

UMB FINANCIAL CORP
Form 10-Q
May 02, 2019

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 March 31, 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 43-0903811
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

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

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

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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	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

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

As of April 26, 2019, UMB Financial Corporation had 49,067,086 shares of common stock outstanding.

UMB FINANCIAL CORPORATION

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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)

	March 31, 2019 (unaudited)	December 31, 2018 (audited)
ASSETS		
Loans	\$12,549,732	\$12,178,150
Allowance for loan losses	(103,661)	(103,635)
Net loans	12,446,071	12,074,515
Loans held for sale	1,267	3,192
Securities:		
Available for sale	6,891,869	6,542,800
Held to maturity (fair value of \$1,122,660 and \$1,070,532, respectively)	1,147,947	1,170,646
Trading securities	56,025	61,011
Other securities	75,357	73,692
Total investment securities	8,171,198	7,848,149
Federal funds sold and securities purchased under agreements to resell	264,772	627,001
Interest-bearing due from banks	1,113,470	1,047,830
Cash and due from banks	399,387	645,123
Premises and equipment, net	279,000	283,879
Accrued income	117,007	110,168
Goodwill	180,867	180,867
Other intangibles, net	13,676	15,003
Other assets	570,045	515,392
Total assets	\$23,556,760	\$23,351,119
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$6,448,422	\$6,680,070
Interest-bearing demand and savings	12,018,580	11,454,442
Time deposits under \$250,000	591,405	593,904
Time deposits of \$250,000 or more	306,808	552,844
Total deposits	19,365,215	19,281,260
Federal funds purchased and repurchase agreements	1,494,048	1,518,920
Long-term debt	81,608	82,671
Accrued expenses and taxes	142,483	177,731
Other liabilities	122,563	62,067
Total liabilities	21,205,917	21,122,649

SHAREHOLDERS' EQUITY

Common stock, \$1.00 par value; 80,000,000 shares authorized; 55,056,730

shares issued; and 49,058,246 and 49,117,222 shares outstanding, respectively	55,057	55,057
Capital surplus	1,060,630	1,054,601
Retained earnings	1,531,396	1,488,421
Accumulated other comprehensive loss, net	(17,639)	(95,782)
Treasury stock, 5,998,484 and 5,939,508 shares, at cost, respectively	(278,601)	(273,827)
Total shareholders' equity	2,350,843	2,228,470
Total liabilities and shareholders' equity	\$23,556,760	\$23,351,119

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 March 31,	
	2019	2018
INTEREST INCOME		
Loans	\$ 157,261	\$ 126,134
Securities:		
Taxable interest	25,391	19,780
Tax-exempt interest	20,697	18,703
Total securities income	46,088	38,483
Federal funds and resell agreements	3,625	1,038
Interest-bearing due from banks	3,899	1,580
Trading securities	434	430
Total interest income	211,307	167,665
INTEREST EXPENSE		
Deposits	37,834	13,835
Federal funds and repurchase agreements	8,264	4,732
Other	1,341	1,176
Total interest expense	47,439	19,743
Net interest income	163,868	147,922
Provision for loan losses	12,350	10,000
Net interest income after provision for loan losses	151,518	137,922
NONINTEREST INCOME		
Trust and securities processing	41,957	44,002
Trading and investment banking	5,581	4,101
Service charges on deposit accounts	21,281	21,905
Insurance fees and commissions	338	301
Brokerage fees	7,243	6,353
Bankcard fees	17,067	18,123
Gain on sales of securities available for sale, net	809	139
Other	13,106	10,601
Total noninterest income	107,382	105,525
NONINTEREST EXPENSE		
Salaries and employee benefits	116,032	107,968
Occupancy, net	11,743	10,953
Equipment	19,684	18,826
Supplies and services	3,873	3,760
Marketing and business development	4,913	5,034
Processing fees	12,132	11,161
Legal and consulting	5,633	3,844
Bankcard	4,345	4,626
Amortization of other intangible assets	1,327	1,562

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Regulatory fees	2,890	2,905
Other	8,054	5,237
Total noninterest expense	190,626	175,876
Income before income taxes	68,274	67,571
Income tax expense	10,530	10,038
Income from continuing operations	57,744	57,533
Discontinued Operations		
Loss from discontinued operations before income taxes	—	(917)
Income tax benefit	—	(170)
Loss from discontinued operations	—	(747)
NET INCOME	\$57,744	\$56,786

PER SHARE DATA

Basic:		
Income from continuing operations	\$ 1.19	\$ 1.16
Loss from discontinued operations	—	(0.01)
Net income – basic	1.19	1.15
Diluted:		
Income from continuing operations	1.18	1.15
Loss from discontinued operations	—	(0.01)
Net income – diluted	1.18	1.14
Dividends	0.300	0.290
Weighted average shares outstanding – basic	48,712,153	49,420,606
Weighted average shares outstanding – diluted	48,998,571	49,917,454

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended March 31,	
	2019	2018
Net income	\$57,744	\$56,786
Other comprehensive income (loss), net of tax:		
Unrealized gains and losses on debt securities:		
Change in unrealized holding gains and losses, net	106,434	(80,662)
Less: Reclassification adjustment for gains included in net income	(809)	(139)
Change in unrealized gains and losses on debt securities during the period	105,625	(80,801)
Change in unrealized gains and losses on derivative hedges	(2,093)	2,202
Income tax (expense) benefit	(25,389)	19,782
Other comprehensive income (loss) before reclassifications	78,143	(58,817)
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾⁽²⁾	—	(13,049)
Net current-period other comprehensive income (loss)	78,143	(71,866)
Comprehensive income (loss)	\$135,887	\$(15,080)

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

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

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance – January 1, 2018	\$ 55,057	\$ 1,046,095	\$ 1,338,110	\$ (45,525)	\$(212,206)	\$2,181,531
Total comprehensive income (loss)	—	—	56,786	(71,866)	—	(15,080)
Reclassification of certain tax effects ⁽¹⁾	—	—	12,917	—	—	12,917
Dividends (\$0.290 per share)	—	—	(14,473)	—	—	(14,473)
Purchase of treasury stock	—	—	—	—	(5,951)	(5,951)
Issuance of equity awards, net of forfeitures	—	(2,959)	—	—	3,454	495
Recognition of equity-based compensation	—	2,270	—	—	—	2,270
Sale of treasury stock	—	145	—	—	140	285
Exercise of stock options	—	1,122	—	—	4,125	5,247
Cumulative effect adjustments ⁽²⁾	—	—	145	—	—	145
Balance – March 31, 2018	\$ 55,057	\$ 1,046,673	\$ 1,393,485	\$ (117,391)	\$(210,438)	\$2,167,386
Balance – January 1, 2019	\$ 55,057	\$ 1,054,601	\$ 1,488,421	\$ (95,782)	\$(273,827)	\$2,228,470
Total comprehensive income	—	—	57,744	78,143	—	135,887
Dividends (\$0.300 per share)	—	—	(14,769)	—	—	(14,769)
Purchase of treasury stock	—	—	—	—	(4,086)	(4,086)
Issuance of equity awards, net of forfeitures	—	2,383	—	—	(1,779)	604
Recognition of equity-based compensation	—	3,289	—	—	—	3,289
Sale of treasury stock	—	100	—	—	161	261
Exercise of stock options	—	257	—	—	930	1,187
Balance – March 31, 2019	\$ 55,057	\$ 1,060,630	\$ 1,531,396	\$ (17,639)	\$(278,601)	\$2,350,843

(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 Three Months Ended March 31,	
	2019	2018
OPERATING ACTIVITIES		
Net income	\$57,744	\$56,786
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	12,350	10,000
Net amortization (accretion) of premiums and discounts from acquisition	135	(10)
Depreciation and amortization	13,614	13,371
Deferred income tax expense (benefit)	295	(7,760)
Net decrease (increase) in trading securities and other earning assets	4,507	(13,628)
Gains on sales of securities available for sale, net	(809)	(139)
(Gains) losses on sales of assets	(236)	142
Amortization of securities premiums, net of discount accretion	8,859	11,640
Originations of loans held for sale	(19,156)	(12,520)
Gains on sales of loans held for sale, net	(177)	(270)
Proceeds from sales of loans held for sale	21,258	9,664
Equity-based compensation	3,893	2,765
Net tax benefit related to equity compensation plans	539	1,713
Changes in:		
Accrued income	(6,839)	1,231
Accrued expenses and taxes	(13,319)	(61,711)
Other assets and liabilities, net	(36,453)	8,345
Net cash provided by operating activities	46,205	19,619
INVESTING ACTIVITIES		
Proceeds from maturities of securities held to maturity	22,769	21,303
Proceeds from sales of securities available for sale	53,329	41,273
Proceeds from maturities of securities available for sale	267,255	328,267
Purchases of securities held to maturity	(1,893)	(6,756)
Purchases of securities available for sale	(579,392)	(340,795)
Net increase in loans	(383,799)	(188,349)
Net decrease in fed funds sold and resell agreements	362,229	64,393
Net cash activity from acquisitions and divestitures	—	2,874
Net (increase) decrease in interest bearing balances due from other financial institutions	(3,867)	6,674
Purchases of premises and equipment	(10,066)	(8,639)
Proceeds from sales of premises and equipment	2,904	—
Net cash used in investing activities	(270,531)	(79,755)
FINANCING ACTIVITIES		
Net increase (decrease) in demand and savings deposits	332,490	(511,650)
Net decrease in time deposits	(248,535)	(293,085)

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Net (decrease) increase in fed funds purchased and repurchase agreements	(24,872)	93,911
Repayment of long-term debt	(1,305)	(898)
Cash dividends paid	(14,777)	(14,531)
Proceeds from exercise of stock options and sales of treasury shares	1,448	5,532
Purchases of treasury stock	(4,086)	(5,951)
Net cash provided by (used in) financing activities	40,363	(726,672)
Decrease in cash and cash equivalents	(183,963)	(786,808)
Cash and cash equivalents at beginning of period	1,674,121	1,716,262
Cash and cash equivalents at end of period	\$1,490,158	\$929,454
Supplemental Disclosures:		
Income tax (refunds) payments	\$(12)	\$5,972
Total interest payments	39,524	19,168

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 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 March 31, 2019 and March 31, 2018 (in thousands):

	March 31,	
	2019	2018
Due from the FRB	\$1,090,771	\$649,616

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Cash and due from banks	399,387	279,838
Cash and cash equivalents at end of period	\$1,490,158	\$929,454

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 \$22.7 million and \$21.5 million at March 31, 2019 and March 31, 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 net income per share includes the dilutive effect of 286,418 and 496,848

shares issuable upon the exercise of options granted by the Company and outstanding at March 31, 2019 and 2018, respectively.

Options issued under employee benefits plans to purchase 123,384 and 141,870 shares of common stock were outstanding at March 31, 2019 and 2018, respectively, but were not included in the computation of diluted earnings per share because the options were anti-dilutive.

Derivatives

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

3. New Accounting Pronouncements

Revenue Recognition In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, "Revenue from Contracts with Customers" – 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 changes the accounting treatment of leases, in that lessees will recognize most leases on-balance sheet. This will increase reported assets and liabilities, as lessees will be required to recognize a right-of-use asset along with a lease liability, measured on a discounted basis. 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 March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019					
	30-89	Greater than				
	Days Past	90 Days Past	Non-	Total		
	Due and	Due and	Accrual	Past	Current	Total Loans
	Accruing	Accruing	Loans	Due		
Loans						
Commercial:						
Commercial	\$ 10,532	\$ 71	\$ 31,868	\$ 42,471	\$ 5,377,088	\$ 5,419,559
Asset-based	—	—	—	—	386,670	386,670
Factoring	—	—	5,747	5,747	253,172	258,919
Commercial – credit card	485	109	—	594	195,502	196,096
Real estate:						
Real estate – construction	3,064	—	—	3,064	788,855	791,919
Real estate – commercial	5,434	—	20,566	26,000	3,869,010	3,895,010
Real estate – residential	122	—	1,196	1,318	719,177	720,495
Real estate – HELOC	1,138	—	2,730	3,868	516,847	520,715
Consumer:						
Consumer – credit card	1,646	1,691	744	4,081	216,751	220,832
Consumer – other	127	3	419	549	134,157	134,706
Leases	—	—	—	—	4,811	4,811
Total loans	\$ 22,548	\$ 1,874	\$ 63,270	\$ 87,692	\$ 12,462,040	\$ 12,549,732

	December 31, 2018					
	30-89	Greater than				
	Days Past	90 Days Past	Non-			
	Due and	Due and	Accrual	Total		
	Accruing	Accruing	Loans	Past Due	Current	Total Loans
Loans						
Commercial:						
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
Real estate:						
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
Consumer:						
Consumer – credit card	2,022	1,945	648	4,615	226,367	230,982
Consumer – other	199	1	65	265	144,520	144,785
Leases	—	—	—	—	5,248	5,248
Total loans	\$ 16,823	\$ 6,009	\$43,018	\$65,850	\$12,112,300	\$12,178,150

The Company sold residential real estate loans with proceeds of \$21.3 million and \$9.7 million in the secondary market without recourse during the three months ended March 31, 2019 and March 31, 2018, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of \$63.3 million and \$43.0 million at March 31, 2019 and December 31, 2018, respectively. Restructured loans totaled \$20.7 million and \$21.1 million at March 31, 2019 and December 31, 2018, respectively. Loans 90 days past due and still accruing interest amounted to \$1.9 million and \$6.0 million at March 31, 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

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is not adversely classified and does not expose an institution to sufficient risk to warrant adverse classification. **Substandard** – This rating represents an asset inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans in this category are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified as substandard. This category may include loans where the collection of full principal is doubtful or remote. All other classes of loans are generally evaluated and monitored based on payment activity. Non-performing loans include restructured loans on non-accrual and all other non-accrual loans.

This table provides an analysis of the credit risk profile of each loan class at March 31, 2019 and December 31, 2018 (in thousands):

Credit Exposure

Credit Risk Profile by Risk Rating

	Commercial		Asset-based		Factoring	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Non-watch list	\$4,908,422	\$4,788,234	\$323,576	\$296,719	\$233,762	\$260,727
Watch	219,601	192,653	—	—	—	—
Special Mention	104,104	55,927	63,094	84,019	19,410	864
Substandard	187,432	191,588	—	—	5,747	—
Total	\$5,419,559	\$5,228,402	\$386,670	\$380,738	\$258,919	\$261,591

	Real estate – construction		Real estate – commercial	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Non-watch list	\$791,302	\$792,256	\$3,698,013	\$3,551,537
Watch	512	204	68,279	64,998
Special Mention	—	—	49,810	32,826
Substandard	105	105	78,908	64,919
Total	\$791,919	\$792,565	\$3,895,010	\$3,714,280

Credit Exposure

Credit Risk Profile Based on Payment Activity

	Commercial – credit card		Real estate – residential		Real estate – HELOC	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Performing	\$196,096	\$166,334	\$719,299	\$706,697	\$517,985	\$542,945

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Non-performing	—	—	1,196	807	2,730	2,776
Total	\$196,096	\$166,334	\$720,495	\$707,504	\$520,715	\$545,721

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	Consumer – credit card		Consumer – other		Leases	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Performing	\$220,088	\$ 230,334	\$134,287	\$ 144,720	\$4,811	\$ 5,248
Non-performing	744	648	419	65	—	—
Total	\$220,832	\$ 230,982	\$134,706	\$ 144,785	\$4,811	\$ 5,248

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 months ended March 31, 2019 (in thousands):

	Three Months Ended March 31, 2019				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$80,888	\$13,664	\$9,071	\$12	\$103,635
Charge-offs	(11,163)	(114)	(2,467)	—	(13,744)
Recoveries	626	73	721	—	1,420
Provision	9,981	767	1,603	(1)	12,350
Ending balance	\$80,332	\$14,390	\$8,928	\$11	\$103,661
Ending balance: individually evaluated for impairment	\$5,547	\$101	\$—	\$—	\$5,648
Ending balance: collectively evaluated for impairment	74,785	14,289	8,928	11	98,013
Loans:					
Ending balance: loans	\$6,261,244	\$5,928,139	\$355,538	\$4,811	\$12,549,732
Ending balance: individually evaluated for impairment	37,493	21,197	349	—	59,039
Ending balance: collectively evaluated for impairment	6,223,751	5,906,942	355,189	4,811	12,490,693

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three months ended March 31, 2018 (in thousands):

	Three Months Ended March 31, 2018				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	\$81,156	\$9,312	\$10,083	\$53	\$100,604
Charge-offs	(7,318)	(1,742)	(2,700)	—	(11,760)
Recoveries	471	230	757	—	1,458
Provision	6,748	1,938	1,320	(6)	10,000
Ending balance	\$81,057	\$9,738	\$9,460	\$47	\$100,302
Ending balance: individually evaluated for impairment	\$4,986	\$127	\$—	\$—	5,113
Ending balance: collectively evaluated for impairment	76,071	9,611	9,460	47	95,189
Loans:					
Ending balance: loans	\$5,242,307	\$5,764,398	\$428,938	\$23,151	\$11,458,794
Ending balance: individually evaluated for impairment	48,190	15,344	—	—	63,534
Ending balance: collectively evaluated for impairment	5,194,117	5,749,054	428,938	23,151	11,395,260

Impaired Loans

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

	As of March 31, 2019					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	\$38,722	\$10,154	\$21,592	\$31,746	\$5,547	\$31,377
Asset-based	—	—	—	—	—	—
Factoring	5,747	5,747	—	5,747	—	2,873
Commercial – credit card	—	—	—	—	—	—
Real estate:						
Real estate – construction	—	—	—	—	—	—
Real estate – commercial	26,887	20,750	159	20,909	23	14,425
Real estate – residential	301	193	95	288	78	290

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Real estate – HELOC	—	—	—	—	—	—
Consumer:						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	350	349	—	349	—	174
Leases	—	—	—	—	—	—
Total	\$72,007	\$ 37,193	\$ 21,846	\$ 59,039	\$ 5,648	\$ 49,139

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As of December 31, 2018						
	Unpaid Principal Balance	Recorded		Total Recorded Investment	Average Related Allowance	Average Recorded Investment
		Recorded Investment with No Allowance	Investment with Allowance			
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	\$51,562	\$ 24,443	\$ 14,796	\$ 39,239	\$ 4,711	\$ 55,247

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 March 31, 2019 and March 31, 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-month periods ended March 31, 2019 and March 31, 2018, the Company had no new TDRs. For the three-month periods ended March 31, 2019 and March 31, 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 March 31, 2019 and December 31, 2018 (in thousands):

		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
March 31, 2019	Cost	Gains	Losses	Value
U.S. Treasury	\$259,000	\$ 595	\$ (1,149)	\$258,446
U.S. Agencies	90,096	1,347	(6)	91,437
Mortgage-backed	3,962,630	23,294	(67,139)	3,918,785
State and political subdivisions	2,557,727	30,622	(9,392)	2,578,957
Corporates	44,081	197	(34)	44,244
Total	\$6,913,534	\$ 56,055	\$ (77,720)	\$6,891,869

		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
December 31, 2018	Cost	Gains	Losses	Value
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	\$6,670,090	\$ 13,980	\$ (141,270)	\$6,542,800

The following table presents contractual maturity information for securities available for sale at March 31, 2019 (in thousands):

	Amortized	Fair
	Cost	Value
Due in 1 year or less	\$528,972	\$529,458
Due after 1 year through 5 years	1,011,541	1,012,797
Due after 5 years through 10 years	672,446	671,038
Due after 10 years	737,945	759,791
Total	2,950,904	2,973,084
Mortgage-backed securities	3,962,630	3,918,785

Total securities available for sale \$6,913,534 \$6,891,869

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 three months ended March 31, 2019, proceeds from the sales of securities available for sale were \$53.3 million compared to \$41.3 million for the same period in 2018. Securities transactions resulted in gross realized gains of \$809 thousand and \$142 thousand for the three months ended March 31, 2019 and 2018, respectively. There were no gross realized losses for the three months ended March 31, 2019, and \$3 thousand of gross realized losses for the three months ended March 31, 2018.

Securities available for sale with a fair value of \$5.1 billion at March 31, 2019 and \$5.7 billion at 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 \$1.1 billion and \$1.0 billion at March 31, 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 March 31, 2019 and December 31, 2018 (in thousands):

March 31, 2019 Description of Securities	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Treasury	\$—	\$ —	\$38,957	\$(1,149)	\$38,957	\$(1,149)
U.S. Agencies	1,936	(5)	199	(1)	2,135	(6)
Mortgage-backed	69,379	(165)	2,889,707	(66,974)	2,959,086	(67,139)
State and political subdivisions	60,689	(53)	964,006	(9,339)	1,024,695	(9,392)
Corporates	23,584	(34)	—	—	23,584	(34)
Total temporarily-impaired debt securities available for sale	\$155,588	\$ (257)	\$3,892,869	\$(77,463)	\$4,048,457	\$(77,720)

December 31, 2018 Description of Securities	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Treasury	\$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	\$618,575	\$ (2,750)	\$4,465,859	\$(138,520)	\$5,084,434	\$(141,270)

The unrealized losses in the Company's investments in U.S. Treasury obligations, U.S. government agencies, Government Sponsored Entity (GSE) mortgage-backed securities, municipal securities, 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 March 31, 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 March 31, 2019 and December 31, 2018, respectively (in thousands):

	Amortized	Gross Unrealized	Gross Unrealized	Fair
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March 31, 2019	Cost	Gains	Losses	Value
State and political subdivisions:				
Due in 1 year or less	\$2,670	\$ 41	\$ —	\$2,711
Due after 1 year through 5 years	104,339	12,131	(671)	115,799
Due after 5 years through 10 years	391,045	706	(15,481)	376,270
Due after 10 years	649,893	18,122	(40,135)	627,880
Total state and political subdivisions	\$1,147,947	\$ 31,000	\$ (56,287)	\$1,122,660

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December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions:				
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	\$1,170,646	\$ 4,562	\$(104,676)	\$1,070,532

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 three months ended March 31, 2019 or 2018.

Trading Securities

The net unrealized gains on trading securities were \$52 thousand and \$123 thousand at March 31, 2019 and March 31, 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 \$19.8 million and \$27.2 million at March 31, 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 March 31, 2019 and December 31, 2018 (in thousands):

March 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
FRB and FHLB stock	\$ 33,262	\$ —	\$ —	\$33,262
Other securities – marketable	—	4,948	—	4,948
Other securities – non-marketable	33,165	4,009	(27)	37,147
Total Other securities	\$ 66,427	\$ 8,957	\$ (27)	\$75,357

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
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	\$ 65,273	\$ 8,419	\$ —	\$73,692

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 \$4.9 million at March 31, 2019 and \$4.4 million at December 31, 2018. The fair value of other non-marketable securities includes alternative investment securities of \$5.6 million at March 31, 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 March 31, 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 March 31, 2019	\$ 59,419	\$ 51,332	\$ 70,116	\$ —	\$ 180,867
Balances as of January 1, 2018	\$ 59,419	\$ 51,332	\$ 70,116	\$ —	\$ 180,867
Balances as of December 31, 2018	\$ 59,419	\$ 51,332	\$ 70,116	\$ —	\$ 180,867

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

	As of March 31, 2019		
	Core		
	Deposit		
	Intangible		
	Customer		
	Assets	Relationships	Total
Gross carrying amount	\$50,059	\$ 71,852	\$ 121,911
Accumulated amortization	45,615	62,620	108,235
Net carrying amount	\$4,444	\$ 9,232	\$ 13,676
	As of December 31, 2018		
	Core		
	Deposit		
	Intangible		
	Customer		
	Assets	Relationships	Total
Gross carrying amount	\$50,059	\$ 71,852	\$ 121,911
Accumulated amortization	44,998	61,910	106,908
Net carrying amount	\$5,061	\$ 9,942	\$ 15,003

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

	Three Months Ended March 31,	
	2019	2018
Aggregate amortization expense	\$1,327	\$1,562

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

For the nine months ending December 31, 2019	\$3,457
For the year ending December 31, 2020	3,830
For the year ending December 31, 2021	2,825
For the year ending December 31, 2022	1,886
For the year ending December 31, 2023	1,167
For the year ending December 31, 2024	383

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 March 31, 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 March 31, 2019			
	Remaining Contractual Maturities of the Agreements			
	2-29 Days	30-90 Days	Over 90 Days	Total
U.S. Treasury	\$186,661	\$—	\$ —	\$186,661
U.S. Agencies	1,241,665	41,279,502	750	42,521,917
Total repurchase agreements	\$1,428,326	\$41,279,502	\$ 750	\$42,708,578

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 March 31, 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 months ended March 31, 2019 and March 31, 2018 were as follows (in thousands):

	Three Months Ended March 31, 2019				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	\$99,814	\$20,709	\$32,302	\$11,043	\$163,868
Provision for loan losses	10,329	286	1,735	—	12,350
Noninterest income	23,181	45,787	28,351	10,063	107,382
Noninterest expense	66,820	52,613	58,408	12,785	190,626
Income before taxes	45,846	13,597	510	8,321	68,274
Income tax expense	7,071	2,097	79	1,283	10,530
Income from continuing operations	\$38,775	\$11,500	\$431	\$7,038	\$57,744
Average assets	\$10,446,000	\$4,555,000	\$5,394,000	\$2,459,000	\$22,854,000

	Three Months Ended March 31, 2018				
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	Total
Net interest income	\$91,917	\$15,763	\$30,944	\$9,298	\$147,922
Provision for loan losses	7,978	350	1,672	—	10,000
Noninterest income	20,596	45,419	30,715	8,795	105,525
Noninterest expense	62,125	46,879	55,054	11,818	175,876
Income before taxes	42,410	13,953	4,933	6,275	67,571
Income tax expense	6,300	2,073	733	932	10,038
Income from continuing operations	\$36,110	\$11,880	\$4,200	\$5,343	\$57,533
Average assets	\$9,790,000	\$3,828,000	\$4,974,000	\$2,155,000	\$20,747,000

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 March 31, 2019 and March 31, 2018, the Company also has approximately \$8.3 million and \$8.1 million of expense, respectively, recorded within the Bankcard fees line on the Company's Consolidated Income Statements related to rebates and rewards programs that are outside of the scope of ASC 606. 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 March 31, 2019. Total receivables from revenue recognized under the scope of ASC 606 were \$50.7 million and \$52.2 million as of March 31, 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 months ended March 31, 2019 and March 31, 2018. As stated in Note 8, "Business Segment Reporting," for comparability purposes, amounts in all periods are based on methodologies in effect at March 31, 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):

	Three Months Ended March 31, 2019				Revenue	Total
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	(Expense) out of Scope of ASC 606	
NONINTEREST INCOME						
Trust and securities processing	\$—	\$ 26,689	\$ 15,268	\$ —	\$ —	\$41,957
Trading and investment banking	—	128	—	—	5,453	5,581
Service charges on deposit accounts	7,461	6,189	2,708	4,888	35	21,281
Insurance fees and commissions	—	—	338	—	—	338
Brokerage fees	48	5,422	1,773	—	—	7,243
Bankcard fees	14,488	1,185	5,115	4,340	(8,061)	17,067
Gains on sales of securities available for sale, net	—	—	—	—	809	809
Other	469	131	933	185	11,388	13,106
Total Noninterest income	\$22,466	\$ 39,744	\$ 26,135	\$ 9,413	\$ 9,624	\$ 107,382

	Three Months Ended March 31, 2018				Revenue	Total
	Commercial Banking	Institutional Banking	Personal Banking	Healthcare Services	(Expense) out of Scope of ASC 606	
NONINTEREST INCOME						
Trust and securities processing	\$—	\$ 27,696	\$ 16,306	\$ —	\$ —	\$44,002
Trading and investment banking	—	—	—	—	4,101	4,101
Service charges on deposit accounts	7,791	7,230	2,812	4,038	34	21,905
Insurance fees and commissions	—	—	301	—	—	301
Brokerage fees	52	4,060	2,241	—	—	6,353

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Bankcard fees	14,797	1,635	5,313	4,304	(7,926)	18,123
Gains on sales of securities available for sale, net	—	—	—	—	139	139
Other	454	120	906	149	8,972	10,601
Total Noninterest income	\$23,094	\$ 40,741	\$27,879	\$ 8,491	\$ 5,320	\$105,525

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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. All of the Company's lease agreements are classified as operating leases under ASC 842.

As of March 31, 2019, a right-of-use asset of \$64.3 million and a lease liability of \$69.6 million were included as part of Other assets and Other liabilities, respectively, on the Company's Consolidated Balance Sheets. For the three months ended March 31, 2019, lease expense of \$3.0 million was recognized as part of Occupancy expense on the Company's Consolidated Statements of Income. For the three months ended March 31, 2019, cash payments of \$3.1 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 three months ended March 31, 2019, leased assets obtained in exchange for new operating lease liabilities were \$9.3 million. As of March 31, 2019, the weighted average remaining lease term of the Company's leases was 9.0 years and the weighted average discount rate was 3.30 percent.

As of March 31, 2019, future minimum lease payments under non-cancelable operating leases were as follows (in thousands):

For the nine months ending December 31, 2019	\$9,051
2020	11,552
2021	9,887
2022	9,177
2023	7,588
Thereafter	35,208
Total lease payments	82,463
Less: Interest	12,820
Present value of operating lease liabilities	\$69,643

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.

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

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

	Contract or Notional Amount	
	March 31, 2019	December 31, 2018
Commitments to extend credit for loans (excluding credit card loans)	\$6,853,310	\$ 6,870,451
Commitments to extend credit under credit card loans	3,186,569	3,152,439
Commercial letters of credit	4,496	1,892
Standby letters of credit	307,690	298,915
Forward contracts	31,080	29,796
Spot foreign exchange contracts	7,473	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 certain fixed-rate assets and liabilities. The Company also has interest rate derivatives that result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk of the Company's assets or liabilities. The Company has entered into an offsetting position for each of these derivative instruments with a matching instrument from another financial institution in order to minimize its net risk exposure resulting from such transactions.

Fair Values of Derivative Instruments on the Consolidated Balance Sheets

The table below presents the fair value of the Company's derivative financial instruments as of March 31, 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.

Derivatives fair values are determined using valuation techniques including discounted cash flow analysis on the expected cash flows from each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own

nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

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

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Fair Value	Derivative Assets		Derivative Liabilities	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Interest Rate Products:				
Derivatives not designated as hedging instruments	\$20,567	\$ 9,339	\$5,081	\$ 5,498
Derivatives designated as hedging instruments	—	—	59	15
Total	\$20,567	\$ 9,339	\$5,140	\$ 5,513

Fair Value Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its fixed-rate assets and liabilities due to changes in the benchmark interest rate, London Interbank Offered Rate (LIBOR). Interest rate swaps designated as fair value hedges involve either making fixed rate payments to a counterparty in exchange for the Company receiving variable rate payments, or making variable rate payments to a counterparty in exchange for the Company receiving fixed rate payments, over the life of the agreements without the exchange of the underlying notional amount. As of March 31, 2019, the Company had one interest rate swap with a notional amount of \$5.5 million that was designated as a fair value hedge of interest rate risk associated with the Company's fixed rate loan assets.

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

Cash Flow Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its variable-rate liabilities due to changes in the benchmark interest rate, LIBOR. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of March 31, 2019, the Company had two interest rate swaps with a notional amount of \$51.5 million that were designated as cash flow hedges of interest rate risk associated with the Company's variable-rate subordinated debentures issued by Marquette Capital Trusts III and IV. For derivatives designated and that qualify as cash flow hedges, the change in fair value is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2019 and 2018, the Company recognized net losses of \$2.1 million and net gains of \$2.2 million, respectively, in AOCI for the change in fair value of these cash flow hedges. Amounts reported in AOCI related to derivatives will be reclassified to Interest expense as interest payments are received or paid on the Company's derivatives. The Company expects to reclassify \$121 thousand from AOCI to Interest expense during the next 12 months. As of March 31, 2019, the Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 17.47 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 March 31, 2019, the Company had 126 interest rate swaps with an aggregate notional amount of \$1.5 billion related to this program. During the three months ended March 31, 2019 and 2018, the Company recognized net losses of \$873 thousand and net gains of \$336 thousand, respectively, related to changes in fair value of these swaps.

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Effect of Derivative Instruments on the Consolidated Statements of Income and Consolidated Statements of 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 months ended March 31, 2019 and March 31, 2018 (in thousands):

	Amount of Gain (Loss) Recognized For the Three Months Ended	
	March 31, 2019	March 31, 2018
Interest Rate Products		
Derivatives not designated as hedging instruments	\$ (873)	\$ 336
Total	\$ (873)	\$ 336
Interest Rate Products		
Derivatives designated as hedging instruments:		
Fair value adjustments on derivatives	\$ (58)	\$ 81
Fair value adjustments on hedged items	59	(81)
Total	\$ 1	\$ —

This table provides a summary of the amount of gain or loss recognized in AOCI in the Consolidated Statements of Comprehensive Income related to the Company's derivative assets and liabilities for the three months ended March 31, 2019 and March 31, 2018 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives For the Three Months Ended	
	March 31, 2019	March 31, 2018
Interest Rate Products		
Derivatives designated as cash flow hedging instruments	\$ (2,093)	\$ 2,202
Total	\$ (2,093)	\$ 2,202

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 March 31, 2019, the termination value of derivatives in a net liability position, which includes accrued interest, related to these agreements was \$3.4 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties. At March 31, 2019, the Company had posted \$3.5 million of collateral. If the Company had breached any of these provisions at March 31, 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 March 31, 2019, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

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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 March 31, 2019 and December 31, 2018 (in thousands):

Description	Fair Value Measurement at March 31, 2019			
	March 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. Agencies	\$6,404	\$—	\$6,404	\$ —
Mortgage-backed	2,131	—	2,131	—
State and political subdivisions	24,845	—	24,845	—
Corporates	9,887	9,887	—	—
Trading – other	12,758	12,758	—	—
Trading securities	56,025	22,645	33,380	—
U.S. Treasury	258,446	258,446	—	—
U.S. Agencies	91,437	—	91,437	—
Mortgage-backed	3,918,785	—	3,918,785	—
State and political subdivisions	2,578,957	—	2,578,957	—
Corporates	44,244	44,244	—	—
Available for sale securities	6,891,869	302,690	6,589,179	—
Company-owned life insurance	59,392	—	59,392	—
Bank-owned life insurance	275,439	—	275,439	—
Derivatives	20,567	—	20,567	—
Total	\$7,303,292	\$325,335	\$6,977,957	\$ —
Liabilities				
Derivatives	\$5,140	\$—	\$5,140	\$ —
Securities sold not yet purchased	19,807	—	19,807	—
Total	\$24,947	\$—	\$24,947	\$ —

Description	Fair Value Measurement at December 31, 2018			
	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
U.S. 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	\$6,940,855	\$266,391	\$6,674,464	\$—
Liabilities				
Derivatives	\$5,513	\$—	\$5,513	\$—
Securities sold not yet purchased	27,238	—	27,238	—
Total	\$32,751	\$—	\$32,751	\$—

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 March 31, 2019 and December 31, 2018 (in thousands):

Description	Fair Value Measurement at March 31, 2019 Using				Total Losses Recognized During the Three Months Ended March 31
	March 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 16,198	\$ —	\$ —	\$ 16,198	\$ (937)
Other real estate owned	120	—	—	120	(2)
Total	\$ 16,318	\$ —	\$ —	\$ 16,318	\$ (939)

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 lower of the loan balance or fair value of the collateral. The initial valuation of the foreclosed

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

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 March 31, 2019 and December 31, 2018 are as follows (in thousands):

	Fair Value Measurement at March 31, 2019 Using				
	Carrying Amount	Significant			Unobservable Inputs (Level 3)
Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)			
FINANCIAL ASSETS					
Cash and short-term investments	\$ 1,777,629	\$ 1,518,057	\$ 259,572	\$ —	\$ 1,777,629
Securities available for sale	6,891,869	302,690	6,589,179	—	6,891,869
Securities held to maturity	1,147,947	—	1,122,660	—	1,122,660
Trading securities	56,025	22,645	33,380	—	56,025
Other securities	75,357	—	75,357	—	75,357
Loans (exclusive of allowance for loan loss)	12,550,999	—	12,624,340	—	12,624,340
Derivatives	20,567	—	20,567	—	20,567
FINANCIAL LIABILITIES					
Demand and savings deposits	18,467,002	18,467,002	—	—	18,467,002
Time deposits	898,213	—	898,213	—	898,213
Other borrowings	1,494,048	23,692	1,470,356	—	1,494,048
Long-term debt	81,608	—	81,869	—	81,869
Derivatives	5,140	—	5,140	—	5,140
OFF-BALANCE SHEET ARRANGEMENTS					
Commitments to extend credit for loans					1,288
Commercial letters of credit					31
Standby letters of credit					647

Fair Value Measurement at December 31, 2018 Using
Significant

	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Estimated Fair Value
FINANCIAL ASSETS					
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
FINANCIAL LIABILITIES					
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
OFF-BALANCE SHEET ARRANGEMENTS					
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 March 31, 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 months ended March 31, 2019 and March 31, 2018 presented in the Consolidated Statements of Income (in thousands):

	For the Three Months Ended	
	March 31, 2019	March 31, 2018
Total noninterest income	\$ —	\$ —
Total noninterest expense	—	917
Loss from discontinued operations	—	(917)
Income tax benefit	—	(170)
Net loss on discontinued operations	\$ —	\$ (747)

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):

	Three Months Ended March 31, 2019	2018
Loss from discontinued operations	\$ —	\$(747)
Depreciation and amortization	—	—
Net cash used in operating activities of discontinued operations	\$ —	\$(747)

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-month period ended March 31, 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 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 first quarter of 2019, total revenue increased 7.0 percent compared to the first quarter of 2018, while noninterest

expense increased 8.4 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 first quarter of 2019, the Company continued to make progress on this strategy as illustrated by an increase in net interest income of \$15.9 million, or 10.8 percent, from the same period in 2018. The Company has shown increased net interest income through the effects of increased interest rates and the volume and mix of average earning assets. These changes were offset by increased cost of funds in its Consolidated Balance Sheets. Average loan balances increased \$1.0 billion, or 9.0 percent compared to the same period in 2018. The funding for these assets was driven primarily by a 16.4 percent increase in average interest-bearing liabilities. Net interest margin, on a tax-equivalent basis, increased one basis point 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 \$1.9 million, or 1.8 percent, to \$107.4 million for the three months ended March 31, 2019, compared to the same period in 2018. 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 March 31, 2019, noninterest income represented 39.6 percent of total revenues, compared to 41.6 percent at March 31, 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 March 31, 2019, the Company had \$2.4 billion in total shareholders' equity. This is an increase of \$183.5 million, or 8.5 percent, compared to total shareholders' equity at March 31, 2018. At March 31, 2019, the Company had a total risk-based capital ratio of 13.72 percent. The Company repurchased 61,765 shares of common stock at an average price of \$66.16 per share during the first quarter of 2019.

Earnings Summary

The following is a summary regarding the Company's earnings for the first quarter of 2019. The changes identified in the summary are explained in greater detail below. The Company recorded net income from continuing operations of \$57.7 million for the three-month period ended March 31, 2019, compared to \$57.5 million for the same period a year earlier. This represents a 0.4 percent increase over the three-month period ended March 31, 2018. Basic earnings per share from continuing operations for the first quarter of 2019 was \$1.19 per share (\$1.18 per share fully-diluted) compared to \$1.16 per share (\$1.15 per share fully-diluted) for the first quarter of 2018. Return on average assets and return on average common shareholders' equity for the three-month period ended March 31, 2019 were 1.02 and 10.48 percent, respectively, compared to 1.12 and 10.80 percent, respectively, for the three-month period ended March 31, 2018.

Net interest income for the three-month period ended March 31, 2019 increased \$15.9 million, or 10.8 percent, compared to the same period in 2018. For the three-month period ended March 31, 2019, average earning assets increased by \$2.0 billion, or 10.4 percent, compared to the same period in 2018. Net interest margin, on a

tax-equivalent basis, increased to 3.20 percent for the three-month period ended March 31, 2019, compared to 3.19 percent for the same period in 2018.

The provision for loan losses increased by \$2.4 million to \$12.4 million for the three-month period ended March 31, 2019, as compared to the same period in 2018. This change is the result of applying the Company's methodology for computing the allowance for loan losses. The Company's nonperforming loans decreased \$4.3

million to \$63.3 million at March 31, 2019, compared to March 31, 2018, and increased \$20.3 million, compared to December 31, 2018. The allowance for loan losses as a percentage of total loans decreased to 0.83 percent as of March 31, 2019, compared to 0.88 percent at March 31, 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 \$1.9 million, or 1.8 percent, for the three-month period ended March 31, 2019, compared to the same period in 2018. These changes are discussed in greater detail below under Noninterest Income.

Noninterest expense increased by \$14.8 million, or 8.4 percent, for the three-month period ended March 31, 2019, compared to the same period 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 rates paid on each affect net interest income. Net interest income for the three-month period ended March 31, 2019 increased \$15.9 million, or 10.8 percent, compared to the same period 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 months ended March 31, 2019 decreased 20 basis points as compared to the same period in 2018. Net interest margin for the three months ended March 31, 2019 increased by one basis point compared to the same period in 2018. The changes are primarily due to favorable interest rate and volume variances on loans, offset by an increased rate variance on interest bearing deposits. These interest rate variances have led to 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 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 3.99 percent for the three-month period ended March 31, 2019 and 3.50 percent for the same period in 2018.

	Three Months Ended March 31,			
	2019	2018	2019	2018
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
ASSETS				
Loans, net of unearned interest	\$12,303,154	5.18 %	\$11,286,522	4.53 %
Securities:				
Taxable	4,301,121	2.39	3,868,977	2.07
Tax-exempt	3,623,164	2.93	3,635,573	2.64
Total securities	7,924,285	2.64	7,504,550	2.35
Federal funds and resell agreements	521,422	2.82	160,972	2.62
Interest-bearing due from banks	662,050	2.39	431,638	1.48
Other earning assets	46,408	4.40	44,592	4.44
Total earning assets	21,457,319	4.10	19,428,274	3.61
Allowance for loan losses	(105,444)		(101,502)	
Other assets	1,502,277		1,420,251	
Total assets	\$22,854,152		\$20,747,023	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest-bearing deposits	\$12,733,114	1.21 %	\$10,707,850	0.52 %
Federal funds and repurchase agreements	1,554,570	2.16	1,561,158	1.23
Borrowed funds	82,416	6.60	78,965	6.04
Total interest-bearing liabilities	14,370,100	1.34	12,347,973	0.65
Noninterest-bearing demand deposits	5,989,215		6,050,997	
Other liabilities	259,244		188,456	
Shareholders' equity	2,235,593		2,159,597	
Total liabilities and shareholders' equity	\$22,854,152		\$20,747,023	
Net interest spread		2.76 %		2.96 %
Net interest margin		3.20		3.19

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) remained flat for the three-month period ended March 31, 2019 compared to the same period in 2018. The benefit from interest-free funds increased by 21 basis points in the three-month period 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		
	Volume	Rate	Total
Change in interest earned on:			
Loans	\$11,991	\$19,136	\$31,127
Securities:			
Taxable	2,352	3,259	5,611
Tax-exempt	(95)	2,089	1,994
Federal funds sold and resell agreements	2,500	87	2,587
Interest-bearing due from banks	1,083	1,236	2,319
Trading	10	(6)	4
Interest income	17,841	25,801	43,642
Change in interest incurred on:			
Interest-bearing deposits	3,049	20,950	23,999
Federal funds purchased and repurchase agreements	(20)	3,552	3,532
Other borrowed funds	53	112	165
Interest expense	3,082	24,614	27,696
Net interest income	\$14,759	\$1,187	\$15,946

ANALYSIS OF NET INTEREST MARGIN

	Three Months Ended March 31,		
	2019	2018	Change
Average earning assets	\$21,457,319	\$19,428,274	\$2,029,045
Interest-bearing liabilities	14,370,100	12,347,973	2,022,127
Interest-free funds	\$7,087,219	\$7,080,301	\$6,918
Free funds ratio (interest free funds to average earning assets)	33.03	% 36.44	% (3.41)%
Tax-equivalent yield on earning assets	4.10	3.61	0.49
Cost of interest-bearing liabilities	1.34	0.65	0.69
Net interest spread	2.76	2.96	(0.20)
Benefit of interest-free funds	0.44	0.23	0.21
Net interest margin	3.20	% 3.19	% 0.01 %

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 \$12.4 million as provision for loan losses for the three-month period ended March 31, 2019, compared to \$10.0 million for the same period in 2018. As illustrated in Table 3 below, the ALL decreased to 0.83 percent of total loans as of March 31, 2019, compared to 0.88 percent of total loans as of March 31, 2018.

Table 3 presents a summary of the Company's ALL for the three months ended March 31, 2019 and 2018, and for the year ended December 31, 2018. Net charge-offs were \$12.3 million for the three months ended March 31, 2019, compared to \$10.3 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)

	Three Months Ended		Year Ended	
	March 31, 2019	2018	December 31, 2018	
Allowance-January 1	\$ 103,635	\$ 100,604	\$ 100,604	
Provision for loan losses	12,350	10,000	70,750	
Charge-offs:				
Commercial	(11,163)	(7,318)	(64,371)	
Consumer:				
Credit card	(2,252)	(2,294)	(8,601)	
Other	(215)	(406)	(1,143)	
Real estate	(114)	(1,742)	(3,428)	
Total charge-offs	(13,744)	(11,760)	(77,543)	
Recoveries:				
Commercial	626	471	6,753	
Consumer:				
Credit card	576	445	1,728	
Other	145	312	898	
Real estate	73	230	445	
Total recoveries	1,420	1,458	9,824	
Net charge-offs	(12,324)	(10,302)	(67,719)	
Allowance-end of period	\$ 103,661	\$ 100,302	\$ 103,635	
Average loans, net of unearned interest	\$ 12,301,655	\$ 11,285,248	\$ 11,604,633	
Loans at end of period, net of unearned interest	12,549,732	11,458,794	12,178,150	
Allowance to loans at end of period	0.83	% 0.88	% 0.85	%
Allowance as a multiple of net charge-offs	2.07x	2.40x	1.53x	
Net charge-offs to:				
Provision for loan losses	99.79	% 103.02	% 95.72	%
Average loans	0.41	0.37	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	Percent
	March 31,		Change	Change
	2019	2018	19-18	19-18
Trust and securities processing	\$41,957	\$44,002	\$(2,045)	(4.6)%
Trading and investment banking	5,581	4,101	1,480	36.1
Service charges on deposits	21,281	21,905	(624)	(2.8)
Insurance fees and commissions	338	301	37	12.3
Brokerage fees	7,243	6,353	890	14.0
Bankcard fees	17,067	18,123	(1,056)	(5.8)
Gains on sales of securities available for sale, net	809	139	670	>100.0
Other	13,106	10,601	2,505	23.6
Total noninterest income	\$107,382	\$105,525	\$1,857	1.8%

Noninterest income increased by \$1.9 million, or 1.8 percent, during the three months ended March 31, 2019, compared to the same period 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 decrease in these fees for the three-month period ended March 31, 2019, compared to the same period last year, was primarily due to a reduction in fund services and wealth management revenues, offset by an improvement in corporate trust revenue. Fund services revenue decreased \$2.5 million, or 11.2 percent, compared to the same period in 2018 due to customer repricing and losses. Wealth management revenue decreased \$0.8 million, or 4.7 percent, compared to the same period in 2018. These decreases were offset by an increase in corporate trust revenue of \$1.2 million, or 25.5 percent, compared to the same period in 2018. 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 the distribution channels.

Trading and investment banking fees for the three-month period ended March 31, 2019 increased \$1.5 million, or 36.1 percent, compared to the same period in 2018. This increase was driven by increased 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-month period ended March 31, 2019, increased \$0.9 million, or 14.0 percent, compared to the same period in 2018. These increases were driven by higher money market balances and the related 12b-1 fees.

Bankcard fees for the three-month period ended March 31, 2019, decreased \$1.1 million, or 5.8 percent, compared to the same period in 2018. These decreases were driven by lower interchange income coupled with increased rewards expense recorded as an offset to bankcard fees.

During the three-month period ended March 31, 2019, \$0.8 million in pre-tax gains were recognized on the sales of securities available for sale, compared to \$0.1 million for the same period 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-month period ended March 31, 2019, increased \$2.5 million, or 23.6 percent, primarily driven by increases in company-owned life insurance and derivative income, and partially offset by a decrease in equity earnings on alternative investments.

Table 5

SUMMARY OF NONINTEREST EXPENSE (unaudited, dollars in thousands)

	Three Months Ended		Dollar Change	Percent Change	
	March 31, 2019	2018			
Salaries and employee benefits	\$ 116,032	\$ 107,968	\$ 8,064	7.5	%
Occupancy, net	11,743	10,953	790	7.2	
Equipment	19,684	18,826	858	4.6	
Supplies and services	3,873	3,760	113	3.0	
Marketing and business development	4,913	5,034	(121)	(2.4)	
Processing fees	12,132	11,161	971	8.7	
Legal and consulting	5,633	3,844	1,789	46.5	
Bankcard	4,345	4,626	(281)	(6.1)	
Amortization of other intangible assets	1,327	1,562	(235)	(15.0)	
Regulatory fees	2,890	2,905	(15)	(0.5)	
Other	8,054	5,237	2,817	53.8	
Total noninterest expense	\$ 190,626	\$ 175,876	\$ 14,750	8.4	%

Noninterest expense increased by \$14.8 million, or 8.4 percent, for the three months ended March 31, 2019, compared to the same period 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 \$8.1 million, or 7.5 percent, for the three months ended March 31, 2019 compared to the same period in 2018. Salaries and wages increased \$1.7 million, or 2.5 percent, for the three months ended March 31, 2019, compared to the same period in 2018. Commissions and bonuses increased \$1.8 million, or 9.6 percent, for the three months ended March 31, 2019, compared to the same period in 2018 driven by higher commission expense. Employee benefits expense increased \$4.6 million, or 19.9 percent, for the three months ended March 31, 2019, compared to the same period in 2018 driven by higher deferred compensation expense.

Equipment expense increased \$0.9 million, or 4.6 percent, for the three months ended March 31, 2019, compared to the same period in 2018, primarily due to higher equipment maintenance and software costs.

Processing fees expense increased \$1.0 million, or 8.7 percent, for the three months ended March 31, 2019, compared to the same period in 2018, primarily due to system investments to support growth across the Company's business lines.

Legal and consulting expense increased \$1.8 million, or 46.5 percent, for the three months ended March 31, 2019, compared to the same period in 2018, primarily due to consulting costs on system investments to support growth across the Company's business lines.

Other noninterest expense increased \$2.8 million, or 53.8 percent, for the three months ended March 31, 2019, compared to the same period in 2018. The increase is primarily due to higher operating losses and higher derivative

expense.

Income Tax Expense

For the three months ended March 31, 2019, the Company's effective tax rate increased to 15.4 percent compared to 14.9 percent for the same period a year earlier. The increase is primarily a result of a decrease in excess tax benefits associated with stock compensation recorded in the first quarter of 2019 as compared to the same period in 2018.

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Strategic Lines of Business

Table 6

Commercial Banking Operating Results (unaudited, dollars in thousands)

	Three Months		Dollar Change	Percent Change	
	Ended March 31, 2019	2018			
Net interest income	\$99,814	\$91,917	\$7,897	8.6	%
Provision for loan losses	10,329	7,978	2,351	29.5	
Noninterest income	23,181	20,596	2,585	12.6	
Noninterest expense	66,820	62,125	4,695	7.6	
Income before taxes	45,846	42,410	3,436	8.1	
Income tax expense	7,071	6,300	771	12.2	
Income from continuing operations	\$38,775	\$36,110	\$2,665	7.4	%

For the three months ended March 31, 2019, Commercial Banking income from continuing operations increased \$2.7 million, or 7.4 percent, to \$38.8 million, as compared to the same period in 2018. Net interest income increased \$7.9 million, or 8.6 percent, for the three-month period ended March 31, 2019, compared to the same period in 2018, primarily driven by strong loan growth, increased interest rates, and earning asset mix changes. Provision for loan losses increased by \$2.4 million, 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, increased impaired loans, and increased net charge-offs. Noninterest income increased \$2.6 million, or 12.6 percent, over the same period in 2018 primarily due to an increase of \$2.9 million in other noninterest income driven by increased company-owned life insurance income and derivative income. Noninterest expense increased \$4.7 million, or 7.6 percent, to \$66.8 million for the three-month period ended March 31, 2019, compared to the same period in 2018. This increase was driven by a \$3.8 million increase in technology, service, and overhead expenses primarily for investments to support growth across the segment's lines of business. Additionally, there were increases of \$0.4 million and \$0.2 million in legal and consulting expense and processing fees, respectively.

Table 7

Institutional Banking Operating Results (unaudited, dollars in thousands)

	Three Months		Dollar Change	Percent Change
	Ended March 31, 2019	2018		
			19-18	19-18

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Net interest income	\$20,709	\$15,763	\$4,946	31.4	%
Provision for loan losses	286	350	(64)	(18.3)
Noninterest income	45,787	45,419	368	0.8	
Noninterest expense	52,613	46,879	5,734	12.2	
Income before taxes	13,597	13,953	(356)	(2.6)
Income tax expense	2,097	2,073	24	1.2	
Income from continuing operations	\$11,500	\$11,880	\$(380)	(3.2)%

For the three months ended March 31, 2019, Institutional Banking income from continuing operations decreased \$0.4 million, or 3.2 percent, compared to the same period last year. Net interest income increased \$4.9 million, or 31.4 percent, compared to the same period last year, due to an increase in deposits and related increase in funds transfer pricing driven by higher interest rates. Provision for loan losses decreased by \$64 thousand, 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, increased impaired loans, and increased net charge-offs. Noninterest income increased \$0.4 million, primarily due to an increase in Other noninterest income driven by higher company-owned life insurance income. Noninterest expense increased \$5.7 million, or 12.2 percent,

primarily driven by increases of \$2.3 million in increased technology, service, and overhead expenses for investments to support growth across the segment's lines of business, \$2.0 million in salary and employee benefits expense, and \$1.0 million in other noninterest expense primarily due to operational losses in the current quarter.

Table 8

Personal Banking Operating Results (unaudited, dollars in thousands)

	Three Months		Dollar Change 19-18	Percent Change 19-18	
	Ended March 31, 2019	2018			
Net interest income	\$32,302	\$30,944	\$1,358	4.4	%
Provision for loan losses	1,735	1,672	63	3.8	
Noninterest income	28,351	30,715	(2,364)	(7.7))
Noninterest expense	58,408	55,054	3,354	6.1	
Income before taxes	510	4,933	(4,423)	(89.7))
Income tax expense	79	733	(654)	(89.2))
Income from continuing operations	\$431	\$4,200	\$(3,769)	(89.7))%

For the three months ended March 31, 2019, Personal Banking income from continuing operations decreased \$3.8 million, or 89.7 percent, compared to the same period last year. Net interest income increased \$1.4 million, or 4.4 percent, compared to the same period last year due to increased interest rates. Provision for loan losses remained flat as compared to the same period last year, while noninterest income decreased \$2.4 million, or 7.7 percent, for the same period. This decrease is primarily driven by a decrease of \$1.8 million in equity earnings on alternative investments, and a decrease of \$1.0 million in trust services revenue, partially offset by an increase of \$0.3 million in bond trading income. Noninterest expense increased \$3.4 million, or 6.1 percent, primarily due to increased technology, service, and overhead expenses of \$2.7 million for investments to support growth across the segment's lines of business, coupled with increased salary and employee benefits expense of \$0.5 million.

Table 9

Healthcare Services Operating Results (unaudited, dollars in thousands)

	Three Months		Dollar Change 19-18	Percent Change 19-18	
	Ended March 31, 2019	2018			
Net interest income	\$11,043	\$9,298	\$1,745	18.8	%
Provision for loan losses	—	—	—	—	

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Noninterest income	10,063	8,795	1,268	14.4
Noninterest expense	12,785	11,818	967	8.2
Income before taxes	8,321	6,275	2,046	32.6
Income tax expense	1,283	932	351	37.7
Income from continuing operations	\$7,038	\$5,343	\$1,695	31.7 %

For the three months ended March 31, 2019, Healthcare Services income from continuing operations increased \$1.7 million, or 31.7 percent, compared to the same period last year. Net interest income increased \$1.7 million, or 18.8 percent, compared to the same period last year, due to an increase in number of accounts and deposits, coupled with increased funds transfer pricing credit on deposits. Noninterest income increased \$1.3 million, or 14.4 percent, as compared to the same period last year. This increase is primarily driven by increased deposit service charge income of \$0.8 million. Noninterest expense increased \$1.0 million, or 8.2 percent, primarily due to increased technology, service, and overhead expense of \$1.3 million for investments to support growth across the segment's lines of business, partially offset by a decrease of \$0.2 million in salary and employee benefits expense.

Balance Sheet Analysis

Total assets of the Company increased by \$205.6 million, or 0.9 percent, as of March 31, 2019, compared to December 31, 2018, primarily due to an increase in loan balances of \$371.6 million, or 3.1 percent, and an increase in AFS securities of \$349.1 million, or 5.3 percent, partially offset by a decrease in securities purchased under agreements to resell of \$366.9 million, or 58.6 percent.

Total assets of the Company increased \$2.6 billion, or 12.2 percent, as of March 31, 2019, compared to March 31, 2018, primarily due to an increase in loan balances of \$1.1 billion, or 9.5 percent, an increase in AFS securities of \$752.5 million, or 12.3 percent, and an increase in FRB account balances of \$441.2 million, or 67.9 percent.

Table 10

SELECTED FINANCIAL INFORMATION (unaudited, dollars in thousands)

	March 31,		December 31,
	2019	2018	2018
Total assets	\$23,556,760	\$20,987,904	\$23,351,119
Loans, net of unearned interest	12,550,999	11,463,380	12,181,342
Total investment securities	8,171,198	7,518,609	7,848,149
Interest-bearing due from banks	1,113,470	671,163	1,047,830
Total earning assets	21,996,778	19,680,058	21,600,687
Total deposits	19,365,215	17,218,265	19,281,260
Total borrowed funds	1,575,656	1,433,302	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 \$12.5 billion as of March 31, 2019, and increased \$371.6 million, or 3.1 percent, compared to December 31, 2018, and increased \$1.1 billion, or 9.5 percent, compared to March 31, 2018. Compared to December 31, 2018, commercial loans increased \$191.2 million, or 3.7 percent, and commercial real estate loans increased \$180.7 million, or 4.9 percent. Compared to March 31, 2018, commercial loans increased \$950.1 million, or 21.3 percent, and commercial real estate loans increased \$184.5 million, or 5.0 percent, partially offset by a decrease in HELOC loans of \$93.0 million, or 15.2 percent. The increase in total loans is driven by the Company's focus on generating higher-yielding earning assets by shifting assets from the securities portfolio to the loan portfolio.

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 \$8.2 billion as of March 31, 2019, and \$7.8 billion as of December 31, 2018, and comprised 37.1 percent and 36.3 percent of the Company's

earning assets, respectively, as of those dates.

The Company's AFS securities portfolio comprised 84.3 percent of the Company's investment securities portfolio at March 31, 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 57.7 months at March 31, 2019, compared to 56.8 months at December 31, 2018, and 54.8 months at March 31, 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 \$5.1 billion of AFS securities pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, derivative transactions, and repurchase agreements at March 31, 2019. Of this amount, securities with a market value of \$1.1 billion at March 31, 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 March 31, 2019, a decrease of \$22.7 million, or 1.9 percent, from December 31, 2018. The average life of the HTM portfolio was 6.9 years at both March 31, 2019 and December 31, 2018, and 7.1 years at March 1, 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 three months ended March 31, 2019, compared to 2.35 percent for the same period in 2018.

Deposits and Borrowed Funds

Deposits increased \$84.0 million, or 0.4 percent, from December 31, 2018 to March 31, 2019 and increased \$2.1 billion, or 12.5 percent, from March 31, 2018 to March 31, 2019. Total interest-bearing deposits increased \$315.6 million, partially offset by a decrease in non-interest bearing deposits of \$231.6 million as compared to December 31, 2018. Total interest-bearing deposits increased \$1.7 billion and noninterest-bearing deposits increased \$405.7 million from March 31, 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, as well as its trust and mutual fund servicing businesses, 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 \$81.6 million at March 31, 2019, compared to \$82.7 million as of December 31, 2018, and \$78.7 million as of March 31, 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 \$69.6 million as of March 31, 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 \$1.5 billion at both March 31, 2019 and December 31, 2018, and \$1.4 billion at March 31, 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 \$2.4 billion at March 31, 2019, a \$122.4 million increase compared to December 31, 2018, and a \$183.5 million increase compared to March 31, 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 three months ended March 31, 2019 and 2018, the Company acquired 61,765 shares and 80,307 shares 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 \$0.30 per share quarterly cash dividend payable on July 1, 2019, to shareholders of record at the close of business on June 10, 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 \$1.1 billion as of March 31, 2019. The Company had no outstanding FHLB advances at FHLB of Des Moines as of March 31, 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 March 31, 2019 is summarized in the table below and exceeded regulatory requirements.

Table 11

RATIOS	Three Months Ended March 31,	
	2019	2018
Common equity tier 1 capital ratio	12.70%	13.36%
Tier 1 risk-based capital ratio	12.70	13.36
Total risk-based capital ratio	13.72	14.45
Leverage ratio	9.65	10.20
Return on average assets	1.02	1.12
Return on average equity	10.48	10.80
Average equity to assets	9.78	10.41

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

Per Share Data	Three Months Ended March 31,	
	2019	2018
Earnings from continuing operations basic	\$1.19	\$1.16
Earnings from continuing operations diluted	1.18	1.15
Cash dividends	0.300	0.290
Dividend payout ratio	25.21%	25.00%
Book value	\$47.92	\$43.31

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 March 31, 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)

	Hypothetical change in interest rate – Rate Ramp			
	Year One		Year Two	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
	Percentage	Percentage	Percentage	Percentage
(basis points)	change	change	change	change
300	3.2 %	(0.7)%	9.4 %	4.6 %
200	1.7	(1.7)	5.4	1.3
100	0.4	(2.7)	1.5	(2.0)
Static	—	—	—	—
(100)	(2.5)	(0.4)	(5.8)	(6.4)

(200) (4.9) n/a (13.9) n/a

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Hypothetical change in interest rate – Rate Shock							
Year One				Year Two			
March 31, 2019		March 31, 2018		March 31, 2019		March 31, 2018	
Percentage		Percentage		Percentage		Percentage	
(basis points)	change	change		change	change		
300	8.5 %	2.6 %		11.3 %	7.7 %		
200	5.3	0.5		6.7	3.4		
100	2.1	(1.7)		2.0	(1.0)		
Static	—	—		—	—		
(100)	(5.2)	(5.0)		(7.1)	(8.8)		
(200)	(11.5)	n/a		(17.1)	n/a		

The Company is positioned slightly asset sensitive to changes in interest rates. For rate ramps and shocks, net interest income is predicted to increase in year one and two 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. 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 \$56.0 million as of March 31, 2019, \$61.0 million as of December 31, 2018, and \$65.4 million as of March 31, 2018. Securities sold not yet purchased (i.e. short positions) totaled \$19.8 million at March 31, 2019, \$27.2 million as of December 31, 2018, and \$9.5 million at March 31, 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 decreased \$4.3 million to \$63.3 million at March 31, 2019, compared to March 31, 2018, and increased \$20.3 million, compared to December 31, 2018.

The Company had \$3.3 million, \$1.6 million, and \$3.3 million of other real estate owned as of March 31, 2019 and 2018, and December 31, 2018, respectively. Loans past due more than 90 days and still accruing interest totaled \$1.9 million as of March 31, 2019, compared to \$5.7 million at March 31, 2018 and \$6.0 million as of December 31, 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 \$20.7 million of restructured loans at March 31, 2019, \$20.7 million at March 31, 2018, and \$21.1 million at December 31, 2018.

Table 13

LOAN QUALITY (unaudited, dollars in thousands)

	March 31,		December 31,	
	2019	2018	2018	
Nonaccrual loans	\$42,984	\$47,245	\$ 22,376	
Restructured loans on nonaccrual	20,286	20,359	20,642	
Total nonperforming loans	63,270	67,604	43,018	
Other real estate owned	3,285	1,557	3,338	
Total nonperforming assets	\$66,555	\$69,161	\$ 46,356	
Loans past due 90 days or more	\$1,874	\$5,650	\$ 6,009	
Restructured loans accruing	407	351	411	
Allowance for loan losses	103,661	100,302	103,635	
Ratios				
Nonperforming loans as a percent of loans	0.50	% 0.59	% 0.35	%
Nonperforming assets as a percent of loans plus other real estate owned	0.53	0.60	0.38	
Nonperforming assets as a percent of total assets	0.28	0.33	0.20	
Loans past due 90 days or more as a percent of loans	0.01	0.05	0.05	
Allowance for loan losses as a percent of loans	0.83	0.88	0.85	
Allowance for loan losses as a multiple of nonperforming loans	1.64x	1.48x	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 \$6.9 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 of due to the pledging restriction. At March 31, 2019, \$5.1 billion, or 73.9 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 \$1.1 billion at March 31, 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 March 31, 2019 was \$10.4 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 March 31, 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 \$1.1 billion through advances at the FHLB of Des Moines, but had no outstanding FHLB Des Moines advances as of March 31, 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 three-month period ended March 31, 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 months ended March 31, 2019.

ISSUER PURCHASE OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c)	(d)
			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
January 1 - January 31, 2019	19,389	\$ 67.44	19,389	924,338
February 1 - February 28, 2019	42,197	65.57	42,197	882,141
March 1 - March 31, 2019	179	65.54	179	881,962
Total	61,765	\$ 66.16	61,765	

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.

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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 filed herewith.
- 101.SCH XBRL Taxonomy Extension Schema filed herewith.
- 101.CAL XBRL Taxonomy Extension Calculation filed herewith.
- 101.DEF XBRL Taxonomy Extension Definition filed herewith.
- 101.LAB XBRL Taxonomy Extension Labels filed herewith.
- 101.PRE XBRL Taxonomy Extension Presentation filed herewith.

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: May 2, 2019