WINTRUST FINANCIAL CORP
Form 10-Q
August 08, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-35077

WINTRUST FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Illinois	36-3873352
(State of incorporation or organization)	(I.R.S. Employer Identification No.)

9700 W. Higgins Road, Suite 800
Rosemont, Illinois 60018
(Address of principal executive offices)

(847) 939-9000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Stock — no par value, 56,364,762 shares, as of July 31, 2018

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I
ITEM 1. FINANCIAL STATEMENTS
WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share data)	(Unaudited) June 30, 2018	December 31, 2017	(Unaudited) June 30, 2017
Assets			
Cash and due from banks	$304,580	$277,534	$296,105
Federal funds sold and securities purchased under resale agreements	62	57	56
Interest bearing deposits with banks	1,221,407	1,063,242	1,011,635
Available-for-sale securities, at fair value	1,940,787	1,803,666	1,649,636
Held-to-maturity securities, at amortized cost ($851.8 million, $812.5 million and $787.5 million fair value at June 30, 2018, December 31, 2017 and June 30, 2017 respectively)	890,834	826,449	793,376
Trading account securities	862	995	1,987
Equity securities with readily determinable fair value	37,839	—	—
Federal Home Loan Bank and Federal Reserve Bank stock	96,699	89,989	80,812
Brokerage customer receivables	16,649	26,431	23,281
Mortgage loans held-for-sale, at fair value	455,712	313,592	382,837
Loans, net of unearned income, excluding covered loans	22,610,560	21,640,797	20,743,332
Covered loans	—	—	50,119
Total loans	22,610,560	21,640,797	20,793,451
Allowance for loan losses	(143,402)	(137,905)	(129,591)
Allowance for covered loan losses	—	—	(1,074)
Net loans	22,467,158	21,502,892	20,662,786
Premises and equipment, net	639,345	621,895	605,211
Lease investments, net	194,160	212,335	191,248
Accrued interest receivable and other assets	666,673	567,374	577,359
Trade date securities receivable	450	90,014	133,130
Goodwill	509,957	501,884	500,260
Other intangible assets	21,414	17,621	19,546
Total assets	$29,464,588	$27,915,970	$26,929,265
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	$6,520,724	$6,792,497	$6,294,052
Interest bearing	17,844,755	16,390,850	16,311,640
Total deposits	24,365,479	23,183,347	22,605,692
Federal Home Loan Bank advances	667,000	559,663	318,270
Other borrowings	255,701	266,123	277,710
Subordinated notes	139,148	139,088	139,029
Junior subordinated debentures	253,566	253,566	253,566
Trade date securities payable	—	—	5,151
Accrued interest payable and other liabilities	676,823	537,244	490,389
Total liabilities	26,357,717	24,939,031	24,089,807
Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series D - $25 liquidation value; 5,000,000 shares issued and outstanding at June 30, 2018, December 31, 2017 and June 30, 2017	125,000	125,000	125,000

Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at June 30, 2018, December 31, 2017 and June 30, 2017; 56,436,564 shares issued at June 30, 2018, 56,068,220 shares issued at December 31, 2017 and 55,801,665 shares issued at June 30, 2017	56,437	56,068	55,802
Surplus	1,547,511	1,529,035	1,511,080
Treasury stock, at cost, 107,288 shares at June 30, 2018, 103,013 shares at December 31, 2017, and 101,738 shares at June 30, 2017	(5,355)	(4,986)	(4,884)
Retained earnings	1,464,494	1,313,657	1,198,997
Accumulated other comprehensive loss	(81,216)	(41,835)	(46,537)
Total shareholders’ equity	3,106,871	2,976,939	2,839,458
Total liabilities and shareholders’ equity	$29,464,588	$27,915,970	$26,929,265

See accompanying notes to unaudited consolidated financial statements.

1

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest income				
Interest and fees on loans	$255,063	$209,289	$490,057	$406,205
Mortgage loans held-for-sale	4,226	3,420	7,044	5,818
Interest bearing deposits with banks	3,243	1,634	6,039	3,257
Federal funds sold and securities purchased under resale agreements	1	1	1	2
Investment securities	19,888	15,524	39,016	29,097
Trading account securities	4	4	18	15
Federal Home Loan Bank and Federal Reserve Bank stock	1,455	1,153	2,753	2,223
Brokerage customer receivables	167	156	324	323
Total interest income	284,047	231,181	545,252	446,940
Interest expense				
Interest on deposits	35,293	18,471	61,842	34,741
Interest on Federal Home Loan Bank advances	4,263	2,933	7,902	4,523
Interest on other borrowings	1,698	1,149	3,397	2,288
Interest on subordinated notes	1,787	1,786	3,560	3,558
Interest on junior subordinated debentures	2,836	2,433	5,299	4,841
Total interest expense	45,877	26,772	82,000	49,951
Net interest income	238,170	204,409	463,252	396,989
Provision for credit losses	5,043	8,891	13,389	14,100
Net interest income after provision for credit losses	233,127	195,518	449,863	382,889
Non-interest income				
Wealth management	22,617	19,905	45,603	40,053
Mortgage banking	39,834	35,939	70,794	57,877
Service charges on deposit accounts	9,151	8,696	18,008	16,961
Gains (losses) on investment securities, net	12	47	(339)	(8)
Fees from covered call options	669	890	2,266	1,649
Trading gains (losses), net	124	(420)	227	(740)
Operating lease income, net	8,746	6,805	18,437	12,587
Other	14,080	18,110	25,916	30,358
Total non-interest income	95,233	89,972	180,912	158,737
Non-interest expense				
Salaries and employee benefits	121,675	106,502	234,111	205,818
Equipment	10,527	9,909	20,599	18,911
Operating lease equipment depreciation	6,940	5,662	13,473	10,298
Occupancy, net	13,663	12,586	27,430	25,687
Data processing	8,752	7,804	17,245	15,729
Advertising and marketing	11,782	8,726	20,606	13,876
Professional fees	6,484	7,510	13,133	12,170
Amortization of other intangible assets	997	1,141	2,001	2,305
FDIC insurance	4,598	3,874	8,960	8,030
OREO expense, net	980	739	3,906	2,404
Other	20,371	19,091	39,654	36,434
Total non-interest expense	206,769	183,544	401,118	351,662
Income before taxes	121,591	101,946	229,657	189,964

Income tax expense	32,011	37,049	58,096	66,689
Net income	$89,580	$64,897	$171,561	$123,275
Preferred stock dividends	2,050	2,050	4,100	5,678
Net income applicable to common shares	$87,530	$62,847	$167,461	$117,597
Net income per common share—Basic	$1.55	$1.15	$2.98	$2.20
Net income per common share—Diluted	$1.53	$1.11	$2.93	$2.11
Cash dividends declared per common share	$0.19	$0.14	$0.38	$0.28
Weighted average common shares outstanding	56,299	54,775	56,218	53,528
Dilutive potential common shares	928	1,812	909	2,981
Average common shares and dilutive common shares	57,227	56,587	57,127	56,509

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	$89,580	$64,897	$171,561	$123,275
Unrealized (losses) gains on available-for-sale securities				
Before tax	(9,455)	17,593	(45,639)	24,972
Tax effect	2,541	(6,910)	12,251	(9,810)
Net of tax	(6,914)	10,683	(33,388)	15,162
Reclassification of net gains (losses) on available-for-sale securities included in net income				
Before tax	(20)	47	(995)	(8)
Tax effect	8	(18)	270	3
Net of tax	(12)	29	(725)	(5)
Reclassification of amortization of unrealized gains and losses on investment securities transferred to held-to-maturity from available-for-sale				
Before tax	20	22	16	1,450
Tax effect	(5)	(9)	(4)	(570)
Net of tax	15	13	12	880
Net unrealized (losses) gains on available-for-sale securities	(6,917)	10,641	(32,675)	14,287
Unrealized gains (losses) on derivative instruments				
Before tax	1,082	(310)	4,157	1,305
Tax effect	(290)	123	(1,116)	(511)
Net unrealized gains (losses) on derivative instruments	792	(187)	3,041	794
Foreign currency adjustment				
Before tax	(2,660)	3,820	(6,513)	5,035
Tax effect	664	(987)	1,620	(1,325)
Net foreign currency adjustment	(1,996)	2,833	(4,893)	3,710
Total other comprehensive (loss) income	(8,121)	13,287	(34,527)	18,791
Comprehensive income	$81,459	$78,184	$137,034	$142,066

See accompanying notes to unaudited consolidated financial statements.

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at January 1, 2017	$251,257	$51,978	$1,365,781	$(4,589)	$1,096,518	$ (65,328)	$2,695,617
Net income	—	—	—	—	123,275	—	123,275
Other comprehensive income, net of tax	—	—	—	—	—	18,791	18,791
Cash dividends declared on common stock	—	—	—	—	(15,118)	—	(15,118)
Dividends on preferred stock	—	—	—	—	(5,678)	—	(5,678)
Stock-based compensation	—	—	5,746	—	—	—	5,746
Conversion of Series C preferred stock to common stock	(126,257)	3,121	123,136	—	—	—	—
Common stock issued for:							
Exercise of stock options and warrants	—	573	14,488	—	—	—	15,061
Restricted stock awards	—	79	(79)	(295)	—	—	(295)
Employee stock purchase plan	—	19	1,230	—	—	—	1,249
Director compensation plan	—	32	778	—	—	—	810
Balance at June 30, 2017	$125,000	$55,802	$1,511,080	$(4,884)	$1,198,997	$ (46,537)	$2,839,458
Balance at January 1, 2018	$125,000	$56,068	$1,529,035	$(4,986)	$1,313,657	$ (41,835)	$2,976,939
Cumulative effect adjustment from the adoption of:							
Accounting Standards Update ("ASU") 2016-01	—	—	—	—	1,880	(1,880)	—
ASU 2017-12	—	—	—	—	(116)	—	(116)
ASU 2018-02	—	—	—	—	2,974	(2,974)	—
Net income	—	—	—	—	171,561	—	171,561
Other comprehensive loss, net of tax	—	—	—	—	—	(34,527)	(34,527)
Cash dividends declared on common stock	—	—	—	—	(21,362)	—	(21,362)
Dividends on preferred stock	—	—	—	—	(4,100)	—	(4,100)
Stock-based compensation	—	—	7,098	—	—	—	7,098
Common stock issued for:							
Exercise of stock options and warrants	—	243	9,416	—	—	—	9,659
Restricted stock awards	—	92	(92)	(369)	—	—	(369)
Employee stock purchase plan	—	15	1,223	—	—	—	1,238
Director compensation plan	—	19	831	—	—	—	850
Balance at June 30, 2018	$125,000	$56,437	$1,547,511	$(5,355)	$1,464,494	$ (81,216)	$3,106,871

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Six Months Ended June 30, 2018	June 30, 2017
Operating Activities:		
Net income	$171,561	$123,275
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	13,389	14,100
Depreciation, amortization and accretion, net	31,986	29,958
Stock-based compensation expense	7,098	5,746
Net amortization of premium on securities	4,069	3,198
Accretion of discount on loans	(9,860)	(11,979)
Mortgage servicing rights fair value change, net	(3,664)	(1,265)
Originations and purchases of mortgage loans held-for-sale	(1,875,225)	(1,856,725)
Proceeds from sales of mortgage loans held-for-sale	1,770,257	1,928,870
Bank owned life insurance ("BOLI") income	(2,258)	(1,873)
Decrease in trading securities, net	133	2
Net decrease in brokerage customer receivables	9,782	1,900
Gains on mortgage loans sold	(49,200)	(43,547)
Losses on investment securities, net	339	8
Losses (gains) on sales of premises and equipment, net	18	(140)
Net losses on sales and fair value adjustments of other real estate owned	3,008	896
Increase in accrued interest receivable and other assets, net	(61,083)	(45,232)
Increase (decrease) in accrued interest payable and other liabilities, net	92,374	(21,393)
Net Cash Provided by Operating Activities	102,724	125,799
Investing Activities:		
Proceeds from maturities and calls of available-for-sale securities	133,209	143,983
Proceeds from maturities and calls of held-to-maturity securities	6,014	101,547
Proceeds from sales of available-for-sale securities	208,991	3,676
Proceeds from sales and capital distributions of equity securities without readily determinable fair value	616	—
Purchases of available-for-sale securities	(475,998)	(184,659)
Purchases of held-to-maturity securities	(70,993)	(256,094)
Purchases of equity securities without readily determinable fair value	(2,741)	—
(Purchase) redemption of Federal Home Loan Bank and Federal Reserve Bank stock, net	(6,710)	52,682
Net cash paid in business combinations	(18,708)	(284)
Proceeds from sales of other real estate owned	8,236	8,601
Proceeds received from the FDIC related to reimbursements on covered assets	—	791
Net increase in interest bearing deposits with banks	(160,456)	(31,178)
Net increase in loans	(937,503)	(1,032,772)
Redemption of BOLI	2,121	—
Purchases of premises and equipment, net	(32,318)	(26,260)
Net Cash Used for Investing Activities	(1,346,240)	(1,219,967)
Financing Activities:		
Increase in deposit accounts	1,182,140	947,150
(Decrease) increase in subordinated notes and other borrowings, net	(4,489)	15,163
Increase in Federal Home Loan Bank advances, net	107,000	163,000

Cash payments to settle contingent consideration liabilities recognized in business combinations	—	(1,058)
Issuance of common shares resulting from the exercise of stock options, employee stock purchase plan and conversion of common stock warrants	11,747	17,120
Common stock repurchases for tax withholdings related to stock-based compensation	(369)	(295)
Dividends paid	(25,462)	(20,796)
Net Cash Provided by Financing Activities	1,270,567	1,120,284
Net Decrease in Cash and Cash Equivalents	27,051	26,116
Cash and Cash Equivalents at Beginning of Period	277,591	270,045
Cash and Cash Equivalents at End of Period	$304,642	$296,161

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The consolidated financial statements of Wintrust Financial Corporation and Subsidiaries (“Wintrust” or the “Company”) presented herein are unaudited, but in the opinion of management reflect all necessary adjustments of a normal or recurring nature for a fair presentation of results as of the dates and for the periods covered by the consolidated financial statements.

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles ("GAAP"). The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K”). Operating results reported for the period are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management’s expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of the Company's significant accounting policies are included in Note 1 - “Summary of Significant Accounting Policies” of the 2017 Form 10-K.

(2) Recent Accounting Developments

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, which created “Revenue from Contracts with Customers (Topic 606),” to clarify the principles for recognizing revenue and develop a common revenue standard for customer contracts. This ASU provides guidance regarding how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also added a new subtopic to the codification, ASC 340-40, “Other Assets and Deferred Costs: Contracts with Customers” to provide guidance on costs related to obtaining and fulfilling a customer contract. Furthermore, the new standard requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. At the time ASU No. 2014-09 was issued, the guidance was effective for fiscal years beginning after December 15, 2016. In July 2015, the FASB approved a deferral of the effective date by one year, which resulted in the guidance becoming effective for the Company as of

January 1, 2018.

The FASB continued to issue various updates to clarify and improve specific areas of ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” to clarify the implementation guidance within ASU No. 2014-09 surrounding principal versus agent considerations and its impact on revenue recognition. In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” to also clarify the implementation guidance within ASU No. 2014-09 related to these two topics. In May 2016, the FASB issued ASU No. 2016-11, “Revenue Recognition (Topic 605) and Derivative and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting,” to remove certain areas of SEC Staff Guidance from those specific Topics. In May 2016 and December 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” and ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,” to clarify specific aspects of implementation, including the collectability criterion, exclusion of sales taxes collected from a transaction price, noncash consideration, contract modifications, completed contracts at transition, the applicability of loan guarantee fees, impairment of capitalized contract costs and certain disclosure requirements. In February 2017, the FASB issued ASU No. 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets,” to clarify the implementation guidance within ASU No. 2014-09 surrounding transfers of nonfinancial assets, including partial sales of such assets, and its impact on revenue recognition. Like ASU No. 2014-09, this guidance became effective for the Company starting January 1, 2018.

The Company adopted ASU No. 2014-09 and all subsequent updates issued to clarify and improve specific areas of this ASU as of January 1, 2018. As certain significant revenue sources related to financial instruments such as interest income are considered not in-scope, the new guidance did not have a significant impact on the Company's consolidated financial statements. Revenue sources impacted by the new guidance include brokerage and trust and asset management fees from the wealth management business unit, card-based fees, deposit-related fees and other non-interest income. During implementation, the Company reviewed specific contracts with customers across these various sources of revenue. Reviews of such contracts assisted in identifying any characteristics of such contracts that could result in a change in the Company's current practices for recognition of revenue and recognition of costs incurred to obtain or fulfill such contracts. After review of such contracts, the Company identified no indication within the terms of such contracts that a significant change in the Company's current practices and accounting policies was necessary. The Company elected to adopt the new guidance using the modified retrospective approach applied to all contracts as of the date of initial application at January 1, 2018. Electing the modified retrospective approach resulted in no cumulative effect adjustment to the opening balance of retained earnings at the date of initial application. Additional disclosures have been added in accordance with the new guidance. See Note 13 – Revenue from Contracts with Customers for discussion of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” to improve the accounting for financial instruments. This ASU requires equity securities with readily determinable fair values to be measured at fair value with changes recognized in net income. Such equity securities with readily determinable fair values are no longer classified as available-for-sale securities or trading securities within the consolidated financial statements of an entity. For equity securities without a readily determinable fair value, the value of the equity securities may be elected to be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer instead of fair value, unless a qualitative assessment indicates impairment. Additionally, this ASU requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements.

The Company adopted this guidance as of January 1, 2018. For equity securities with a readily determinable fair value, this guidance was applied under a modified retrospective approach with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. As of January 1, 2018, the Company reclassified approximately $1.9 million from accumulated other comprehensive income, related to previously recognized unrealized gains, net of deferred taxes, from equity securities with readily determinable fair values, to retained earnings. Equity securities with readily determinable fair values are now prospectively presented separate from available-for-sale securities and trading securities within the Company's Consolidated Statements of Condition. Additionally, for the six months ended June 30, 2018, the Company recognized $1.0 million of unrealized gains from equity securities with readily determinable fair values directly to earnings. For equity securities without a readily determinable fair value, the Company elected to measure such investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, unless a qualitative assessment indicates impairment, which was applied prospectively. Equity securities without readily determinable fair values are included within accrued interest receivable and other assets within the Company's Consolidated Statements of Condition. See Note 5 - Investment Securities for further discussion of equity securities with and without readily determinable fair values.

In January 2018, the FASB issued ASU No. 2018-03, “Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” to clarify certain aspects of the guidance issued in ASU No. 2016-01, including aspects of equity securities without a readily determinable fair value. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted. As these clarifications did not have a material impact on the Company's consolidated financial statements, the Company elected to early adopt this guidance as of January 1, 2018.

Table of Contents

Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” to improve transparency and comparability across entities regarding leasing arrangements. This ASU requires the recognition of a separate lease liability representing the required discounted lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Further, this ASU provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures to the notes of the financial statements. Additionally, in January 2018, the FASB issued ASU No. 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842," to permit an entity to elect an optional practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under existing accounting guidance. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach, including the option to apply certain practical expedients.

The FASB has continued to issue various updates to clarify and improve specific areas of ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases,” to clarify the implementation guidance within ASU No. 2016-02 surrounding narrow aspects of Topic 842, including lessee reassessment of lease classifications, the rate implicit in a lease, lessor reassessment of lease terms and purchase options and variable lease payments that depend on an index or a rate. Also, in July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements,” to clarify the implementation guidance within ASU No. 2016-02 surrounding comparative period reporting requirements for initial adoption as well as separating lease and non-lease components in a contract and allocating consideration in the contract to the separate components. Like ASU No. 2016-02, this guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach.

The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements. Excluding any impact from the clarification of contracts representing a lease, the Company expects to recognize separate lease liabilities and right to use assets for the amounts related to certain facilities under operating lease agreements disclosed in Note 15 - Minimum Lease Commitments in the 2017 Form 10-K. Additionally, the Company does not expect to significantly change operating lease agreements prior to adoption. The Company has established a committee consisting of individuals from various areas of the Company tasked with transitioning the Company to the new guidance requirements. The Company has obtained and reviewed lease agreements related to certain assets as well as other agreements with components representing a lease across its various business units to determine the impact of adoption on the Company's consolidated financial statements.

Derivatives

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” to improve the financial reporting of hedging relationships to better align the economic results of an entity’s risk management activities and disclosures within its financial statements. In addition, this ASU makes certain targeted improvements to simplify the application of the hedge accounting, including to derivative instruments as well as allow a one-time election to reclassify fixed-rate, prepayable debt securities from a held-to-maturity classification to an available-for-sale classification. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Guidance related to existing cash flow hedges and, if elected, fair value hedges is to be applied under a modified retrospective approach and guidance related to amended presentation and disclosures is to be applied under a prospective approach.

Early adoption is permitted as of the beginning of an annual period that has not been issued or made available for issuance. The Company elected to early adopt this guidance as of January 1, 2018. See Note 15 - Derivative Financial Instruments for further discussion of early adoption of this guidance. The impact of early adoption on the financial statements included the following:

- As allowed under the guidance, for certain existing derivative instruments designated as fair value hedges, the Company transitioned the measurement methodology for the related hedged item (loans) to be in accordance with the guidance without dedesignation of the hedging relationship. This resulted in a negative cumulative basis adjustment to loans of $116,000 with a corresponding adjustment to retained earnings.
- No fixed-rate, prepayable held-to-maturity securities were transferred to an available-for-sale classification.
- The entire change in the hedging instrument included in the assessment of hedge effectiveness of fair value hedges is presented in the same income statement line as the current impact of the effective portion of such hedge, or interest income and interest expense for interest rate hedging. The Company has previously recognized this ineffectiveness within non-interest income. For the first six months of 2018, the Company recognized $30,000 of such change in interest income.

Table of Contents

Allowance for Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” to replace the current incurred loss methodology for recognizing credit losses, which delays recognition until it is probable a loss has been incurred, with a methodology that reflects an estimate of all expected credit losses and considers additional reasonable and supportable forecasted information when determining credit loss estimates. This impacts the calculation of an allowance for credit losses for all financial assets measured under the amortized cost basis, including held-to-maturity debt securities and PCI loans at the time of and subsequent to acquisition. Additionally, credit losses related to available-for-sale debt securities would be recorded through the allowance for credit losses and not as a direct adjustment to the amortized cost of the securities. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach.

The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements as well as the impact on current systems and processes. Specifically, the Company has established a committee consisting of individuals from the various areas of the Company tasked with transitioning to the new requirements. At this time, the Company is reviewing potential accounting policy elections and potential methodologies for estimating expected credit losses using reasonable and supportable forecast information, and has identified certain historical data and system requirements and has reviewed options for platforms to build, store, execute and determine the financial impact.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force),” to clarify the presentation of specific types of cash flow receipts and payments, including the payment of debt prepayment or debt extinguishment costs, contingent consideration cash payments paid subsequent to the acquisition date and proceeds from settlement of BOLI policies. This guidance became effective as of January 1, 2018 and was applied under a retrospective approach resulting in additional disclosure, including cash payments made to settle contingent consideration liabilities recognized in prior business combinations.

In November 2016, the FASB issued ASU No. 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),” to clarify the classification and presentation of changes in restricted cash on the statement of cash flows. This guidance became effective as of January 1, 2018 and did not have a material impact on the Company.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,” to improve the accounting for intra-entity transfers of assets other than inventory. This ASU allows the recognition of current and deferred income taxes for such transfers prior to the subsequent sale of the transferred assets to an outside party. Initial recognition of current and deferred income taxes is currently prohibited for intra-entity transfers of assets other than inventory. This guidance became effective as of January 1, 2018 and did not have a material impact on the Company.

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017, and the Company recognized a provisional tax benefit of $7.6 million in 2017 to reflect the impact of the Tax Act, primarily reflecting estimated effects of a lower federal income tax rate on its net deferred tax liabilities and a transition tax due on the deferred earnings of the Company's Canadian subsidiary. Estimates were made in good faith and may change as additional information and interpretive guidance regarding provisions of the Tax Act become available. Staff Accounting Bulletin 118 provides a measurement period, not to extend beyond one year from the date of enactment, during which a company may complete the accounting for the impacts of the Tax Act. No adjustments were made to the provisional amounts in the first six months of 2018 and the Company expects to complete the accounting for the impacts of the Tax Act in the fourth quarter of 2018.

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” to improve such definition and, as a result, assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or as business combinations. The definition of a business impacts many areas of accounting including acquisitions, disposals, goodwill and consolidation. This guidance became effective as of January 1, 2018 and was applied under a prospective approach. See Note 3 - Business Combinations for further discussion of business combinations including the acquisition of certain assets and assumption of certain liabilities of the mortgage banking business of iFreedom Direct Corporation DBA Veterans First Mortgage ("Veterans First") during the current period.

Table of Contents

Goodwill

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” to simplify the subsequent measurement of goodwill. When the carrying amount of a reporting unit exceeds its fair value, an entity would no longer be required to determine goodwill impairment by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit was acquired in a business combination. Goodwill impairment would be recognized according to the excess of the carrying amount of the reporting unit over the calculated fair value of such unit. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied under a prospective approach. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Compensation

In March 2017, the FASB issued ASU No. 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” to improve the presentation of net periodic pension cost and net periodic post-retirement benefit cost. An entity will be required to report the service cost component of such costs in the same line item or items as other compensation costs related to services rendered. Additionally, only the service cost component will be eligible for capitalization when applicable. This guidance became effective as of January 1, 2018 and was applied under a retrospective approach related to presentation of the service cost component and a prospective approach related to capitalization of such costs. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” to clarify when modification accounting is appropriate for changes to the terms and conditions of a share-based payment award. An entity will be required to account for such changes as a modification unless certain criteria is met. This guidance became effective as of January 1, 2018 and was applied under a prospective approach for awards modified on or after the adoption date. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Amortization of Premium on Certain Debt Securities

In March 2017, the FASB issued ASU No. 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,” to amend the amortization period for certain purchased callable debt securities held at a premium. The amortization period for such securities will be shortened to the earliest call date. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach. Early adoption is permitted as of the beginning of an annual period that has not been issued or made available for issuance. The Company did not early adopt this guidance as of January 1, 2018. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Accumulated Other Comprehensive Income (Loss)

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” to allow a reclassification from accumulated other comprehensive income to retained earnings related to the stranded tax effects within other comprehensive income resulting from the Federal income tax rate reduction in the Tax Act. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied either in the period of adoption or retrospectively to each period or periods in which the effect of the Tax Act is recognized.

Early adoption is permitted as of the beginning of an annual period that has not been issued or made available for issuance. The Company elected to early adopt this guidance as of January 1, 2018 and applied such reclassification in the current period (period of adoption). As of January 1, 2018, the Company reclassified a stranded credit of $3.0 million from accumulated other comprehensive income to retained earnings. The Company has a policy for releasing the income tax effects from accumulated other comprehensive income using an individual security approach.

(3) Business Combinations

FDIC-Assisted Transactions

From 2010 to 2012, the Company acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of nine financial institutions in FDIC-assisted transactions. Loans comprised the majority of the assets acquired in nearly all of these FDIC-assisted transactions, of which eight such transactions were subject to loss sharing agreements with the

Table of Contents

FDIC whereby the FDIC agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned ("OREO"), and certain other assets. Additionally, clawback provisions within these loss share agreements with the FDIC required the Company to reimburse the FDIC for actual losses on covered assets that were lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to these loss sharing agreements as "covered loans" and uses the term "covered assets" to refer to covered loans, covered OREO and certain other covered assets during periods subject to such agreements.

As of dates subject to such agreements, the loans covered by the loss share agreements were classified and presented as covered loans and the estimated reimbursable losses were recorded as an FDIC indemnification asset or liability in the Consolidated Statements of Condition. The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date. Therefore, the Company only recognized a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration subsequent to the acquisition date. See Note 7 — Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion of the allowance on covered loans.

The loss share agreements with the FDIC covered realized losses on loans, foreclosed real estate and certain other assets and required the Company to record loss share assets and liabilities that were measured separately from the loan portfolios because they were not contractually embedded in the loans and were not transferable with the loans had the Company chosen to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets and liabilities were recorded as FDIC indemnification assets and other liabilities, respectively, on the Consolidated Statements of Condition as of dates covered by loss share agreements. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses reduced the FDIC indemnification assets. Reductions to expected losses, to the extent such reductions to expected losses were the result of an improvement to the actual or expected cash flows from the covered assets, also reduced the FDIC indemnification assets and, if necessary, increased any loss share liability when necessary reductions exceeded the current value of the FDIC indemnification assets. In accordance with the clawback provision noted above, the Company was required to reimburse the FDIC when actual losses were less than certain thresholds established for each loss share agreement. The balance of these estimated reimbursements in accordance with clawback provisions and any related amortization were adjusted periodically for changes in the expected losses on covered assets. On the Consolidated Statements of Condition as of dates subject to loss share agreements, estimated reimbursements from clawback provisions were recorded as a reduction to the FDIC indemnification asset or, if necessary, an increase to the loss share liability, which was included within accrued interest payable and other liabilities. In the second quarter of 2017, the Company recorded a $4.9 million reduction to the estimated loss share liability as a result of an adjustment related to such clawback provisions. Although these assets were contractual receivables from the FDIC and these liabilities were contractual payables to the FDIC, there were no contractual interest rates. Additional expected losses, to the extent such expected losses resulted in recognition of an allowance for covered loan losses, increased the FDIC indemnification asset or reduced the FDIC indemnification liability. The corresponding amortization was recorded as a component of non-interest income on the Consolidated Statements of Income during periods covered by loss share agreements.

The following table summarizes the activity in the Company's FDIC indemnification liability during the periods covered by loss share agreements indicated below:

(Dollars in thousands)	Three Months Ended	Six Months Ended

	June 30, 2017	June 30, 2017
Balance at beginning of period	$18,263	$16,701
Reductions from reimbursable expenses	(75)	(157)
Amortization	455	699
Changes in expected reimbursements to the FDIC for changes in expected credit losses and reimbursable expenses	(3,673)	(2,659)
Payments received from the FDIC	405	791
Balance at end of period	$15,375	$15,375

On October 16, 2017, the Company entered into agreements with the FDIC that terminate all existing loss share agreements with the FDIC. Under the terms of the agreements, the Company made a net payment of $15.2 million to the FDIC as consideration for the early termination of the loss share agreements. The Company recorded a pre-tax gain of approximately $0.4 million in the fourth quarter of 2017 to write off the remaining loss share asset, relieve the claw-back liability and recognize the payment to the FDIC.

Table of Contents

Mortgage Banking Acquisitions

On January 4, 2018, the Company acquired Veterans First with assets including mortgage-servicing-rights on approximately 10,000 loans, totaling an estimated $1.6 billion in unpaid principal balance. The Company recorded goodwill of $9.1 million on the acquisition.

On February 14, 2017, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of American Homestead Mortgage, LLC ("AHM"). The Company recorded goodwill of $999,000 on the acquisition.

Purchased Credit Impaired ("PCI") Loans

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. For PCI loans, expected future cash flows at the purchase date in excess of the fair value of loans are recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable (“accretable yield”). The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference and represents probable losses in the portfolio.

In determining the acquisition date fair value of PCI loans, and in subsequent accounting, the Company aggregates these purchased loans into pools of loans by common risk characteristics, such as credit risk rating and loan type. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. Subsequent decreases to the expected cash flows will result in a provision for loan losses.

The Company purchased a portfolio of life insurance premium finance receivables in 2009. These purchased life insurance premium finance receivables are valued on an individual basis. If credit related conditions deteriorate, an allowance related to these loans will be established as part of the provision for credit losses.

See Note 6—Loans, for additional information on PCI loans.

(4) Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Company considers cash and cash equivalents to include cash on hand, cash items in the process of collection, non-interest bearing amounts due from correspondent banks, federal funds sold and securities purchased under resale agreements with original maturities of three months or less. These items are included within the Company’s Consolidated Statements of Condition as cash and due from banks, and federal funds sold and securities purchased under resale agreements.

Table of Contents

(5) Investment Securities

The following tables are a summary of the investment securities portfolios as of the dates shown:

(Dollars in thousands)	June 30, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$30,506	$ —	$(290)	$30,216
U.S. Government agencies	114,692	17	(301)	114,408
Municipal	131,488	1,945	(840)	132,593
Corporate notes:				
Financial issuers	98,285	104	(4,012)	94,377
Other	1,000	—	—	1,000
Mortgage-backed: (1)				
Mortgage-backed securities	1,589,815	164	(70,815)	1,519,164
Collateralized mortgage obligations	51,617	5	(2,593)	49,029
Equity securities (2)	—	—	—	—
Total available-for-sale securities	$2,017,403	$ 2,235	$(78,851)	$1,940,787
Held-to-maturity securities				
U.S. Government agencies	$639,433	$ —	$(34,040)	$605,393
Municipal	251,401	927	(5,879)	246,449
Total held-to-maturity securities	$890,834	$ 927	$(39,919)	$851,842
Equity securities with readily determinable fair value (2)	$34,230	$ 4,783	$(1,174)	$37,839

(Dollars in thousands)	December 31, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$144,904	$ —	$(1,082)	$143,822
U.S. Government agencies	157,638	2	(725)	156,915
Municipal	113,197	2,712	(557)	115,352
Corporate notes:				
Financial issuers	30,309	43	(301)	30,051
Other	1,000	—	(1)	999
Mortgage-backed: (1)				
Mortgage-backed securities	1,291,695	446	(31,955)	1,260,186
Collateralized mortgage obligations	60,092	64	(617)	59,539
Equity securities (2)	34,234	3,357	(789)	36,802
Total available-for-sale securities	$1,833,069	$ 6,624	$(36,027)	$1,803,666
Held-to-maturity securities				
U.S. Government agencies	$579,062	$ 23	$(14,066)	$565,019
Municipal	247,387	2,668	(2,558)	247,497
Total held-to-maturity securities	$826,449	$ 2,691	$(16,624)	$812,516

(1) Consisting entirely of residential mortgage-backed securities, none of which are subprime.

(2) As a result of the adoption of ASU No. 2016-01 effective January 1, 2018, equity securities with readily determinable fair value are no longer presented within available-for-sale securities and are now presented as equity securities with readily determinable fair values in the Company's Consolidated Statements of Condition for the

current period.

Table of Contents

(Dollars in thousands)	June 30, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$119,804	$ —	$(723)	$119,081
U.S. Government agencies	158,162	22	(674)	157,510
Municipal	121,610	2,774	(264)	124,120
Corporate notes:				
Financial issuers	60,340	71	(810)	59,601
Other	1,000	—	(3)	997
Mortgage-backed: (1)				
Mortgage-backed securities	1,139,734	2,301	(31,704)	1,110,331
Collateralized mortgage obligations	42,845	433	(319)	42,959
Equity securities (2)	32,642	3,028	(633)	35,037
Total available-for-sale securities	$1,676,137	$ 8,629	$(35,130)	$1,649,636
Held-to-maturity securities				
U.S. Government agencies	$585,071	$ 556	$(7,461)	$578,166
Municipal	208,305	2,298	(1,280)	209,323
Total held-to-maturity securities	$793,376	$ 2,854	$(8,741)	$787,489

(1) Consisting entirely of residential mortgage-backed securities, none of which are subprime.

(2) As a result of the adoption of ASU No. 2016-01 effective January 1, 2018, equity securities with readily determinable fair value are no longer presented within available-for-sale securities and are now presented as equity securities with readily determinable fair values in the Company's Consolidated Statements of Condition for the current period.

Equity securities without readily determinable fair values totaled $24.7 million as of June 30, 2018. Equity securities without readily determinable fair values are included as part of accrued interest receivable and other assets in the Company's Consolidated Statements of Condition. In accordance with the adoption of ASU No. 2016-01, the Company recorded upward adjustments on such securities of $25,000 in the second quarter of 2018 and $156,000 on a year-to-date basis, related to observable price changes in orderly transactions for the identical or a similar investment of the same issuer. No downward adjustments of equity securities without readily determinable fair values were recorded during the current periods. The Company monitors its equity investments without a readily determinable fair values to identify potential transactions that may indicate an observable price change requiring adjustment to its carrying amount.

Table of Contents

The following table presents the portion of the Company’s available-for-sale and held-to-maturity investment securities portfolios which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities						
U.S. Treasury	$30,216	$(290)	$—	$—	$30,216	$(290)
U.S. Government agencies	11,127	(87)	99,799	(214)	110,926	(301)
Municipal	31,744	(438)	14,660	(402)	46,404	(840)
Corporate notes:						
Financial issuers	70,557	(3,759)	3,720	(253)	74,277	(4,012)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	600,141	(15,423)	914,167	(55,392)	1,514,308	(70,815)
Collateralized mortgage obligations	27,427	(1,247)	21,093	(1,346)	48,520	(2,593)
Total available-for-sale securities	$771,212	$(21,244)	$1,053,439	$(57,607)	$1,824,651	$(78,851)
Held-to-maturity securities						
U.S. Government agencies	$317,261	$(11,169)	$288,132	$(22,871)	$605,393	$(34,040)
Municipal	157,123	(3,702)	53,078	(2,177)	210,201	(5,879)
Total held-to-maturity securities	$474,384	$(14,871)	$341,210	$(25,048)	$815,594	$(39,919)

The Company conducts a regular assessment of its available-for-sale and held-to-maturity investment securities to determine whether securities are other-than-temporarily impaired considering, among other factors, the nature of the securities, credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows, market conditions and the Company’s ability to hold the securities through the anticipated recovery period.

The Company does not consider available-for-sale and held-to-maturity securities with unrealized losses at June 30, 2018 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily mortgage-backed securities, U.S. government agency securities and municipal securities.

Table of Contents

The following table provides information as to the amount of gross gains and losses, adjustments and impairment on investment securities and proceeds received through the sale or call of investment securities:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2018	2017	2018	2017
Realized gains on investment debt securities	$6	$48	$6	$48
Realized losses on investment debt securities	(26)	(1)	(1,001)	(56)
Net realized (losses) gains on investment debt securities	(20)	$47	(995)	$(8)
Unrealized gains on equity securities with readily determinable fair value	229	—	2,102	—
Unrealized losses on equity securities with readily determinable fair value	(222)	—	(1,065)	—
Net unrealized gains on equity securities with readily determinable fair value	7	—	1,037	—
Upward adjustments of equity securities without readily determinable fair values	25	—	156	—
Downward adjustments of equity securities without readily determinable fair values	—	—	—	—
Impairment of equity securities without readily determinable fair values	—	—	(537)	—
Adjustment and impairment, net, of equity securities without readily determinable fair values	25	—	(381)	—
Other than temporary impairment charges	—	—	—	—
Gains (losses) on investment securities, net	$12	$47	$(339)	$(8)
Proceeds from sales of available-for-sale securities	$—	$—	$208,991	$3,676
Proceeds from sales of equity securities with readily determinable fair value	—	—	—	—
Proceeds from sales and capital distributions of equity securities without readily determinable fair value	616	—	616	—

During the three months ended June 30, 2018, the Company recorded no impairment of equity securities without readily determinable fair values. On a year-to-date basis, the Company recorded impairment of equity securities without readily determinable fair values totaling $537,000. The Company conducts a quarterly assessment of its equity securities without a readily determinable fair values to determine whether impairment exists in such securities, considering, among other factors, the nature of the securities, financial condition of the issuer and expected future cash flows.

Table of Contents

The amortized cost and fair value of available-for-sale and held-to-maturity investment securities as of June 30, 2018, December 31, 2017 and June 30, 2017, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

	June 30, 2018		December 31, 2017		June 30, 2017	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities						
Due in one year or less	$147,550	$147,271	$300,833	$299,285	$125,706	$125,170
Due in one to five years	103,903	103,919	97,019	97,326	289,688	289,243
Due in five to ten years	117,799	114,640	33,947	35,029	38,213	39,463
Due after ten years	6,719	6,764	15,249	15,499	7,309	7,433
Mortgage-backed	1,641,432	1,568,193	1,351,787	1,319,725	1,182,579	1,153,290
Equity securities (1)	—	—	34,234	36,802	32,642	35,037
Total available-for-sale securities	$2,017,403	$1,940,787	$1,833,069	$1,803,666	$1,676,137	$1,649,636
Held-to-maturity securities						
Due in one year or less	$5,667	$5,658	$170	$171	$—	$—
Due in one to five years	32,392	31,863	38,392	38,012	32,925	32,776
Due in five to ten years	214,991	208,835	205,227	203,680	172,398	172,800
Due after ten years	637,784	605,486	582,660	570,653	588,053	581,913
Total held-to-maturity securities	$890,834	$851,842	$826,449	$812,516	$793,376	$787,489

(1) As a result of the adoption of ASU No. 2016-01 effective January 1, 2018, equity securities with readily determinable fair value are no longer presented within available-for-sale securities and are now presented as equity securities with readily determinable fair values in the Company's Consolidated Statements of Condition for the current period.

Securities having a fair value of $1.7 billion at June 30, 2018 as well as securities having a fair value of $1.7 billion and $1.5 billion at December 31, 2017 and June 30, 2017, respectively, were pledged as collateral for public deposits, trust deposits, Federal Home Loan Bank ("FHLB") advances, securities sold under repurchase agreements and derivatives. At June 30, 2018, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders’ equity.

Table of Contents

(6) Loans

The following table shows the Company's loan portfolio by category as of the dates shown:

(Dollars in thousands)	June 30, 2018		December 31, 2017		June 30, 2017	
Balance:						
Commercial	$7,289,060		$6,787,677		$6,406,289	
Commercial real estate	6,575,084		6,580,618		6,402,494	
Home equity	593,500		663,045		689,483	
Residential real estate	895,470		832,120		762,810	
Premium finance receivables—commercial	2,833,452		2,634,565		2,648,386	
Premium finance receivables—life insurance	4,302,288		4,035,059		3,719,043	
Consumer and other	121,706		107,713		114,827	
Total loans, net of unearned income, excluding covered loans	$22,610,560		$21,640,797		$20,743,332	
Covered loans	—		—		50,119	
Total loans	$22,610,560		$21,640,797		$20,793,451	
Mix:						
Commercial	32	%	31	%	31	%
Commercial real estate	29		30		31	
Home equity	3		3		3	
Residential real estate	4		4		3	
Premium finance receivables—commercial	12		12		13	
Premium finance receivables—life insurance	19		19		18	
Consumer and other	1		1		1	
Total loans, net of unearned income, excluding covered loans	100	%	100	%	100	%
Covered loans	—		—		—	
Total loans	100	%	100	%	100	%

The Company's loan portfolio is generally comprised of loans to consumers and small to medium-sized businesses located within the geographic market areas that the banks serve. The premium finance receivables portfolios are made to customers throughout the United States and Canada. The Company strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. Such diversification reduces the exposure to economic downturns that may occur in different segments of the economy or in different industries.

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $96.2 million at June 30, 2018, $87.0 million at December 31, 2017 and $81.0 million at June 30, 2017.

Total loans, excluding PCI loans, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $11.5 million at June 30, 2018, $9.3 million at December 31, 2017 and $6.5 million at June 30, 2017. PCI loans are recorded net of credit discounts. See "Acquired Loan Information at Acquisition - PCI Loans" below.

It is the policy of the Company to review each prospective credit in order to determine the appropriateness and, when required, the adequacy of security or collateral necessary to obtain when making a loan. The type of collateral, when required, will vary from liquid assets to real estate. The Company seeks to ensure access to collateral, in the event of default, through adherence to state lending laws and the Company's credit monitoring procedures.

Table of Contents

Acquired Loan Information at Acquisition—PCI Loans

As part of the Company's previous acquisitions, the Company acquired loans for which there was evidence of credit quality deterioration since origination (PCI loans) and determined that it was probable that the Company would be unable to collect all contractually required principal and interest payments. The following table presents the unpaid principal balance and carrying value for these acquired loans:

	June 30, 2018		December 31, 2017	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
PCI loans	$331,517	$311,317	$375,237	$350,690

See Note 7—Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with PCI loans at June 30, 2018.

Accretable Yield Activity - PCI Loans

Changes in expected cash flows may vary from period to period as the Company periodically updates its cash flow model assumptions for PCI loans. The factors that most significantly affect the estimates of gross cash flows expected to be collected, and accordingly the accretable yield, include changes in the benchmark interest rate indices for variable-rate products and changes in prepayment assumptions and loss estimates. The following table provides activity for the accretable yield of PCI loans:

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Accretable yield, beginning balance	$35,692	$45,762	$36,565	$49,408
Acquisitions	—	(105)	—	426
Accretable yield amortized to interest income	(4,152)	(5,477)	(8,771)	(11,076)
Accretable yield amortized to indemnification asset/liability (1)	—	(361)	—	(715)
Reclassification from non-accretable difference (2)	1,306	3,554	2,862	6,089
Increases in interest cash flows due to payments and changes in interest rates	1,501	2,137	3,691	1,378
Accretable yield, ending balance	$34,347	$45,510	$34,347	$45,510

(1) Represents the portion of the current period accreted yield, resulting from lower expected losses, applied to reduce the loss share indemnification asset or increase the loss share indemnification liability.
(2) Reclassification is the result of subsequent increases in expected principal cash flows.

Accretion to interest income accounted for under ASC 310-30 totaled $4.2 million and $5.5 million in the second quarter of 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, the Company recorded accretion to interest income of $8.8 million and $11.1 million, respectively. These amounts are included within interest and fees on loans in the Consolidated Statements of Income.

Table of Contents

(7) Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans

The tables below show the aging of the Company’s loan portfolio at June 30, 2018, December 31, 2017 and June 30, 2017:

As of June 30, 2018 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	$ 13,543	$ —	$ 1,384	$ 9,196	$ 4,597,666	$ 4,621,789
Franchise	2,438	—	408	—	954,493	957,339
Mortgage warehouse lines of credit	—	—	—	—	200,060	200,060
Asset-based lending	2,158	—	1,146	6,411	1,033,040	1,042,755
Leases	249	—	—	89	458,276	458,614
PCI - commercial (1)	—	882	126	227	7,268	8,503
Total commercial	18,388	882	3,064	15,923	7,250,803	7,289,060
Commercial real estate:						
Construction	1,554	—	—	1,098	804,583	807,235
Land	228	—	—	478	114,651	115,357
Office	1,333	—	207	1,403	891,406	894,349
Industrial	185	—	—	1,126	881,214	882,525
Retail	11,540	—	372	5,473	850,254	867,639
Multi-family	342	—	—	611	951,095	952,048
Mixed use and other	4,013	—	408	9,856	1,934,965	1,949,242
PCI - commercial real estate (1)	—	3,194	3,132	7,637	92,726	106,689
Total commercial real estate	19,195	3,194	4,119	27,682	6,520,894	6,575,084
Home equity	9,096	—	—	3,226	581,178	593,500
Residential real estate, including PCI	15,825	1,472	3,637	1,534	873,002	895,470
Premium finance receivables						
Commercial insurance loans	14,832	5,159	8,848	10,535	2,794,078	2,833,452
Life insurance loans	—	—	26,770	17,211	4,074,685	4,118,666
PCI - life insurance loans (1)	—	—	—	—	183,622	183,622
Consumer and other, including PCI	563	286	150	310	120,397	121,706
Total loans, net of unearned income	$ 77,899	$ 10,993	$ 46,588	$ 76,421	$ 22,398,659	$ 22,610,560

As of December 31, 2017 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	$ 11,260	$ —	$ 3,746	$ 13,392	$ 4,314,107	$ 4,342,505
Franchise	2,447	—	—	—	845,150	847,597
Mortgage warehouse lines of credit	—	—	—	4,000	190,523	194,523
Asset-based lending	1,550	—	283	10,057	968,576	980,466
Leases	439	—	3	1,958	410,772	413,172
PCI - commercial (1)	—	877	186	—	8,351	9,414
Total commercial	15,696	877	4,218	29,407	6,737,479	6,787,677
Commercial real estate						
Construction	3,143	—	—	200	742,171	745,514

Land	188	—	—	5,156	121,140	126,484
Office	2,438	—	—	4,458	887,937	894,833
Industrial	811	—	—	2,412	879,796	883,019
Retail	12,328	—	668	148	938,383	951,527
Multi-family	—	—	—	1,034	914,610	915,644
Mixed use and other	3,140	—	1,423	9,641	1,921,501	1,935,705
PCI - commercial real estate (1)	—	7,135	2,255	6,277	112,225	127,892
Total commercial real estate	22,048	7,135	4,346	29,326	6,517,763	6,580,618
Home equity	8,978	—	518	4,634	648,915	663,045
Residential real estate, including PCI	17,977	5,304	1,303	8,378	799,158	832,120
Premium finance receivables						
Commercial insurance loans	12,163	9,242	17,796	15,849	2,579,515	2,634,565
Life insurance loans	—	—	4,837	10,017	3,820,936	3,835,790
PCI - life insurance loans (1)	—	—	—	—	199,269	199,269
Consumer and other, including PCI	740	101	242	727	105,903	107,713
Total loans, net of unearned income	$ 77,602	$ 22,659	$ 33,260	$ 98,338	$ 21,408,938	$ 21,640,797

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

20

Table of Contents

As of June 30, 2017 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	$ 8,720	$—	$5,917	$12,658	$4,067,237	$4,094,532
Franchise	—	—	—	—	838,394	838,394
Mortgage warehouse lines of credit	—	—	—	2,361	232,282	234,643
Asset-based lending	936	—	983	7,293	862,694	871,906
Leases	535	—	—	60	356,009	356,604
PCI - commercial (1)	—	1,572	162	—	8,476	10,210
Total commercial	10,191	1,572	7,062	22,372	6,365,092	6,406,289
Commercial real estate:						
Construction	2,408	—	—	—	707,179	709,587
Land	202	—	—	6,455	105,496	112,153
Office	4,806	—	607	7,725	874,546	887,684
Industrial	2,193	—	—	709	789,889	792,791
Retail	1,635	—	—	15,081	903,778	920,494
Multi-family	354	—	—	1,186	813,058	814,598
Mixed use and other	5,382	—	713	7,590	2,005,265	2,018,950
PCI - commercial real estate (1)	—	8,768	322	3,303	133,844	146,237
Total commercial real estate	16,980	8,768	1,642	42,049	6,333,055	6,402,494
Home equity	9,482	—	855	2,858	676,288	689,483
Residential real estate, including PCI	14,292	775	1,273	300	746,170	762,810
Premium finance receivables						
Commercial insurance loans	10,456	5,922	4,951	11,713	2,615,344	2,648,386
Life insurance loans	—	1,046	—	16,977	3,474,686	3,492,709
PCI - life insurance loans (1)	—	—	—	—	226,334	226,334
Consumer and other, including PCI	439	125	331	515	113,417	114,827
Total loans, net of unearned income, excluding covered loans	$ 61,840	$ 18,208	$16,114	$96,784	$20,550,386	$20,743,332
Covered loans	1,961	2,504	113	598	44,943	50,119
Total loans, net of unearned income	$ 63,801	$ 20,712	$16,227	$97,382	$20,595,329	$20,793,451

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

The Company's ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, the Company operates a credit risk rating system under which our credit management personnel assign a credit risk rating (1 to 10 rating) to each loan at the time of origination and review loans on a regular basis.

Each loan officer is responsible for monitoring his or her loan portfolio, recommending a credit risk rating for each loan in his or her portfolio and ensuring the credit risk ratings are appropriate. These credit risk ratings are then ratified by the bank’s chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including: a borrower’s financial strength, cash flow coverage, collateral protection and guarantees.

The Company’s Problem Loan Reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company’s Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company’s Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company’s impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company’s Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

Through the credit risk rating process, loans are reviewed to determine if they are performing in accordance with the original contractual terms. If the borrower has failed to comply with the original contractual terms, further action may be required by the Company, including a downgrade in the credit risk rating, movement to non-accrual status, a charge-off or the establishment of a specific impairment reserve. If a loan amount, or portion thereof, is determined to be uncollectible, the loan’s credit risk rating is immediately downgraded to an 8 or 9 and the uncollectible amount is charged-off. Any loan that has a partial charge-off continues to be assigned a credit risk rating of an 8 or 9 for the duration of time that a balance remains outstanding. The Company undertakes a thorough and ongoing analysis to determine if additional impairment and/or charge-offs are appropriate and to begin a workout plan for the credit to minimize actual losses.

Table of Contents

If, based on current information and events, it is probable that the Company will be unable to collect all amounts due to it according to the contractual terms of the loan agreement, a specific impairment reserve is established. In determining the appropriate charge-off for collateral-dependent loans, the Company considers the results of appraisals for the associated collateral.

Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding PCI and covered loans. The remainder of the portfolio is considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, excluding covered loans, per the most recent analysis at June 30, 2018, December 31, 2017 and June 30, 2017:

(Dollars in thousands)	Performing June 30, 2018	December 31, 2017	June 30, 2017	Non-performing June 30, 2018	December 31, 2017	June 30, 2017	Total June 30, 2018	December 31, 2017	June 30, 2017
Loan Balances:									
Commercial									
Commercial, industrial and other	$4,608,246	$4,331,245	$4,085,812	$13,543	$11,260	$8,720	$4,621,789	$4,342,505	$4,094
Franchise	954,901	845,150	838,394	2,438	2,447	—	957,339	847,597	838,39
Mortgage warehouse lines of credit	200,060	194,523	234,643	—	—	—	200,060	194,523	234,64
Asset-based lending	1,040,597	978,916	870,970	2,158	1,550	936	1,042,755	980,466	871,90
Leases	458,365	412,733	356,069	249	439	535	458,614	413,172	356,60
PCI - commercial (1)	8,503	9,414	10,210	—	—	—	8,503	9,414	10,210
Total commercial	7,270,672	6,771,981	6,396,098	18,388	15,696	10,191	7,289,060	6,787,677	6,406,2
Commercial real estate									
Construction	805,681	742,371	707,179	1,554	3,143	2,408	807,235	745,514	709,58
Land	115,129	126,296	111,951	228	188	202	115,357	126,484	112,15
Office	893,016	892,395	882,878	1,333	2,438	4,806	894,349	894,833	887,68
Industrial	882,340	882,208	790,598	185	811	2,193	882,525	883,019	792,79
Retail	856,099	939,199	918,859	11,540	12,328	1,635	867,639	951,527	920,49
Multi-family	951,706	915,644	814,244	342	—	354	952,048	915,644	814,59
Mixed use and other	1,945,229	1,932,565	2,013,568	4,013	3,140	5,382	1,949,242	1,935,705	2,018,9
PCI - commercial real estate(1)	106,689	127,892	146,237	—	—	—	106,689	127,892	146,23
Total commercial real estate	6,555,889	6,558,570	6,385,514	19,195	22,048	16,980	6,575,084	6,580,618	6,402,4
Home equity	584,404	654,067	680,001	9,096	8,978	9,482	593,500	663,045	689,48
Residential real estate, including PCI	879,645	810,865	748,339	15,825	21,255	14,471	895,470	832,120	762,81
Premium finance receivables									
Commercial insurance loans	2,813,461	2,613,160	2,632,008	19,991	21,405	16,378	2,833,452	2,634,565	2,648,3
Life insurance loans	4,118,666	3,835,790	3,491,663	—	—	1,046	4,118,666	3,835,790	3,492,7
PCI - life insurance loans (1)	183,622	199,269	226,334	—	—	—	183,622	199,269	226,33
Consumer and other, including PCI	120,919	106,933	114,325	787	780	502	121,706	107,713	114,82

Total loans, net of unearned income, excluding covered loans	$22,527,278	$21,550,635	$20,674,282	$83,282	$90,162	$69,050	$22,610,560	$21,640,797	$20,74

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. See Note 6 - Loans for further discussion of these purchased loans.

22

Table of Contents

A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the six months ended June 30, 2018 and 2017 is as follows:

Three months ended June 30, 2018 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivables	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 57,636	$ 57,481	$ 9,860	$ 6,278	$ 7,333	$ 915	$ 139,503
Other adjustments	(1)	(27)	—	(2)	(14)	—	(44)
Reclassification from allowance for unfunded lending-related commitments	—	—	—	—	—	—	—
Charge-offs	(2,210)	(155)	(612)	(180)	(3,254)	(459)	(6,870)
Recoveries	666	2,387	171	1,522	975	49	5,770
Provision for credit losses	4,636	(2,026)	132	(1,282)	2,694	889	5,043
Allowance for loan losses at period end	$ 60,727	$ 57,660	$ 9,551	$ 6,336	$ 7,734	$ 1,394	$ 143,402
Allowance for unfunded lending-related commitments at period end	$ —	$ 1,243	$ —	$ —	$ —	$ —	$ 1,243
Allowance for credit losses at period end	$ 60,727	$ 58,903	$ 9,551	$ 6,336	$ 7,734	$ 1,394	$ 144,645
Individually evaluated for impairment	$ 4,406	$ 3,190	$ 732	$ 106	$ —	$ 120	$ 8,554
Collectively evaluated for impairment	55,834	55,611	8,819	6,199	7,734	1,274	135,471
Loans acquired with deteriorated credit quality	487	102	—	31	—	—	620
Loans at period end							
Individually evaluated for impairment	$ 55,948	$ 34,588	$ 9,917	$ 19,554	$ —	$ 603	$ 120,610
Collectively evaluated for impairment	7,224,562	6,433,615	583,583	798,175	6,952,118	119,399	22,111,452
Loans acquired with deteriorated credit quality	8,550	106,881	—	10,560	183,622	1,704	311,317
Loans held at fair value	—	—	—	67,181	—	—	67,181

Three months ended June 30, 2017 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivables	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 46,582	$ 52,633	$ 12,203	$ 5,530	$ 7,559	$ 1,312	$ 125,819
Other adjustments	(2)	(47)	—	(3)	22	—	(30)
Reclassification from allowance for unfunded lending-related commitments	92	14	—	—	—	—	106
Charge-offs	(913)	(1,985)	(1,631)	(146)	(1,878)	(175)	(6,728)
Recoveries	561	276	144	54	404	33	1,472
Provision for credit losses	6,038	1,448	418	708	245	95	8,952
Allowance for loan losses at period end	$ 52,358	$ 52,339	$ 11,134	$ 6,143	$ 6,352	$ 1,265	$ 129,591

Allowance for unfunded lending-related commitments at period end	$ 500	$ 1,205	$—	$—	$ —	$—	$ 1,705
Allowance for credit losses at period end	$ 52,858	$ 53,544	$ 11,134	$ 6,143	$ 6,352	$ 1,265	$ 131,296
Individually evaluated for impairment	$ 2,528	$ 1,473	$ 1,296	$ 764	$ —	$ 91	$ 6,152
Collectively evaluated for impairment	49,692	51,952	9,838	5,306	6,352	1,174	124,314
Loans acquired with deteriorated credit quality	638	119	—	73	—	—	830
Loans at period end							
Individually evaluated for impairment	$ 14,469	$ 34,690	$ 9,633	$ 20,859	$ —	$ 421	$ 80,072
Collectively evaluated for impairment	6,381,610	6,221,567	679,850	708,042	6,141,095	113,319	20,245,483
Loans acquired with deteriorated credit quality	10,210	146,237	—	3,736	226,334	1,087	387,604
Loans held at fair value	—	—	—	30,173	—	—	30,173

Six months ended June 30, 2018 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 57,811	$ 55,227	$ 10,493	$ 6,688	$ 6,846	$ 840	$ 137,905
Other adjustments	(2)	(51)	—	(5)	(26)	—	(84)
Reclassification from allowance for unfunded lending-related commitments	—	26	—	—	—	—	26
Charge-offs	(4,897)	(968)	(969)	(751)	(7,975)	(588)	(16,148)
Recoveries	928	4,074	294	1,562	1,360	96	8,314
Provision for credit losses	6,887	(648)	(267)	(1,158)	7,529	1,046	13,389
Allowance for loan losses at period end	$ 60,727	$ 57,660	$ 9,551	$ 6,336	$ 7,734	$ 1,394	$ 143,402
Allowance for unfunded lending-related commitments at period end	$ —	$ 1,243	$ —	$ —	$ —	$ —	$ 1,243
Allowance for credit losses at period end	$ 60,727	$ 58,903	$ 9,551	$ 6,336	$ 7,734	$ 1,394	$ 144,645

Six months ended June 30, 2017 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 44,493	$ 51,422	$ 11,774	$ 5,714	$ 7,625	$ 1,263	$ 122,291
Other adjustments	(21)	(83)	—	(7)	25	—	(86)
Reclassification from allowance for unfunded lending-related commitments	—	(32)	—	—	—	—	(32)
Charge-offs	(1,554)	(2,246)	(2,256)	(475)	(3,305)	(309)	(10,145)
Recoveries	834	830	209	232	1,016	174	3,295
Provision for credit losses	8,606	2,448	1,407	679	991	137	14,268
Allowance for loan losses at period end	$ 52,358	$ 52,339	$ 11,134	$ 6,143	$ 6,352	$ 1,265	$ 129,591
Allowance for unfunded lending-related commitments at period end	$ 500	$ 1,205	$ —	$ —	$ —	$ —	$ 1,705
Allowance for credit losses at period end	$ 52,858	$ 53,544	$ 11,134	$ 6,143	$ 6,352	$ 1,265	$ 131,296

A summary of activity in the allowance for covered loan losses for the three and six months ended June 30, 2017 is as follows:

(Dollars in thousands)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017

Balance at beginning of period	$	1,319		$	1,322	
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	(303		)	(838		)
Benefit attributable to FDIC loss share agreements	242			670		
Net provision for covered loan losses	(61		)	(168		)
Increase in FDIC indemnification liability	(242		)	(670		)
Loans charged-off	(120		)	(336		)
Recoveries of loans charged-off	178			926		
Net (charge-offs) recoveries	58			590		
Balance at end of period	$	1,074		$	1,074	

In conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. Additional expected losses, to the extent such expected losses resulted in the recognition of an allowance for loan losses, increased the FDIC loss share asset or reduced any FDIC loss share liability. The allowance for loan losses for loans acquired in FDIC-assisted transactions was determined without giving consideration to the amounts recoverable through loss share agreements (since the loss share agreements were separately accounted for and thus presented “gross” on the balance sheet). On the Consolidated Statements of Income, the provision for credit losses was reported net of changes in the amount recoverable under the loss share agreements. Reductions to expected losses, to the extent such reductions to expected losses were the result of an improvement to the actual or expected cash flows from the covered assets, reduced the FDIC loss share asset or increased any FDIC loss share liability. Additions to expected losses required an increase to the allowance

Table of Contents

for covered loan losses, and a corresponding increase to the FDIC loss share asset or reduction to any FDIC loss share liability. See “FDIC-Assisted Transactions” within Note 3 – Business Combinations for more detail.

On October 16, 2017, the Company entered into agreements with the FDIC that terminated all existing loss share agreements with the FDIC. As a result, the allowance for covered loan losses previously measured is included within the allowance for credit losses, excluding covered loans, presented above for subsequent periods. See Note 3 - Business Combinations for further discussion of the termination of FDIC loss share agreements.

Impaired Loans

A summary of impaired loans, including troubled debt restructurings ("TDRs"), is as follows:

	June 30,	December 31,	June 30,
(Dollars in thousands)	2018	2017	2017
Impaired loans (included in non-performing and TDRs):			
Impaired loans with an allowance for loan loss required (1)	$39,956	$36,084	$29,037
Impaired loans with no allowance for loan loss required	80,346	69,004	50,281
Total impaired loans (2)	$120,302	$105,088	$79,318
Allowance for loan losses related to impaired loans	$8,541	$8,023	$5,633
TDRs	$65,310	$49,786	$33,091

(1) These impaired loans require an allowance for loan losses because the estimated fair value of the loans or related collateral is less than the recorded investment in the loans.

(2) Impaired loans are considered by the Company to be non-accrual loans, TDRs or loans with principal and/or interest at risk, even if the loan is current with all payments of principal and interest.

Table of Contents

The following tables present impaired loans by loan class, excluding covered loans, for the periods ended as follows:

	As of June 30, 2018			For the Six Months Ended June 30, 2018	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$8,942	$ 9,022	$ 2,948	$9,458	$ 278
Franchise	2,399	2,399	1,208	2,415	68
Asset-based lending	469	469	225	529	20
Leases	2,062	2,091	25	2,126	54
Commercial real estate					
Construction	1,554	1,554	390	1,554	36
Land	1,500	1,500	1	1,533	34
Office	1,002	1,604	65	1,010	37
Industrial	—	—	—	—	—
Retail	15,252	15,441	2,497	15,267	344
Multi-family	1,205	1,205	14	1,214	22
Mixed use and other	1,510	1,722	210	1,822	53
Home equity	1,305	1,403	732	1,315	32
Residential real estate	2,450	2,702	106	2,472	59
Consumer and other	306	328	120	309	9
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$18,260	$ 19,731	$ —	$18,717	$ 211
Franchise	21,417	21,418	—	21,740	640
Asset-based lending	1,689	2,494	—	2,432	73
Leases	710	710	—	738	22
Commercial real estate					
Construction	1,320	3,663	—	2,606	96
Land	2,375	2,482	—	2,382	65
Office	1,380	2,075	—	1,387	58
Industrial	240	363	—	251	10
Retail	1,845	2,058	—	1,875	75
Multi-family	342	477	—	358	8
Mixed use and other	4,755	5,366	—	5,006	165
Home equity	8,612	12,977	—	8,818	324
Residential real estate	17,104	20,137	—	17,341	417
Consumer and other	297	421	—	304	10
Total impaired loans, net of unearned income	$120,302	$ 135,812	$ 8,541	$124,979	$ 3,220

Table of Contents

	As of December 31, 2017			For the Twelve Months Ended December 31, 2017	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$6,233	$ 7,323	$ 3,951	$7,220	$ 452
Franchise	—	—	—	—	—
Asset-based lending	948	949	355	1,302	72
Leases	2,331	2,337	158	2,463	117
Commercial real estate					
Construction	3,097	3,897	403	3,690	197
Land	—	—	—	—	—
Office	471	471	5	481	24
Industrial	408	408	40	414	25
Retail	15,599	15,657	1,336	15,736	624
Multi-family	—	—	—	—	—
Mixed use and other	1,567	1,586	379	1,599	77
Home equity	1,606	1,869	784	1,626	81
Residential real estate	3,798	3,910	586	3,790	146
Consumer and other	26	28	26	27	2
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$8,460	$ 12,259	$ —	$10,170	$ 683
Franchise	16,256	16,256	—	17,089	780
Asset-based lending	602	602	—	688	40
Leases	782	782	—	845	49
Commercial real estate					
Construction	1,367	1,678	—	1,555	84
Land	3,961	4,192	—	4,129	182
Office	2,438	6,140	—	3,484	330
Industrial	403	2,010	—	1,849	174
Retail	2,393	3,538	—	2,486	221
Multi-family	1,231	2,078	—	1,246	76
Mixed use and other	5,275	6,731	—	5,559	351
Home equity	7,648	11,648	—	9,114	603
Residential real estate	17,455	20,327	—	17,926	860
Consumer and other	733	890	—	773	48
Total impaired loans, net of unearned income	$105,088	$ 127,566	$ 8,023	$115,261	$ 6,298

Table of Contents

	As of June 30, 2017			For the Six Months Ended June 30, 2017	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$2,969	$ 3,006	$ 1,499	$3,061	$ 83
Franchise	—	—	—	—	—
Asset-based lending	511	512	293	704	21
Leases	2,504	2,508	235	2,578	62
Commercial real estate					
Construction	7,632	7,632	957	7,665	165
Land	1,750	1,750	7	1,750	32
Office	1,314	1,418	32	1,318	44
Industrial	—	—	—	—	—
Retail	1,582	1,631	130	1,596	40
Multi-family	1,513	1,513	27	1,518	28
Mixed use and other	1,455	1,531	302	1,478	35
Home equity	1,901	1,950	1,296	1,920	35
Residential real estate	5,815	6,090	764	5,731	118
Consumer and other	91	93	91	96	2
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$6,815	$ 7,785	$ —	$7,285	$ 213
Franchise	—	—	—	—	—
Asset-based lending	425	425	—	764	16
Leases	852	852	—	879	26
Commercial real estate					
Construction	1,504	1,504	—	1,534	33
Land	2,375	2,472	—	2,380	56
Office	3,973	5,074	—	4,076	131
Industrial	2,193	3,622	—	4,328	190
Retail	1,188	1,273	—	1,188	51
Multi-family	89	174	—	89	4
Mixed use and other	7,761	9,299	—	8,494	239
Home equity	7,732	11,260	—	8,906	258
Residential real estate	15,044	17,068	—	15,203	368
Consumer and other	330	434	—	333	11
Total impaired loans, net of unearned income	$79,318	$ 90,876	$ 5,633	$84,874	$ 2,261

TDRs

At June 30, 2018, the Company had $65.3 million in loans modified in TDRs. The $65.3 million in TDRs represents 94 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay.

The Company's approach to restructuring loans, excluding PCI loans, is built on its credit risk rating system which requires credit management personnel to assign a credit risk rating to each loan. In each case, the loan officer is responsible for recommending a credit risk rating for each loan and ensuring the credit risk ratings are appropriate. These credit risk ratings are then reviewed and approved by the bank's chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including a borrower's financial strength, cash flow coverage, collateral protection and guarantees. The Company's credit risk rating scale is one through ten with higher scores indicating higher risk. In the case of loans rated six or worse following modification, the Company's Managed Assets Division evaluates the loan and the credit risk rating and determines that the loan has been restructured to be reasonably assured of repayment and of performance according to the modified terms and is supported by a current, well-documented credit assessment of the borrower's financial condition and prospects for repayment under the revised terms.

A modification of a loan, excluding PCI loans, with an existing credit risk rating of 6 or worse or a modification of any other credit, which will result in a restructured credit risk rating of six or worse, must be reviewed for possible TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of these loans is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower

Table of Contents

that it would not otherwise consider. The modification of a loan, excluding PCI loans, where the credit risk rating is 5 or better both before and after such modification is not considered to be a TDR. Based on the Company's credit risk rating system, it considers that borrowers whose credit risk rating is 5 or better are not experiencing financial difficulties and therefore, are not considered TDRs.

All credits determined to be a TDR will continue to be classified as a TDR in all subsequent periods, unless the borrower has been in compliance with the loan's modified terms for a period of six months (including over a calendar year-end) and the current interest rate represents a market rate at the time of restructuring. The Managed Assets Division, in consultation with the respective loan officer, determines whether the modified interest rate represented a current market rate at the time of restructuring. Using knowledge of current market conditions and rates, competitive pricing on recent loan originations, and an assessment of various characteristics of the modified loan (including collateral position and payment history), an appropriate market rate for a new borrower with similar risk is determined. If the modified interest rate meets or exceeds this market rate for a new borrower with similar risk, the modified interest rate represents a market rate at the time of restructuring. Additionally, before removing a loan from TDR classification, a review of the current or previously measured impairment on the loan and any concerns related to future performance by the borrower is conducted. If concerns exist about the future ability of the borrower to meet its obligations under the loans based on a credit review by the Managed Assets Division, the TDR classification is not removed from the loan.

TDRs are reviewed at the time of the modification and on a quarterly basis to determine if a specific reserve is necessary. The carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral. Any shortfall is recorded as a specific reserve. The Company, in accordance with ASC 310-10, continues to individually measure impairment of these loans after the TDR classification is removed.

Each TDR was reviewed for impairment at June 30, 2018 and approximately $1.1 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. For TDRs in which impairment is calculated by the present value of future cash flows, the Company records interest income representing the decrease in impairment resulting from the passage of time during the respective period, which differs from interest income from contractually required interest on these specific loans. During the three months ended June 30, 2018 and 2017, the Company recorded $36,000 and $49,000, respectively, of interest income, which was reflected as a decrease in impairment. For the six months ended June 30, 2018 and 2017, the Company recorded $57,000 and $104,000, respectively, of interest income, which was reflected as a decrease in impairment.

TDRs may arise in which, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to OREO, which is included within other assets in the Consolidated Statements of Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. At June 30, 2018, the Company had $7.4 million of foreclosed residential real estate properties included within OREO. Furthermore, the recorded investment in residential mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process totaled $11.2 million and $12.4 million at June 30, 2018 and 2017, respectively.

The tables below present a summary of the post-modification balance of loans restructured during the three and six months ended June 30, 2018 and 2017, respectively, which represent TDRs:

Three months ended June 30, 2018 (Dollars in thousands)	Total (1)(2)		Extension at Below Market Terms (2)		Reduction of Interest Rate (2)		Modification to Interest-only Payments (2)		Forgiveness of Debt(2)	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	2	$ 12,827	1	$ 77	—	$ —	1	$ 12,750	—	$ —
Franchise	2	5,122	—	—	—	—	2	5,122	—	—
Leases	1	239	1	239	—	—	—	—	—	—
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Mixed use and other	1	85	1	85	1	85	—	—	—	—
Residential real estate and other	6	1,332	6	1,332	3	685	—	—	—	—
Total loans	12	$ 19,605	9	$ 1,733	4	$ 770	3	$ 17,872	—	$ —

(1) TDRs may have more than one modification representing a concession. As such, TDRs during the period may be represented in more than one of the categories noted above.

(2) Balances represent the recorded investment in the loan at the time of the restructuring.

29

Table of Contents

Three months ended June 30, 2017 (Dollars in thousands)	Total (1)(2)		Extension at Below Market Terms (2)		Reduction of Interest Rate (2)		Modification to Interest-only Payments (2)		Forgiveness of Debt(2)	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Franchise	—	—	—	—	—	—	—	—	—	—
Leases	—	—	—	—	—	—	—	—	—	—
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Mixed use and other	—	—	—	—	—	—	—	—	—	—
Residential real estate and other	4	2,210	4	2,210	3	2,161	—	—	—	—
Total loans	4	$ 2,210	4	$ 2,210	3	$ 2,161	—	$ —	—	$ —

(1) TDRs may have more than one modification representing a concession. As such, TDRs during the period may be represented in more than one of the categories noted above.

(2) Balances represent the recorded investment in the loan at the time of the restructuring.

During the three months ended June 30, 2018, twelve loans totaling $19.6 million were determined to be TDRs, compared to four loans totaling $2.2 million during the three months ended June 30, 2017. Of these loans extended at below market terms, the weighted average extension had a term of approximately 37 months during the quarter ended June 30, 2018 compared to 54 months for the quarter ended June 30, 2017. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 157 basis points and 195 basis points during the three months ended June 30, 2018 and 2017, respectively. Interest-only payment terms were approximately seven months during the three months ended June 30, 2018. Additionally, no principal balances were forgiven in the second quarter of 2018 and 2017.

Six months ended June 30, 2018 (Dollars in thousands)	Total (1)(2)	Extension at Below Market Terms (2)	Reduction of Interest Rate (2)	Modification to Interest-only Payments