interest rate applied to borrowed balances will be at the Company's option, either 1.00 percent above LIBOR or 1.75 percent below the prime rate on the date of an advance. The Company pays a 0.3 percent unused commitment fee for unused portions of the line of credit. The Company had no advances outstanding at September 30, 2019.

The Company is a member bank of the FHLB. The Company owns \$10.0 million of FHLB stock and has access to additional liquidity and funding sources through FHLB advances. Additionally, the Company has access to borrow up to \$1.2 billion through advances at the FHLB of Des Moines, but had no outstanding FHLB Des Moines advances as of September 30, 2019.

### **Operational Risk**

Operational risk generally refers to the risk of loss resulting from the Company's operations, including those operations performed for the Company by third parties. This would include but is not limited to the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees or others, errors relating to transaction processing, breaches of the internal control system and compliance requirements, and unplanned interruptions in service. This risk of loss also includes the potential legal or regulatory actions that could arise as a result of an operational deficiency, or as a result of noncompliance with applicable regulatory standards. The Company must comply with a number of legal and regulatory requirements, including those under the Sarbanes-Oxley Act of 2002, as amended.

The Company operates in many markets and relies on the ability of its employees and systems to properly process a high number of transactions. In the event of a breakdown in internal control systems, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation. In order to address this risk, management maintains a system of internal controls with the objective of providing proper transaction authorization and execution, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data.

The Company maintains systems of internal controls that provide management with timely and accurate information about the Company's operations. These systems have been designed to manage operational risk at appropriate levels given the Company's financial strength, the environment in which it operates, and considering factors such as competition and regulation. The Company has also established procedures that are designed to ensure that policies relating to conduct, ethics, and business practices are followed on a uniform basis. In certain cases, the Company has experienced losses from operational risk. Such losses have included the effects of operational errors that the Company has discovered and included as expense in the statement of income. While there can be no assurance that the Company will not suffer such losses in the future, management continually monitors and works to improve its internal controls, systems, and corporate-wide processes and procedures.



#### **ITEM 4. CONTROLS AND PROCEDURES**

The Sarbanes-Oxley Act of 2002, as amended, requires the Chief Executive Officer and the Chief Financial Officer to make certain certifications under this Form 10-Q with respect to the Company's disclosure controls and procedures and internal control over financial reporting. The Company has a Code of Ethics that expresses the values that drive employee behavior and maintains the Company's commitment to the highest standards of ethics.

##### **Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Form 10-Q. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Form 10-Q, the Company's disclosure controls and procedures were effective for ensuring that the Company's SEC filings are recorded, processed, summarized, and reported within the time period required and that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

##### **Internal Control Over Financial Reporting**

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the nine-month period ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company and its subsidiaries are named defendants in various legal proceedings. In the opinion of management, after consultation with legal counsel, none of these lawsuits are expected to have a materially adverse effect on the financial position, results of operations, or cash flows of the Company.

### ITEM 1A. RISK FACTORS

There were no material changes to the risk factors as previously disclosed in response to Item 1A to Part 1 of the Company's Form 10-K.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three-month period ended September 30, 2019.

#### ISSUER PURCHASE OF EQUITY SECURITIES

Period	(a)	(b)	(c)	(d)
	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31, 2019	2,392	\$ 67.29	2,392	1,997,225
August 1 - August 31, 2019	910	66.04	910	1,996,315
September 1 - September 30, 2019	—	—	—	1,996,315
Total	<u>3,302</u>	<u>\$ 66.94</u>	<u>3,302</u>	

On April 24, 2018, the Company announced a plan to repurchase up to two million shares of common stock, which terminated on April 23, 2019. On April 23, 2019, the Company announced a plan to repurchase up to two million shares of common stock, which will terminate on April 22, 2020. The Company has not made any repurchases other than through these Repurchase Authorizations. All share purchases pursuant to the Repurchase Authorizations are intended to be within the scope of Rule 10b-18 promulgated under the Exchange Act. Rule 10b-18 provides a safe harbor for purchases in a given day if the Company satisfies the manner, timing and volume conditions of the rule when purchasing its own shares of common stock.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

Not applicable.

## ITEM 6. EXHIBITS

- 3.1 [Restated Articles of Incorporation \(incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and filed with the Commission on May 9, 2006\).](#)
- 3.2 [Bylaws, amended as of October 28, 2014 \(incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and filed with the Commission on August 2, 2016\).](#)
- 31.1 [CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act filed herewith.](#)
- 31.2 [CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act filed herewith.](#)
- 32.1 [CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act filed herewith.](#)
- 32.2 [CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act filed herewith.](#)
- 101.INS XBRL Instance Document – The instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document filed herewith.
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document filed herewith.
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document filed herewith.
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document filed herewith.
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document filed herewith.
- 104 The cover page of our Form 10-Q for the quarter ended September 30, 2019, formatted in iXBRL.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

### UMB FINANCIAL CORPORATION

/s/ Brian J. Walker

Brian J. Walker  
Chief Accounting Officer

Date: October 31, 2019

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## Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

### CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, J. Mariner Kemper, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q as of, and for the period ended September 30, 2019 of UMB Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2019

/s/ J. Mariner Kemper

J. Mariner Kemper  
Chief Executive Officer

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## Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

### CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Ram Shankar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q as of, and for the period ended September 30, 2019 of UMB Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2019

/s/ Ram Shankar

Ram Shankar  
Chief Financial Officer

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## Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

### CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q as of, and for the period ended September 30, 2019, of UMB Financial Corporation (the Company) filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Mariner Kemper, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of

the Company.

Dated: October 31, 2019

/s/ J. Mariner Kemper

J. Mariner Kemper  
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to UMB Financial Corporation and will be retained by UMB Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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## **Section 5: EX-32.2 (EX-32.2)**

**Exhibit 32.2**

### **CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q as of, and for the period ended September 30, 2019, of UMB Financial Corporation (the Company) filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ram Shankar, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2019

/s/ Ram Shankar

Ram Shankar  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to UMB Financial Corporation and will be retained by UMB Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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