UMB FINANCIAL CORP
Form 10-K
March 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-38481

UMB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Missouri | 43-0903811 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

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

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $1.00 Par Value | The NASDAQ Global Select Market |

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check One):

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

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

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

As of June 30, 2018, the aggregate market value of common stock outstanding held by nonaffiliates of the registrant was approximately $3,442,816,067 based on the closing price of the registrant’s common stock on the NASDAQ Global Select Market on that date.

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

| Class | Outstanding at February 22, 2019 |
|---|---|
| Common Stock, $1.00 Par Value | 49,053,206 |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Definitive Proxy Statement on Schedule 14A (“Proxy Statement”) to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on April 23, 2019, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

General

UMB Financial Corporation (together with its consolidated subsidiaries, unless the context requires otherwise, the Company) is a financial holding company that is headquartered in Kansas City, Missouri. The Company provides banking services and asset servicing to its customers in the United States and around the globe.

The Company was organized as a corporation under Missouri law in 1967 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHCA) and a financial holding company under the Gramm-Leach-Bliley Act of 1999, as amended (the GLBA). The Company currently owns all of the outstanding stock of one national bank and several nonbank subsidiaries.

The Company's national bank, UMB Bank, National Association (the Bank), has its principal office in Missouri and also has branches in Arizona, Colorado, Illinois, Kansas, Nebraska, Oklahoma, and Texas. The Bank offers a full complement of banking products and other services to commercial, retail, government, and correspondent-bank customers, including a wide range of asset-management, trust, bank-card, and cash-management services.

The Company also owns UMB Fund Services, Inc. (UMBFS), which is a significant nonbank subsidiary and that has offices in Milwaukee, Wisconsin, Chadds Ford, Pennsylvania, and Ogden, Utah. UMBFS provides fund accounting, transfer agency, and other services to mutual fund and alternative-investment groups.

Until November 17, 2017, the Company also owned Scout Investments, Inc. (Scout), which is an institutional asset-management company that offered domestic and international equity strategies through its Scout Asset Management Division and fixed income strategies through its Reams Asset Management division. On November 17, 2017, the Company closed on the sale of Scout to Carillon Tower Advisers, Inc., a Florida corporation, for a purchase price of approximately $172.5 million, after giving effect to customary purchase price adjustments.

On a full-time equivalent basis at December 31, 2018, the Company and its subsidiaries employed 3,573 persons.

Business Segments

The Company's products and services are grouped into four segments: Commercial Banking, Institutional Banking, Personal Banking, and Healthcare Services.

These segments and their financial results are described in detail in (i) the section of Management's Discussion and Analysis of Financial Condition and Results of Operations entitled Business Segments, which can be found in Part II, Item 7, pages 33 through 35, of this report and (ii) Note 12, "Business Segment Reporting," in the Notes to the Consolidated Financial Statements, which can be found in Part II, Item 8, pages 89 through 90 of this report.

Competition

The Company faces intense competition in each of its business segments and in all of the markets and geographic regions that the Company serves. Competition comes from both traditional and non-traditional financial-services providers, including banks, savings associations, finance companies, investment advisors, asset managers, mutual funds, private-equity firms, hedge funds, brokerage firms, mortgage-banking companies, credit-card companies, insurance companies, trust companies, securities processing companies, and credit unions.  Increasingly, financial-technology (fintech) companies are partnering with financial-services providers to compete with the Company for lending, payments, and other business. Many of the Company's competitors are not subject to the same kind or degree of supervision and regulation as the Company.

Competition is based on a number of factors. Banking customers are generally influenced by convenience, interest rates and pricing, personal experience, quality and availability of products and other services, lending limits, transaction execution, and reputation. Investment advisory services compete primarily on returns, expenses, third-party ratings, and the reputation and performance of managers. Asset servicing competes primarily on price, quality of services, and reputation. The Company and its competitors are all impacted to varying degrees by the overall economy and health of the financial markets.

The Company's ability to successfully compete in its chosen markets and regions also depends on the its ability to attract, retain, and motivate talented employees, to invest in technology and infrastructure, and to innovate, all the while effectively managing its expenses. The Company expects that competition will likely intensify in the future.

Government Monetary and Fiscal Policies

In addition to the impact of general economic conditions, the Company's business, results of operations, financial condition, capital, liquidity, and prospects are significantly affected by government monetary and fiscal policies that are announced or implemented in the United States and abroad.

A sizeable influence is exerted, in particular, by the policies of the Board of Governors of the Federal Reserve System (the FRB), which influences monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates. Among the FRB's policy tools are (1) open market operations (that is, purchases or sales of securities in the open market to adjust the supply of reserve balances in order to achieve targeted federal funds rates or to put pressure on longer-term interest rates in order to achieve more desirable levels of economic activity and job creation), (2) the discount rate charged on loans by the Federal Reserve Banks, (3) the level of reserves required to be held by depository institutions against specified deposit liabilities, (4) the interest paid or charged on balances maintained with the Federal Reserve Banks by depository institutions, including balances used to satisfy their reserve requirements, and (5) other deposit and loan facilities.

The FRB and its policies have a substantial impact on the availability and demand for loans and deposits, the rates and other aspects of pricing for loans and deposits, and the conditions in equity, fixed income, currency, and other markets in which the Company operates. Policies announced or implemented by other central banks around the world have a meaningful effect as well and sometimes may be coordinated with those of the FRB.

Tax and other fiscal policies, moreover, impact not only general economic conditions but also give rise to incentives or disincentives that affect how the Company and its customers prioritize objectives, operate businesses, and deploy resources.

Regulation and Supervision

The Company is subject to regulatory frameworks in the United States at federal, State, and local levels. In addition, the Company is subject to the direct supervision of various government authorities charged with overseeing the kinds of financial activities conducted by its business segments.

This section summarizes some pertinent provisions of the principal laws and regulations that apply to the Company. The descriptions, however, are not complete and are qualified in their entirety by the full text and judicial or administrative interpretations of those laws and regulations and other laws and regulations that affect the Company.

Overview

The Company is a bank holding company under the BHCA and a financial holding company under the GLBA. As a result, the Company—including all of its businesses and operations—is subject to the regulation, supervision, and examination of the FRB and to restrictions on permissible activities. This framework of regulation, supervision, and examination is intended primarily for the protection and benefit of depositors and other customers of the Bank, the Deposit Insurance Fund (the DIF) of the Federal Deposit Insurance Corporation (the FDIC), the banking and financial systems as a whole, and the broader economy, not for the protection or benefit of the Company's shareholders or its non-deposit creditors.

Many of the Company's subsidiaries are also subject to separate or related forms of regulation, supervision, and examination, including: (1) the Bank by the Office of the Comptroller of the Currency (the OCC) under the National Banking Acts, the FDIC under the Federal Deposit Insurance Act (the FDIA), and the Consumer Financial Protection Bureau (the CFPB) under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act); (2) UMBFS, UMB Distribution Services, LLC, UMB Financial Services, Inc., and Prairie Capital

Management, LLC by the Securities and Exchange Commission (the SEC) and State regulatory authorities under federal and State securities laws, and UMB Distribution Services, LLC and UMB Financial Services, Inc. by the Financial Industry Regulatory Authority (FINRA); and (3) UMB Insurance, Inc. by State regulatory authorities under applicable State insurance laws. These regulatory schemes, like those overseen by the FRB, are designed to protect public or private interests that often are not aligned with those of the Company’s shareholders or non-deposit creditors.

The FRB possesses extensive authorities and powers to regulate the conduct of the Company’s businesses and operations. If the FRB were to take the position that the Company or any of its subsidiaries have violated any law or commitment or engaged in any unsafe or unsound practice, formal or informal corrective or enforcement actions could be taken by the FRB against the Company, its subsidiaries, and institution-affiliated parties (such as directors, officers, and agents). These enforcement actions could include an imposition of civil monetary penalties and could directly affect not only the Company, its subsidiaries, and institution-affiliated parties but also the Company’s counterparties, shareholders, and creditors and its commitments, arrangements, or other dealings with them. The OCC has similarly expansive authorities and powers over the Bank and its subsidiaries, as does the CFPB over matters involving consumer financial laws. The SEC, FINRA, and other domestic or foreign government authorities also have an array of means at their disposal to regulate and enforce matters within their jurisdiction that could impact the Company’s businesses and operations.

Restrictions on Permissible Activities and Corporate Matters

Under the BHCA, bank holding companies and their subsidiaries are generally limited to the business of banking and to closely-related activities that are incidental to banking.

As a bank holding company that has elected to become a financial holding company under the GLBA, the Company is also able—directly or indirectly through its subsidiaries—to engage in activities that are financial in nature, that are incidental to a financial activity, or that are complementary to a financial activity and do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. Activities that are financial in nature include: (1) underwriting, dealing in, or making a market in securities, (2) providing financial, investment, or economic advisory services, (3) underwriting insurance, and (4) merchant banking.

The Company’s ability to directly or indirectly engage in these banking and financial activities, however, is subject to conditions and other limits imposed by law or the FRB and, in some cases, requires the approval of the FRB or other government authorities. These conditions or other limits may arise due to the particular type of activity or, in other cases, may apply to the Company’s business more generally. Examples of the former are the substantial restrictions on the timing, amount, form, substance, interconnectedness, and management of the Company’s merchant banking investments. An example of the latter is a condition that, in order for the Company to engage in broader financial activities, its depository institutions must remain “well capitalized” and “well managed” under applicable banking laws and must receive at least a “satisfactory” rating under the Community Reinvestment Act (CRA).

Under amendments to the BHCA promulgated by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and the Dodd-Frank Act, the Company may acquire banks outside of its home State of Missouri, subject to specified limits and may establish new branches in other States to the same extent as banks chartered in those States. Under the BHCA, however, the Company must procure the prior approval of the FRB and possibly other government authorities to directly or indirectly acquire ownership or control of five percent or more of any class of voting securities of, or substantially all of the assets of, an unaffiliated bank, savings association, or bank holding company. In deciding whether to approve any acquisition or branch, the FRB, the OCC, and other government authorities will consider public or private interests that may not be aligned with those of the Company’s shareholders or non-deposit creditors. The FRB also has the power to require the Company to divest any depository institution that cannot maintain its “well capitalized” or “well managed” status.

The FRB maintains a targeted policy that requires a bank holding company to inform and consult with the staff of the FRB sufficiently in advance of (1) declaring and paying a dividend that could raise safety and soundness concerns (for example, a dividend that exceeds earnings in the period for which the dividend is being paid), (2) redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses, or (3) redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of the quarter in the amount of those equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.

Requirements Affecting the Relationships among the Company, Its Subsidiaries, and Other Affiliates

The Company is a legal entity separate and distinct from the Bank, UMBFS, and its other subsidiaries but receives the vast majority of its revenue in the form of dividends from those subsidiaries. Without the approval of the OCC, however, dividends payable by the Bank in any calendar year may not exceed the lesser of (1) the current year's net income combined with the retained net income of the two preceding years and (2) undivided profits. In addition, under the Basel III capital-adequacy standards described below under the heading "Capital-Adequacy Standards," the Bank is currently required to maintain a capital conservation buffer in excess of its minimum risk-based capital ratios and will be restricted in declaring and paying dividends whenever the buffer is breached. The authorities and powers of the FRB, the OCC, and other government authorities to prevent any unsafe or unsound practice also could be employed to further limit the dividends that the Bank or the Company's other subsidiaries may declare and pay to the Company.

The Dodd-Frank Act requires a bank holding company like the Company to serve as a source of financial strength for its depository-institution subsidiaries and to commit resources to support those subsidiaries in circumstances when the Company might not otherwise elect to do so. The functional regulator of any nonbank subsidiary of the Company, however, may prevent that subsidiary from directly or indirectly contributing its financial support, and if that were to preclude the Company from serving as an adequate source of financial strength, the FRB may instead require the divestiture of depository-institution subsidiaries and impose operating restrictions pending such a divestiture.

A number of laws, principally Sections 23A and 23B of the Federal Reserve Act (the FRA), and the FRB's Regulation W, also exist to prevent the Company and its nonbank subsidiaries from taking improper advantage of the benefits afforded to the Bank as a depository institution, including its access to federal deposit insurance and the discount window. These laws generally require the Bank and its subsidiaries to deal with the Company and its nonbank subsidiaries only on market terms and, in addition, impose restrictions on the Bank and its subsidiaries in directly or indirectly extending credit to or engaging in other covered transactions with the Company or its nonbank subsidiaries. The Dodd-Frank Act extended the restrictions to derivatives and securities lending transactions and expanded the restrictions for transactions involving hedge funds or private-equity funds that are owned or sponsored by the Company or its nonbank subsidiaries.

In addition, under the Volcker Rule, the Company is subject to extensive limits on proprietary trading and on owning or sponsoring hedge funds and private-equity funds. The limits on proprietary trading are largely directed toward purchases or sales of financial instruments by a banking entity as principal primarily for the purpose of short-term resale, a benefit from actual or expected short-term price movements, or the realization of short-term arbitrage profits. The limits on owning or sponsoring hedge funds and private-equity funds are designed to ensure that banking entities generally maintain only small positions in managed or advised funds and are not exposed to significant losses arising directly or indirectly from them. The Volcker Rule also provides for increased capital charges, quantitative limits, rigorous compliance programs, and other restrictions on permitted proprietary trading and fund activities, including a prohibition on transactions with a covered fund that would constitute a covered transaction under Sections 23A and 23B of the FRA.

Stress Testing and Enhanced Prudential Standards

The Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) was enacted in May 2018, amending requirements previously established in the Dodd-Frank Act, including stress testing and enhanced prudential standards.  Bank holding companies with assets of less than $100 billion, including the Company, are no longer subject to the requirement to conduct forward-looking, company-run stress testing, including publishing a summary of results.  The Company continues to run internal stress tests as a component of our comprehensive risk management and capital planning process.  In addition, the EGRRCPA increased the statutory asset threshold above which the Federal Reserve is required to apply enhanced prudential standards from $50 billion to $250 billion (subject to certain discretion by the Federal Reserve to apply any enhanced prudential standard requirement to any bank holding company with between $100 billion and $250 billion in total consolidated assets that would otherwise be exempt under EGRRCPA). The Company remains exempt from applying the enhanced prudential standards.

Capital-Adequacy Standards

The FRB and the OCC have adopted risk-based capital and leverage guidelines that require the capital-to-assets ratios of bank holding companies and national banks, respectively, to meet specified minimum standards.

The risk-based capital ratios are based on a banking organization's risk-weighted asset amounts (RWAs), which are generally determined under the standardized approach applicable to the Company and the Bank by (1) assigning on-balance-sheet exposures to broad risk-weight categories according to the counterparty or, if relevant, the guarantor or collateral (with higher risk weights assigned to categories of exposures perceived as representing greater risk) and (2) multiplying off-balance-sheet exposures by specified credit conversion factors to calculate credit equivalent amounts and assigning those credit equivalent amounts to the relevant risk-weight categories. The leverage ratio, in contrast, is based on an institution's average on-balance-sheet exposures alone.

The capital ratios for the Company and the Bank as of December 31, 2018, are set forth below:

| | Tier 1 Leverage Ratio | Tier 1 Risk-Based Capital Ratio | Common Equity Tier 1 Capital Ratio | Total Risk-Based Capital Ratio |
|---|---|---|---|---|
| UMB Financial Corporation | 9.87 | 12.89 | 12.89 | 13.95 |
| UMB Bank, n.a. | 8.85 | 11.65 | 11.65 | 12.29 |

These capital-to-assets ratios also play a central role in prompt corrective action (PCA), which is an enforcement framework used by the federal banking agencies to constrain the activities of banking organizations based on their levels of regulatory capital. Five categories have been established using thresholds for the total risk-based capital ratio, the tier 1 risk-based capital ratio, the common-equity tier 1 risk-based capital ratio, and the leverage ratio: (1) well capitalized, (2) adequately capitalized, (3) undercapitalized, (4) significantly undercapitalized, and (5) critically undercapitalized. While bank holding companies are not subject to the PCA framework, the FRB is empowered to compel a holding company to take measures—such as the execution of financial or performance guarantees—when prompt corrective action is required in connection with one of its depository-institution subsidiaries. At December 31, 2018, the Bank was well capitalized under the PCA framework.

Basel III includes a number of more rigorous provisions applicable only to banking organizations that are larger or more internationally active than the Company and the Bank. These include, for example, a supplementary leverage ratio incorporating off-balance-sheet exposures, a liquidity coverage ratio, and a net stable funding ratio. These standards may be informally applied or considered by the FRB and the OCC in their regulation, supervision, and examination of the Company and the Bank.

Deposit Insurance and Related Matters

The deposits of the Bank are insured by the FDIC in the standard insurance amount of $250 thousand per depositor for each account ownership category. This insurance is funded through assessments on the Bank and other insured depository institutions. Under the Dodd-Frank Act, each institution's assessment base is determined based on its average consolidated total assets less average tangible equity, and there is a scorecard method for calculating assessments that combines CAMELS (an acronym that refers to the five components of a bank's condition that are addressed: capital adequacy, asset quality, management, earnings, and liquidity) ratings and specified forward-looking financial measures to determine each institution's risk to the DIF. The Dodd-Frank Act also requires the FDIC, in setting assessments, to offset the effect of increasing its reserve for the DIF on institutions with consolidated assets of less than $10 billion. The result of this revised approach to deposit-insurance assessments is generally an increase in costs, on an absolute or relative basis, for institutions with consolidated assets of $10 billion or more.

If an insured depository institution such as the Bank were to become insolvent or if other specified events were to occur relating to its financial condition or the propriety of its actions, the FDIC may be appointed as conservator or receiver for the institution. In that capacity, the FDIC would have the power (1) to transfer assets and liabilities of the institution to another person or entity without the approval of the institution's creditors, (2) to require that its claims process be followed and to enforce statutory or other limits on damages claimed by the institution's creditors, (3) to enforce the institution's contracts or leases according to their terms, (4) to repudiate or disaffirm the institution's contracts or leases, (5) to seek to reclaim, recover, or recharacterize transfers of the institution's assets or to exercise control over assets in which the institution may claim an interest, (6) to enforce statutory or other injunctions, and (7) to exercise a wide range of other rights, powers, and authorities, including those that could impair the rights and interests of all or some of the institution's creditors. In addition, the administrative expenses of the conservator or receiver could be afforded priority over all or some of the claims of the institution's creditors, and under the FDIA, the claims of depositors (including the FDIC as subrogee of depositors) would enjoy priority over the claims of the institution's unsecured creditors.

The FDIA also provides that an insured depository institution can be held liable for any loss incurred or expected to be incurred by the FDIC in connection with another commonly controlled insured depository institution that is in default or in danger of default. This cross-guarantee liability is generally superior in right of payment to claims of the institution's holding company and its affiliates.

Other Regulatory and Supervisory Matters

As a public company, the Company is subject to the Securities Act of 1933, as amended (the Securities Act), the Securities Exchange Act of 1934, as amended (the Exchange Act), the Sarbanes-Oxley Act of 2002, and other federal and State securities laws. In addition, because the Company's common stock is listed with The NASDAQ Stock Market LLC (NASDAQ), the Company is subject to the listing rules of that exchange.

The Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), the USA PATRIOT Act of 2001, and related laws require all financial institutions, including banks and broker-dealers, to establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. These laws include a variety of recordkeeping and reporting requirements (such as currency and suspicious activity reporting) as well as know-your-customer and due-diligence rules.

Under the CRA, the Bank has a continuing and affirmative obligation to help meet the credit needs of its local communities—including low- and moderate-income neighborhoods—consistent with safe and sound banking practices. The CRA does not create specific lending programs but does establish the framework and criteria by which the OCC regularly assesses the Bank's record in meeting these credit needs. The Bank's ratings under the CRA are taken into account by the FRB and the OCC when considering merger or other specified applications that the Company or the Bank may submit from time to time.

The Bank is subject as well to a vast array of consumer-protection laws, such as qualified-mortgage and other mortgage-related rules under the jurisdiction of the CFPB. Lending limits, restrictions on tying arrangements, limits on permissible interest-rate charges, and other laws governing the conduct of banking or fiduciary activities are also applicable to the Bank. In addition, the GLBA imposes on the Company and its subsidiaries a number of obligations relating to financial privacy.

Statistical Disclosure

The information required by Guide 3, "Statistical Disclosure by Bank Holding Companies," has been included in Part II, Items 6, 7, and 7A, pages 20 through 55, of this report.

Executive Officers of the Registrant.  The following are the executive officers of the Company, each of whom is appointed annually, and there are no arrangements or understandings between any of the executive officers and any other person pursuant to which such person was elected as an executive officer.

| Name | Age | Position with Registrant |
|---|---|---|
| Dana H. Abraham | 54 | Ms. Abraham has served as the President of Private Wealth Management of the Bank since September 2018.  Prior to that time, Ms. Abraham served at the Bank as the President of Personal banking from July 2015 to September 2018 and as President of Private Wealth Management from May 2009 to July 2015. |
| | 57 | |

| | | |
|---|---|---|
| James Cornelius | | Mr. Cornelius has served as the President of Institutional Banking for the Bank since June 2015. Prior to this time, he served as the President of Institutional Banking and Investor services from June 2012 until June 2015. |
| Shannon A. Johnson | 39 | Ms. Johnson has served as Executive Vice President and Chief Human Resources Officer of the Company since April 2015. Ms. Johnson's previous positions with the Company include Senior Vice President, Executive Director of Talent Management and Development, and Senior Vice President, Director of Talent Management. Ms. Johnson held these positions from May 2011 to April 2015, and December 2009 to May 2011, respectively. |

| | | |
|---|---|---|
| J. Mariner Kemper | 46 | Mr. Kemper has served as the President of the Company since November 2015 and as the Chairman and Chief Executive Officer of the Company since May 2004. He served as the Chairman and Chief Executive Officer of the Bank between December 2012 and January 2014, and as the Chairman of UMB Bank Colorado, n.a. (a prior subsidiary of the Company) between 2000 and 2012. He was President of UMB Bank Colorado from 1997 to 2000. Mr. Kemper is the brother of Mr. Alexander C. Kemper, who currently serves on the Company's Board of Directors. |
| Kevin M. Macke | 46 | Mr. Macke has served as Executive Vice President and Director of Operations for the Bank since November 2015. In addition, beginning in January 2014 and ending in December 2015, Mr. Macke served as the Chief Financial Officer of the Bank. Prior to this time, Mr. Macke held several other positions within the Company or the Bank, including Director of Strategic Technology Initiatives with the Bank from November 2010 to January 2014, and Director of Financial Planning and Analysis with the Company from August 2005 to November 2010. |
| J. Benjamin Morris | 44 | Mr. Morris was named the President of UMB Healthcare Services of the Bank in May 2015. Prior to this time, he served as a Vice President and Business Development Officer of UMB Healthcare Services. Mr. Morris has worked for the Bank since February 1998. |
| Jennifer M. Payne | 42 | Ms. Payne was named as Executive Vice President and Chief Risk Officer of the Company in January 2016. Prior to this time, she served the Company as Director of Corporate Risk Services and Director of Corporate Audit Services, from May 2012 to December 2015, and August 2005 to May 2012, respectively. |
| James D. Rine | 48 | Mr. Rine was named President and Chief Executive Officer of the Bank in October 2018. He served as President of Commercial Banking from December 2017 until October 2018 and as President of Commercial Banking/Western Region from October 2016 to December 2017. Prior to this time, Mr. Rine served as the President of the Kansas City Region since October 2011. Overall, Mr. Rine has over 20 years of commercial banking experience with the Bank. |
| Ram Shankar | 46 | Mr. Shankar was named as Executive Vice President and Chief Financial Officer of the Company effective August 2016. From September 2011 until his employment with the Company commenced, he worked at First Niagara Financial Group, most recently serving as managing director where he headed financial planning and analysis and investor relations. Prior to that, Shankar spent time at FBR Capital Markets as a senior research analyst and at M&T Bank Corporation in the financial planning measurement and corporate finance/mergers & acquisitions group. |
| John C. Pauls | 54 | Mr. Pauls has served as Executive Vice President, General Counsel and Corporate Secretary of the Company and the Bank since June 2016. Mr. Pauls served as interim General Counsel from April 2016 until his full appointment in June of 2016. He has been with UMB for over 24 years, having served as a top legal advisor for the Company and the Bank for over 17 years. |
| Thomas S. Terry | 55 | Mr. Terry has served as Executive Vice President and Chief Lending Officer of the Company since January 2011. Prior to this time, Mr. Terry served as Executive Vice President. Mr. Terry first joined UMB in 1986, and subsequently joined the Commercial Lending department in 1987 where he worked as a loan officer until 2011. |
| Brian J. Walker | 47 | Mr. Walker has served as Executive Vice President and Chief Accounting Officer of the Company since June 2007. He previously served as Chief Financial Officer of the Company from January 2014 to October 2015. From July 2004 to June 2007, he served as a Certified Public Accountant for KPMG LLP, where he worked primarily as an auditor for financial institutions. |
| Abigail Wendel | 45 | Ms. Wendel was named President of Consumer Banking of the Bank in September 2018. She has also served as Chief Strategy Officer for the Company from June 2015 until September 2018, and as the Director of Investor and Government Relations for the Company from February 2013 through June 2015. |

The Company makes available free of charge on its website at www.umb.com/investor, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, as soon as reasonably practicable after it electronically files or furnishes such material with or to the SEC. These reports can also be found on the SEC website at www.sec.gov.

ITEM 1A. RISK FACTORS

Financial-services companies routinely encounter and address risks and uncertainties. In the following paragraphs, the Company describes some of the principal risks and uncertainties that could adversely affect its business, results of operations, financial condition (including capital and liquidity), or prospects or the value of or return on an investment in the Company. These risks and uncertainties, however, are not the only ones faced by the Company. Other risks and uncertainties that are not presently known to the Company that it has failed to identify, or that it currently considers immaterial may adversely affect the Company as well. Except where otherwise noted, the risk factors address risks and uncertainties that may affect the Company as well as its subsidiaries. These risk factors should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations (which can be found in Part II, Item 7 of this report beginning on page 21) and the Notes to the Consolidated Financial Statements (which can be found in Part II, Item 8 of this report beginning on page 56).

The levels of, or changes in, interest rates could affect the Company's business or performance. The Company's business, results of operations, and financial condition are highly dependent on net interest income, which is the difference between interest income on earning assets (such as loans and investments) and interest expense on deposits and borrowings. Net interest income is significantly affected by market interest rates, which in turn are influenced by monetary and fiscal policies, general economic conditions, the regulatory environment, competitive pressures, and expectations about future changes in interest rates. The policies and regulations of the federal government, in general, and the FRB, in particular, have a substantial impact on market interest rates. See "Government Monetary and Fiscal Policies" in Part I, Item 1 of this report beginning on page 4, which is incorporated by reference herein. The Company may be adversely affected by policies, regulations, or events that have the effect of altering the difference between long-term and short-term interest rates (commonly known as the yield curve), depressing the interest rates associated with its earning assets to levels near the rates associated with its interest expense, or changing the spreads among different interest-rate indices. The Company's customers and counterparties also may be negatively impacted by the levels of, or changes in, interest rates, which could increase the risk of delinquency or default on obligations to the Company. The levels of, or changes in, interest rates, moreover, may have an adverse effect on the value of the Company's investment portfolio, which includes long-term municipal bonds with fixed interest rates, and other financial instruments, the return on or demand for loans, the prepayment speed of loans (including, without limitation, the pace of pay-downs expected or forecasted for commercial real estate and construction loans), the cost or availability of deposits or other funding sources, or the purchase or sale of investment securities. In addition, a rapid change in interest rates could result in interest expense increasing faster than interest income because of differences in the maturities of the Company's assets and liabilities. Further, if laws impacting taxation and interest rates materially change, or if new laws are enacted, certain of the Company's services and products, including municipal bonds, may be subject to less favorable tax treatment or otherwise adversely impacted. The level of, and changes in, market interest rates—and, as a result, these risks and uncertainties—are beyond the Company's control. The dynamics among these risks and uncertainties are also challenging to assess and manage. For example, while the highly accommodative monetary policy currently adopted by the FRB may benefit the Company to some degree by spurring economic activity among its customers, such a policy may ultimately cause the Company more harm by inhibiting its ability to grow or sustain net interest income. See "Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk" in Part II, Item 7A of this report beginning on page 49 for a discussion of how the Company monitors and manages interest-rate risk.

Weak or deteriorating economic conditions, more liberal origination or underwriting standards, or financial or systemic shocks could increase the Company's credit risk and adversely affect its lending or other banking businesses and the value of its loans or investment securities. The Company's business and results of operations depend significantly on general economic conditions. When those conditions are weak or deteriorating in any of the markets or regions where the Company operates, its business or performance could be adversely affected. The Company's lending and other banking businesses, in particular, are susceptible to weak or deteriorating economic conditions, which could result in reduced loan demand or utilization rates and at the same time increased delinquencies or defaults. These kinds of conditions also could dampen the demand for products and other services in the Company's investment-management, asset-servicing, insurance, brokerage, or related businesses. Increased delinquencies or defaults could result as well from the Company adopting—for strategic, competitive, or other reasons—more liberal origination or underwriting standards for extensions of credit or other dealings with its customers or counterparties. If delinquencies or defaults on the Company's loans or investment securities increase, their value and the income derived from them could be adversely affected, and the Company could incur administrative and other costs in seeking a recovery on its claims and any collateral. Weak or deteriorating economic conditions also may negatively impact the market value and liquidity of the Company's investment securities, and the Company may be required to record additional impairment charges if investment securities suffer a decline in value that is determined to be other-than-temporary. In addition, to the extent that loan charge-offs exceed estimates, an increase to the amount of provision expense related to the allowance for loan losses would reduce the Company's income. See "Quantitative and Qualitative Disclosures About Market Risk—Credit Risk Management" in Part II, Item 7A of this report beginning on page 53 for a discussion of how the Company monitors and manages credit risk. A financial or systemic shock and a failure of a significant counterparty or a significant group of counterparties could negatively impact the Company, possibly to a severe degree, due to its role as a financial intermediary and the interconnectedness of the financial system.

A meaningful part of the Company's loan portfolio is secured by real estate and, as a result, could be negatively impacted by deteriorating or volatile real-estate markets or associated environmental liabilities. At December 31, 2018, 42.8 percent of the Company's aggregate loan portfolio—comprised of commercial real-estate loans (representing 30.5 percent of the aggregate loan portfolio), construction real-estate loans (representing 6.5 percent of the aggregate loan portfolio), and residential real-estate loans (representing 5.8 percent of the aggregate loan portfolio)—was primarily secured by interests in real estate located in the States where the Company operates. Other credit extended by the Company may be secured in part by real estate as well. Real-estate values in the markets where this collateral is located may be different from, and in some instances worse than, real-estate values in other markets or in the United States as a whole and may be affected by general economic conditions and a variety of other factors outside of the control of the Company or its customers. Any deterioration or volatility in these real-estate markets could result in increased delinquencies or defaults, could adversely affect the value of the loans and the income to be derived from them, could give rise to unreimbursed recovery costs, and could reduce the demand for new or additional credit and related banking products and other services, all to the detriment of the Company's business and performance. In addition, if hazardous or toxic substances were found on any real estate that the Company acquires in foreclosure or otherwise, the Company may incur substantial liability for compliance and remediation costs, personal injury, or property damage.

Challenging business, economic, or market conditions could adversely affect the Company's fee-based banking, investment-management, asset-servicing, or other businesses. The Company's fee-based banking, investment-management, asset-servicing, and other businesses are driven by wealth creation in the economy, robust market activity, monetary and fiscal stability, and positive investor, business, and consumer sentiment. Economic downturns, market disruptions, high unemployment or underemployment, unsustainable debt levels, depressed real-estate markets, or other challenging business, economic, or market conditions could adversely affect these businesses and their results. If the funds or other groups that are clients of UMBFS were to encounter similar difficulties, UMBFS's revenue could suffer. The Company's bank-card revenue is driven primarily by transaction volumes in business and consumer spending that generate interchange fees, and any of these conditions could dampen those volumes. Other fee-based banking businesses that could be adversely affected include trading, asset management, custody, trust, and cash and treasury management.

The Company's investment-management and asset-servicing businesses could be negatively impacted by declines in assets under management or administration or by shifts in the mix of assets under management or administration. The revenues of the Company's investment-management businesses are highly dependent on advisory fee income. These businesses generally earn higher fees on equity-based or alternative investments and strategies and lower fees on fixed income investments and strategies. Advisory-fee income may be negatively impacted by an absolute decline in assets under management or by a shift in the mix of assets under management from equities or alternatives to fixed income. Such a decline or shift could be caused or influenced by any number of factors, such as underperformance in absolute or relative terms, loss of key advisers or other talent, changes in investing preferences or trends, market downturns or volatility, drops in investor confidence, reputational damage, increased competition, or general economic conditions. Any of these factors also could affect clients of UMBFS, and if this were to cause a decline in assets under administration at UMBFS or an adverse shift in the mix of those assets, the performance of UMBFS could suffer.

To the extent that the Company continues to maintain a sizeable portfolio of available-for-sale investment securities, its income may be adversely affected and its reported equity more volatile. As of December 31, 2018, the Company's securities portfolio totaled approximately $7.8 billion, which represented approximately 33.6 percent of its total assets. Regulatory restrictions and the Company's investment policies generally result in the acquisition of securities with lower yields than loans. For the year-ended December 31, 2018, the weighted average yield of the Company's securities portfolio was 2.4 percent as compared to 4.8 percent for its loan portfolio. Accordingly, to the extent that the Company is unable to effectively deploy its funds to originate or acquire loans or other assets with higher yields than those of its investment securities, the Company's income may be negatively impacted. Additionally, approximately $6.5 billion, or 83.4 percent, of the Company's investment securities are classified as available for sale and reported at fair value. Unrealized gains or losses on these securities are excluded from earnings and reported in other comprehensive income, which in turn affects the Company's reported equity. As a result, to the extent that the Company continues to maintain a significant portfolio of available-for-sale securities, its reported equity may experience greater volatility.

Cyber incidents and other security breaches at the Company, at the Company's service providers or counterparties, or in the business community or markets may negatively impact the Company's business or performance. In the ordinary course of its business, the Company collects, stores, and transmits sensitive, confidential, or proprietary data and other information, including intellectual property, business information, funds-transfer instructions, and the personally identifiable information of its customers and employees. The secure processing, storage, maintenance, and transmission of this information is critical to the Company's operations and reputation, and if any of this information were mishandled, misused, improperly accessed, lost, or stolen or if the Company's operations were disrupted, the Company could suffer significant financial, business, reputational, regulatory, or other damage. For example, despite security measures, the Company's information technology and infrastructure may be breached through cyber-attacks, computer viruses or malware, pretext calls, electronic phishing, or other means. These risks and uncertainties are rapidly evolving and increasing in complexity, and the Company's failure to effectively mitigate them could negatively impact its business and operations.

Service providers and counterparties also present a source of risk to the Company if their own security measures or other systems or infrastructure were to be breached or otherwise fail. Likewise, a cyber-attack or other security breach affecting the business community, the markets, or parts of them may cycle or cascade through the financial system and adversely affect the Company or its service providers or counterparties. Many of these risks and uncertainties are beyond the Company's control.

Even when an attempted cyber incident or other security breach is successfully avoided or thwarted, the Company may need to expend substantial resources in doing so, may be required to take actions that could adversely affect customer satisfaction or behavior, and may be exposed to reputational damage. If a breach were to occur, moreover, the Company could be exposed to contractual claims, regulatory actions, and litigation by private plaintiffs, and would additionally suffer reputational harm. Despite the Company's efforts to safeguard the integrity of systems and controls and to manage third-party risk, the Company may not be able to anticipate or implement effective measures to prevent all security breaches or all risks to the sensitive, confidential, or proprietary information that it or its service providers or counterparties collect, store, or transmit.

The trading volume in the Company's common stock at times may be low, which could adversely affect liquidity and stock price. Although the Company's common stock is listed for trading on the NASDAQ Global Select Market, the trading volume in the stock may at times be low and, in relative terms, less than that of other financial-services companies. A public trading market that is deep, liquid, and orderly depends on the presence in the marketplace of a large number of willing buyers and sellers and narrow bid-ask spreads. These market features, in turn, depend on a number of factors, such as the individual decisions of investors and general economic and market conditions, over which the Company has no control. During any period of lower trading volume in the Company's common stock, the stock price could be more volatile, and the liquidity of the stock could suffer.

The Company operates in a highly regulated industry, and its business or performance could be adversely affected by the legal, regulatory and supervisory frameworks applicable to it, changes in those frameworks, and other legal and regulatory risks and uncertainties. The Company is subject to expansive legal and regulatory frameworks in the United States—at the federal, State, and local levels—and in the foreign jurisdictions where its business segments operate. In addition, the Company is subject to the direct supervision of government authorities charged with overseeing the taxation of domestic companies and the kinds of financial activities conducted by the Company in its business segments. These legal, regulatory, and supervisory frameworks are often designed to protect public or private interests that differ from the interests of the Company's shareholders or non-deposit creditors. See "Government Monetary and Fiscal Policies" and "Regulation and Supervision" in Part I, Item 1 of this report beginning on page 4, which is incorporated by reference herein. We believe that government scrutiny of all financial-services companies has increased, fundamental changes have been made to the banking, securities, and other laws that govern financial services (with the Dodd-Frank Act and Basel III being two of the more prominent examples), and a host of related business practices have been reexamined and reshaped. As a result, the Company expects to continue devoting increased time and resources to risk management, compliance, and regulatory change management. Risks also exist that government authorities could judge the Company's business or other practices as unsafe, unsound, or otherwise unadvisable and bring formal or informal corrective or enforcement actions against it, including fines or other penalties and directives to change its products or other services. For practical or other reasons, the Company may not be able to effectively defend itself against these actions, and they in turn could give rise to litigation by private plaintiffs.  Further, if the laws, rules, and regulations materially adversely affect the Company, including any changes that would negatively impact the tax treatment of the Company, the Company's products and services or the Company's shareholders, the Company may be adversely impacted.  All of these and other regulatory risks and uncertainties could adversely affect the Company's reputation, business, results of operations, financial condition, or prospects.

Regulatory or supervisory requirements, future growth, operating results, or strategic plans may prompt the Company to raise additional capital, but that capital may not be available at all or on favorable terms and, if raised, may be dilutive. The Company is subject to safety-and-soundness and capital-adequacy standards under applicable law and to the direct supervision of government authorities. See "Regulation and Supervision" in Part I, Item 1 of this report beginning on page 4. If the Company is not or is at risk of not satisfying these standards or applicable supervisory requirements—whether due to inadequate operating results that erode capital, future growth that outpaces the accumulation of capital through earnings, or otherwise—the Company may be required to raise capital, restrict dividends, or limit originations of certain types of commercial and mortgage loans. If the Company is required to limit originations of certain types of commercial and mortgage loans, it would thereby reduce the amount of credit available to borrowers and limit opportunities to earn interest income from the loan portfolio.  The Company also may be compelled to raise capital if regulatory or supervisory requirements change. In addition, the Company may elect to raise capital for strategic reasons even when it is not required to do so. The Company's ability to raise capital on favorable terms or at all will depend on general economic and market conditions, which are outside of its control, and on the Company's operating and financial performance.  Accordingly, the Company cannot be assured of its ability to raise capital when needed or on favorable terms.  An inability to raise capital when needed or on favorable terms could damage the performance and value of its business, prompt regulatory intervention, and harm its reputation, and if the condition were to persist for any appreciable period of time, its viability as a going concern could be threatened. If the Company is able to raise capital and does so by issuing common stock or convertible securities, the ownership interest of our existing stockholders could be diluted, and the market price of our common stock could decline.

The market price of the Company's common stock could be adversely impacted by banking, antitrust, or corporate laws that have or are perceived as having an anti-takeover effect. Banking and antitrust laws, including associated regulatory-approval requirements, impose significant restrictions on the acquisition of direct or indirect control over any bank holding company, including the Company. Acquisition of ten percent or more of any class of voting stock of a bank holding company or depository institution, including shares of our common stock, generally creates a rebuttable presumption that the acquirer "controls" the bank holding company or depository institution. Also, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of any bank, including our bank.

In addition, a non-negotiated acquisition of control over the Company may be inhibited by provisions of the Company's restated articles of incorporation and bylaws that have been adopted in conformance with applicable corporate law, such as the ability to issue shares of preferred stock and to determine the rights, terms, conditions and privileges of such preferred stock without stockholder approval. If any of these restrictions were to operate or be perceived as operating to hinder or deter a potential acquirer for the Company, the market price of the Company's common stock could suffer.

The Company's business relies on systems, employees, service providers, and counterparties, and failures or errors by any of them or other operational risks could adversely affect the Company. The Company engages in a variety of businesses in diverse markets and relies on systems, employees, service providers, and counterparties to properly oversee, administer, and process a high volume of transactions. This gives rise to meaningful operational risk—including the risk of fraud by employees or outside parties, unauthorized access to its premises or systems, errors in processing, failures of technology, breaches of internal controls or compliance safeguards, inadequate integration of acquisitions, human error, and breakdowns in business continuity plans. Significant financial, business, reputational, regulatory, or other harm could come to the Company as a result of these or related risks and uncertainties. For example, the Company could be negatively impacted if financial, accounting, data-processing, or other systems were to fail or not fully perform their functions. The Company also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to a pandemic, natural disaster, war, act of terrorism, accident, or other reason. These same risks arise as well in connection with the systems and employees of the service providers and counterparties on whom the Company depends as well as their own third-party service providers and counterparties. See “Quantitative and Qualitative

Disclosures About Market Risk—Operational Risk" in Part II, Item 7A of this report beginning on page 55 for a discussion of how the Company monitors and manages operational risk.

The soundness of other financial institutions could adversely affect us. The soundness of other financial institutions could adversely affect us. Financial services institutions are interrelated because of trading, clearing, counterparty and other relationships. We routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, payment processors, and other institutional clients, which may result in payment obligations to us or to our clients due to products we have arranged. Many of these transactions expose us to credit and market risk that may cause our counterparty or client to default. In addition, we are exposed to market risk when the collateral we hold cannot be realized or is liquidated at prices not sufficient to recover the full amount of the secured obligation. Any losses arising from such occurrences could materially and adversely affect our business, results of operations or financial condition.

The Company is heavily reliant on technology, and a failure or delay in effectively implementing technology initiatives or anticipating future technology needs or demands could adversely affect the Company's business or performance. Like most financial-services companies, the Company significantly depends on technology to deliver its products and other services and to otherwise conduct business. To remain technologically competitive and operationally efficient, the Company invests in system upgrades, new solutions, and other technology initiatives, including for both internally and externally hosted solutions. Many of these initiatives have a significant duration, are tied to critical systems, and require substantial internal and external resources. Although the Company takes steps to mitigate the risks and uncertainties associated with these initiatives, there is no guarantee that they will be implemented on time, within budget, or without negative operational or customer impact. The Company also may not succeed in anticipating its future technology needs, the technology demands of its customers, or the competitive landscape for technology. In addition, the Company relies upon the expertise and support of service providers to help implement, maintain and/or service certain of its core technology solutions. If the Company cannot effectively manage these service providers, the service parties fail to materially perform, or the Company was to falter in any of the other noted areas, its business or performance could be negatively impacted.

Negative publicity outside of the Company's control, or its failure to successfully manage issues arising from its conduct or in connection with the financial-services industry generally, could damage the Company's reputation and adversely affect its business or performance. The performance and value of the Company's business could be negatively impacted by any reputational harm that it may suffer. This harm could arise from negative publicity outside of its control or its failure to adequately address issues arising from its conduct or in connection with the financial-services industry generally. Risks to the Company's reputation could arise in any number of contexts—for example, cyber incidents and other security breaches, mergers and acquisitions, lending or investment-management practices, actual or potential conflicts of interest, failures to prevent money laundering, corporate governance, and unethical behavior and practices committed by competitors in the financial services industry.

The Company faces intense competition from other financial-services and financial-services technology companies, and competitive pressures could adversely affect the Company's business or performance. The Company faces intense competition in each of its business segments and in all of its markets and geographic regions, and the Company expects competitive pressures to intensify in the future—especially in light of recent legislative and regulatory initiatives, technological innovations that alter the barriers to entry, current economic and market conditions, and government monetary and fiscal policies. Competition with financial-services technology companies, or technology companies partnering with financial-services companies, may be particularly intense, due to, among other things, differing regulatory environments. See "Competition" in Part I, Item 1 of this report beginning on page 3. Competitive pressures may drive the Company to take actions that the Company might otherwise eschew, such as lowering the interest rates or fees on loans or raising the interest rates on deposits in order to keep or attract high-quality customers. These pressures also may accelerate actions that the Company might otherwise elect to defer, such as substantial investments in technology or infrastructure. The Company has certain businesses that utilize wholesale models which can lead to customer concentrations for those businesses that, if negatively impacted by competitive pressures, could affect the Company's fee income. Whatever the reason, actions that the Company takes in response to competition may adversely affect its results of operations and financial condition. These consequences could be exacerbated if the Company is not successful in introducing new products and other services, achieving market acceptance of its products and other services, developing and maintaining a strong customer base, or prudently managing expenses.

The Company's risk-management and compliance programs or functions may not be effective in mitigating risk and loss. The Company maintains an enterprise risk-management program that is designed to identify, quantify, monitor, report, and control the risks that it faces. These include interest-rate risk, credit risk, liquidity risk, market risk, operational risk, reputational risk, and compliance risk. The Company also maintains a compliance program to identify, measure, assess, and report on its adherence to applicable law, policies, and procedures. While the Company assesses and improves these programs on an ongoing basis, there can be no assurance that its frameworks or models for risk management, compliance, and related controls will effectively mitigate risk and limit losses in its business. If conditions or circumstances arise that expose flaws or gaps in the Company's risk-management or compliance programs or if its controls break down, the performance and value of the Company's business could be adversely affected. The Company could be negatively impacted as well if, despite adequate programs being in place, its risk-management or compliance personnel are ineffective in executing them and mitigating risk and loss.

Liquidity is essential to the Company and its business or performance could be adversely affected by constraints in, or increased costs for, funding. The Company defines liquidity as the ability to fund increases in assets and meet obligations as they come due, all without incurring unacceptable losses. Banks are especially vulnerable to liquidity risk because of their role in the maturity transformation of demand or short-term deposits into longer-term loans or other extensions of credit. The Company, like other financial-services companies, relies to a significant extent on external sources of funding (such as deposits and borrowings) for the liquidity needed to conduct its business. A number of factors beyond the Company's control, however, could have a detrimental impact on the availability or cost of that funding and thus on its liquidity. These include market disruptions, changes in its credit ratings or the sentiment of its investors, the state of the regulatory environment and monetary and fiscal policies, declines in the value of its investment securities, the loss of substantial deposits or customer relationships, financial or systemic shocks, significant counterparty failures, and reputational damage. Unexpected declines or limits on the dividends declared and paid by the Company's subsidiaries also could adversely affect its liquidity position. While the Company's policies and controls are designed to ensure that it maintains adequate liquidity to conduct its business in the ordinary course even in a stressed environment, there can be no assurance that its liquidity position will never become compromised. In such an event, the Company may be required to sell assets at a loss in order to continue its operations. This could damage the performance and value of its business, prompt regulatory intervention, and harm its reputation, and if the condition were to persist for any appreciable period of time, its viability as a going concern could be threatened. See "Quantitative and Qualitative Disclosures About Market Risk—Liquidity Risk" in Part II, Item 7A of this report beginning on page 54 for a discussion of how the Company monitors and manages liquidity risk.

If the Company's subsidiaries are unable to make dividend payments or distributions to the Company, it may be unable to satisfy its obligations to counterparties or creditors or make dividend payments to its stockholders. The Company is a legal entity separate and distinct from its bank and nonbank subsidiaries and depends on dividend payments and distributions from those subsidiaries to fund its obligations to counterparties and creditors and its dividend payments to stockholders. See "Regulation and Supervision—Requirements Affecting the Relationships among the Company, Its Subsidiaries, and Other Affiliates" in Part I, Item 1 of this report beginning on page 6. Any of the Company's subsidiaries, however, may be unable to make dividend payments or distributions to the Company, including as a result of a deterioration in the subsidiary's performance, investments in the subsidiary's own future growth, or regulatory or supervisory requirements. If any subsidiary were unable to remain viable as a going concern, moreover, the Company's right to participate in a distribution of assets would be subject to the prior claims of the subsidiary's creditors (including, in the case of the Bank, its depositors and the FDIC).

An inability to attract, retain, or motivate qualified employees could adversely affect the Company's business or performance. Skilled employees are the Company's most important resource, and competition for talented people is intense. Even though compensation is among the Company's highest expenses, it may not be able to locate and hire the best people, keep them with the Company, or properly motivate them to perform at a high level. Recent scrutiny of compensation practices, especially in the financial-services industry, has made this only more difficult. In addition, some parts of the Company's business are particularly dependent on key personnel, including investment management, asset servicing, and commercial lending. If the Company were to lose and find itself unable to replace these personnel or other skilled employees or if the competition for talent drove its compensation costs to unsustainable levels, the Company's business, results of operations, and financial condition could be negatively impacted.

The Company is subject to a variety of litigation and other proceedings, which could adversely affect its business or performance. The Company is involved from time to time in a variety of judicial, alternative-dispute, and other proceedings arising out of its business or operations. The Company establishes reserves for claims when appropriate under generally accepted accounting principles, but costs often can be incurred in connection with a matter before any reserve has been created. The Company also maintains insurance policies to mitigate the cost of litigation and other proceedings, but these policies have deductibles, limits, and exclusions that may diminish their value or efficacy. Despite the Company's efforts to appropriately reserve for claims and insure its business and operations, the actual costs associated with resolving a claim may be substantially higher than amounts reserved or covered. Substantial legal claims, even if not meritorious, could have a detrimental impact on the Company's business, results of operations, and financial condition and could cause reputational harm.

Changes in accounting standards could impact the Company's financial statements and reported earnings. Accounting standard-setting bodies, such as the Financial Accounting Standards Board, periodically change the financial accounting and reporting standards that affect the preparation of the Company's Consolidated Financial Statements. These changes are beyond the Company's control and could have a meaningful impact on its Consolidated Financial Statements.

The Company's selection of accounting methods, assumptions, and estimates could impact its financial statements and reported earnings. To comply with generally accepted accounting principles, management must sometimes exercise judgment in selecting, determining, and applying accounting methods, assumptions, and estimates. This can arise, for example, in the determination of the allowance for loan losses, the calculation of deferred tax assets, the evaluation of goodwill for potential impairments, or the determination of the fair value of assets or liabilities. Furthermore, accounting methods, assumptions and estimates are part of acquisition purchase accounting and the calculation of the fair value of assets and liabilities that have been purchased, including credit-impaired loans. The judgments required of management can involve difficult, subjective, or complex matters with a high degree of uncertainty, and several different judgments could be reasonable under the circumstances and yet result in significantly different results being reported. See "Critical Accounting Policies and Estimates" in Part II, Item 7 of this report beginning on page 46. If management's judgments are later determined to have been inaccurate, the Company may experience unexpected losses that could be substantial.

The Company's ability to successfully make opportunistic mergers and acquisitions is subject to significant risks, including the risk that government authorities will not provide the requisite approvals, the risk that integrating acquisitions may be more difficult, costly, or time consuming than expected, and the risk that the value of acquisitions may be less than anticipated. The Company may make opportunistic acquisitions of other financial-services companies or businesses from time to time. These acquisitions may be subject to regulatory approval, and there can be no assurance that the Company will be able to obtain that approval in a timely manner or at all. Even when the Company is able to obtain regulatory approval, the failure of other closing conditions to be satisfied or waived could delay the completion of an acquisition for a significant period of time or prevent it from occurring altogether. Any failure or delay in closing an acquisition could adversely affect the Company's reputation, business, results of operations, financial condition, or prospects.

Additionally, acquisitions involve numerous risks and uncertainties, including lower-than-expected performance or higher-than-expected costs, difficulties related to integration, diversion of management's attention from other business activities, changes in relationships with customers or counterparties, and the potential loss of key employees. An acquisition also could be dilutive to the Company's current stockholders if preferred stock, common stock, or securities convertible into preferred stock or common stock were issued to fully or partially pay or fund the purchase price. The Company, moreover, may not be successful in identifying acquisition candidates, integrating acquired companies or businesses, or realizing the expected value from acquisitions. There is significant competition for valuable acquisition targets, and the Company may not be able to acquire other companies or businesses on attractive terms or at all. There can be no assurance that the Company will pursue future acquisitions, and the Company's ability to grow and successfully compete in its markets and regions may be impaired if it chooses not to pursue, or is unable to successfully complete, acquisitions.

We face risks in connection with our strategic undertakings and new business initiatives. We are engaged, and may in the future engage, in strategic activities including acquisitions, joint ventures, partnerships, investments or other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful. We are focused on our long-term growth and have undertaken various strategic activities and business initiatives, some of which may involve activities that are new to us. For example, in the future we may engage in or focus on new lines of business, financial technologies, and other activities that are outside of our current product offerings. These new initiatives may subject us to, among other risks, increased business, reputational and operational risk, as well as more complex legal, regulatory and compliance costs and risks. Our ability to execute strategic activities and new business initiatives successfully will depend on a variety of factors. These factors likely will vary based on the nature of the activity but may include our success in integrating an acquired company or a new internally-developed growth initiative into our business, operations, services, products, personnel and systems, operating effectively with any partner with whom we elect to do business, meeting applicable regulatory requirements and obtaining applicable regulatory licenses or other approvals, hiring or retaining key employees, achieving anticipated synergies, meeting management's expectations, actually realizing the anticipated benefits of the activities, and overall general market conditions. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management's attention from ongoing business operations and may subject us to additional regulatory scrutiny and potential liability. If we do not successfully execute a strategic undertaking, it could adversely affect our business, financial condition, results of operations, reputation or growth prospects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the staff of the SEC required to be disclosed herein as of the date of this report.

ITEM 2. PROPERTIES

The Company's headquarters building is located at 1010 Grand Boulevard in downtown Kansas City, Missouri. The building opened in July 1986 and all 250,000 square feet are occupied by departments and customer service functions of the Bank, as well as offices of the Company.

Other main facilities of the Bank in downtown Kansas City, Missouri are located at 928 Grand Boulevard (185,000 square feet); 906 Grand Boulevard (140,000 square feet); and 1008 Oak Street (180,000 square feet). Both the 928 Grand and 906 Grand buildings house administrative support functions. Within the 906 Grand building, approximately 8,000 square feet of space is leased to two small tenants. The 928 Grand building is connected to the 1010 Grand building by an enclosed elevated pedestrian walkway. The 1008 Oak building, which opened during the second quarter of 1999, houses the Company’s operations and data processing functions.

The Bank leases 52,000 square feet in the Hertz Building located at 2 South Broadway in the heart of the commercial sector of downtown St. Louis, Missouri. This location has a full-service banking center and is home to some operational and administrative support functions.

The Bank also leases 43,700 square feet on the first, second, third, and fifth floors of the 1670 Broadway building located in the financial district of downtown Denver, Colorado. The location has a full-service banking center and is home to additional operational and administrative support functions.

As of December 31, 2018, the Bank operated a total of 92 banking centers.

UMBFS leases approximately 95,000 square feet at 235 West Galena Street in Milwaukee, Wisconsin, for its fund services operations headquarters. Additionally, UMBFS leases 37,300 square feet at 2225 Washington Boulevard in Ogden, Utah, and 6,300 square feet in 223 Wilmington West Chester Pike in Chadds Ford, Pennsylvania.

Additional information with respect to properties, premises and equipment is presented in Note 1, “Summary of Significant Accounting Policies,” and Note 8, “Premises and Equipment,” in the Notes to the Consolidated Financial Statements in Item 8, pages 63 and 81 of this report, and is hereby incorporated by reference herein.

ITEM 3. LEGAL PROCEEDINGS

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

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the NASDAQ Global Select Stock Market under the symbol "UMBF." As of February 22, 2019, the Company had 2,349 shareholders of record. Information regarding the Company’s common stock for each quarterly period within the two most recent fiscal years is set forth in the table below.

| Per Share | Three Months Ended | | | |
|---|---|---|---|---|
| | March | June | Sept | |
| 2018 | 31 | 30 | 30 | Dec 31 |
| Dividend | $0.290 | $0.290 | $0.290 | $0.300 |
| Book value | 43.31 | 43.96 | 44.20 | 45.37 |
| Market price: | | | | |
| High | 78.27 | 82.14 | 80.39 | 73.14 |
| Low | 70.71 | 70.06 | 70.16 | 57.00 |
| Close | 72.39 | 76.23 | 70.90 | 60.97 |

| Per Share | Three Months Ended | | | |
|---|---|---|---|---|
| | March | June | Sept | |
| 2017 | 31 | 30 | 30 | Dec 31 |
| Dividend | $0.255 | $0.255 | $0.255 | $0.275 |
| Book value | 40.34 | 41.42 | 42.15 | 43.72 |
| Market price: | | | | |
| High | 81.55 | 78.67 | 76.98 | 77.72 |
| Low | 70.69 | 66.51 | 62.27 | 68.76 |
| Close | 75.31 | 74.86 | 74.49 | 71.92 |

Information concerning restrictions on the ability of the Company to pay dividends and the Company's subsidiaries to transfer funds to the Company is presented in Item 1, page 6 and Note 10, “Regulatory Requirements,” in the Notes to the Consolidated Financial Statements provided in Item 8, pages 83 through 84 of this report. Information concerning securities the Company issued under its equity compensation plans is contained in Item 12, pages 113 through 114 and in Note 11, “Employee Benefits,” in the Notes to the Consolidated Financial Statements provided in Item 8, pages 85 through 89 of this report.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about common stock repurchase activity by the Company during the quarter ended December 31, 2018:

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1 - October 31, 2018 | 701,865 | $ 60.58 | 701,865 | 1,023,572 |
| November 1 - November 31, 2018 | 928 | 64.97 | 928 | 1,022,644 |
| December 1 - December 31, 2018 | 78,917 | 59.58 | 78,917 | 943,727 |
| Total | 781,710 | $ 60.49 | 781,710 | |

On April 25, 2017, the Company announced a plan to repurchase up to two million shares of common stock, which terminated on April 24, 2018. On April 24, 2018, the Company announced a plan to repurchase up to two million shares of common stock, which will terminate on April 23, 2019. On October 23, 2018 the Company entered into an agreement with Bank of America Merrill Lynch (BAML) to repurchase an aggregate of $50.0 million of the Company's common stock through an accelerated share repurchase agreement (the ASR). The

Company repurchased a total of 780,321 shares of its common stock, completing the ASR program in December 2018. The Company has not made any repurchases other than through this plan. Other than purchases pursuant to the ASR, all open market share purchases under the share repurchase plans are intended to be within the scope of Rule 10b-18 promulgated under the Exchange Act.

ITEM 6. SELECTED FINANCIAL DATA

For a discussion of factors that may materially affect the comparability of the information below, please see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, pages 21 through 48, of this report.

FIVE-YEAR FINANCIAL SUMMARY

(in thousands except per share data)

As of and for the years ended December 31,

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| EARNINGS | | | | | |
| Interest income | $731,961 | $616,912 | $523,031 | $430,681 | $363,871 |
| Interest expense | 121,515 | 57,999 | 27,708 | 18,614 | 13,816 |
| Net interest income | 610,446 | 558,913 | 495,323 | 412,067 | 350,055 |
| Provision for loan losses | 70,750 | 41,000 | 32,500 | 15,500 | 17,000 |
| Noninterest income | 401,698 | 423,562 | 402,511 | 370,659 | 368,235 |
| Noninterest expense | 717,800 | 705,129 | 666,745 | 638,938 | 582,472 |
| Net income from continuing operations | 196,260 | 182,976 | 153,634 | 96,558 | 91,145 |
| | | | | | |
| AVERAGE BALANCES | | | | | |
| Assets | $20,999,877 | $20,396,428 | $19,592,685 | $17,786,442 | $15,998,893 |
| Loans and loans held for sale | 11,606,544 | 10,843,642 | 9,992,874 | 8,425,107 | 6,975,338 |
| Total investment securities | 7,413,776 | 7,632,965 | 7,665,012 | 7,330,246 | 7,053,837 |
| Interest-bearing due from banks | 419,768 | 351,293 | 410,163 | 664,752 | 843,134 |
| Deposits | 16,984,547 | 15,938,669 | 15,338,741 | 14,078,290 | 12,691,273 |
| Long-term debt | 79,189 | 76,299 | 81,905 | 58,571 | 6,059 |
| Shareholders' equity | 2,194,788 | 2,080,847 | 1,983,749 | 1,805,856 | 1,599,765 |
| | | | | | |
| YEAR-END BALANCES | | | | | |
| Assets | $23,351,119 | $21,771,583 | $20,682,532 | $19,094,245 | $17,500,960 |
| Loans and loans held for sale | 12,181,342 | 11,281,973 | 10,545,662 | 9,431,350 | 7,466,418 |
| Total investment securities | 7,848,149 | 7,639,543 | 7,690,108 | 7,568,870 | 7,285,667 |
| Interest-bearing due from banks | 1,047,830 | 1,351,760 | 715,823 | 522,877 | 1,539,386 |
| Deposits | 19,281,260 | 18,023,000 | 16,570,614 | 15,092,752 | 13,616,859 |
| Long-term debt | 82,671 | 79,281 | 76,772 | 86,070 | 8,810 |
| Shareholders' equity | 2,228,470 | 2,181,531 | 1,962,384 | 1,893,694 | 1,643,758 |
| | | | | | |
| PER SHARE DATA | | | | | |
| Earnings from continuing operations - basic | $3.98 | $3.72 | $3.15 | $2.05 | $2.03 |
| Earnings from continuing operations - diluted | 3.94 | 3.67 | 3.12 | 2.03 | 2.01 |
| Cash dividends | 1.17 | 1.04 | 0.99 | 0.95 | 0.91 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Dividend payout ratio | 29.40 | % | 27.96 | % | 31.43 | % | 46.34 | % | 44.83 | % |
| Book value | $45.37 | | $43.72 | | $39.51 | | $38.34 | | $36.10 | |
| Market price | | | | | | | | | | |
| High | 82.14 | | 81.55 | | 81.11 | | 58.84 | | 68.27 | |
| Low | 57.00 | | 62.27 | | 39.55 | | 45.14 | | 51.87 | |
| Close | 60.97 | | 71.92 | | 77.12 | | 46.55 | | 56.89 | |
| | | | | | | | | | | |
| Return on average assets | 0.93 | % | 0.90 | % | 0.78 | % | 0.54 | % | 0.57 | % |
| Return on average equity | 8.94 | | 8.79 | | 7.74 | | 5.35 | | 5.70 | |
| Average equity to average assets | 10.45 | | 10.20 | | 10.12 | | 10.15 | | 10.00 | |
| Total risk-based capital ratio | 13.95 | | 14.04 | | 12.87 | | 12.80 | | 14.04 | |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management’s Discussion and Analysis

This Management’s Discussion and Analysis highlights the material changes in the results of operations and changes in financial condition for each of the three years in the period ended December 31, 2018. It should be read in conjunction with the accompanying Consolidated Financial Statements, Notes to Consolidated Financial Statements, and other financial statistics appearing elsewhere in this Annual Report on Form 10-K. Results of operations for the periods included in this review are not necessarily indicative of results to be attained during any future period.

CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

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

- the Company's ability to innovate to anticipate the needs of current or future customers, to successfully compete in its chosen business lines, to increase or hold market share in changing competitive environments, or to deal with pricing or other competitive pressures;
- changes in the credit, liquidity, or other condition of the Company's customers, counterparties, or competitors;
- the Company's ability to effectively deal with economic, business, or market slowdowns or disruptions;
- judicial, regulatory, or administrative investigations, proceedings, disputes, or rulings that create uncertainty for, or are adverse to, the Company or the financial-services industry;
- the Company's ability to address changing or stricter regulatory or other governmental supervision or requirements;
- the Company's ability to maintain secure and functional financial, accounting, technology, data processing, or other operating systems or facilities, including its capacity to withstand cyber-attacks;
- the adequacy of the Company's corporate governance, risk-management framework, compliance programs, or internal controls, including its ability to control lapses or deficiencies in financial reporting or to effectively mitigate or manage operational risk;
- the efficacy of the Company's methods or models in assessing business strategies or opportunities or in valuing, measuring, monitoring, or managing positions or risk;
- the Company's ability to keep pace with changes in technology that affect the Company or its customers, counterparties, or competitors;
- mergers, acquisitions, or dispositions, including the Company's ability to integrate acquisitions and divest assets;
- the adequacy of the Company's succession planning for key executives or other personnel;
- the Company's ability to grow revenue, control expenses, or attract or retain qualified employees;
- natural or man-made disasters, calamities, or conflicts, including terrorist events; or
- other assumptions, risks, or uncertainties described in the Risk Factors (Item 1A), Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7), or the Notes to the Consolidated Financial Statements (Item 8) in this Annual Report on Form 10-K or described in any of the Company's annual, quarterly or current reports.

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

## Results of Operations

### Overview

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

The first strategic objective is to continuously improve operating efficiencies. The Company has focused on identifying efficiencies that simplify our organizational and reporting structures, streamline back office functions and take advantage of synergies and newer technologies among various platforms and distribution networks. The Company has identified and expects to continue identifying ongoing efficiencies through the normal course of business that, when combined with increased revenue, will contribute to improved operating leverage. For 2018, total revenue increased 3.0 percent, while noninterest expense increased 1.8 percent, as compared to the previous year.  As part of this initiative, the Company continues to invest in technological advances that it believes will help management drive operating leverage in the future through improved data analysis and automation. The Company

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also continues to evaluate core systems and will invest in enhancements that it believes will yield operating efficiencies.

The second strategic objective is to increase net interest income through profitable loan and deposit growth and the optimization of the balance sheet. For 2018, we made progress on this strategy, as illustrated by an increase in net interest income of $51.5 million, or 9.2 percent, as compared to the previous year. The Company has shown increased net interest income through the effects of increased interest rates and volumes, and the mix of average earning assets and a low cost of funds in its Consolidated Balance Sheets. Average loan balances increased $762.9 million, or 7.0 percent, from December 31, 2017. The funding for these assets was driven primarily by a 5.1 percent increase in average interest-bearing liabilities. Net interest margin, on a tax-equivalent basis, increased six basis points compared to the same period in 2017.

The third strategic objective is to grow the Company's revenue from noninterest sources. The Company has continued to emphasize its diverse operations throughout all economic cycles. This strategy has provided revenue diversity, helping to reduce the impact of sustained low interest rates, and positioned the Company to benefit in periods of growth. Noninterest income decreased $21.9 million, or 5.2 percent, to $401.7 million for the year ended December 31, 2018, compared to the same period in 2017. This decline was driven by a combination of lower market-driven revenues in bond trading income, customer and contract re-pricings in our institutional and asset servicing businesses, as well as an increase in card-based rewards and rebates expense recorded as contra-revenues in bankcard fees. This change is discussed in greater detail below under Noninterest income. The Company continues to emphasize its asset management, brokerage, bankcard services, healthcare services, institutional banking, and treasury management businesses. At December 31, 2018, noninterest income represented 39.7 percent of total revenues, as compared to 43.1 percent at December 31, 2017.

The fourth strategic objective is effective capital management. The Company places a significant emphasis on maintaining a strong capital position, which management believes promotes investor confidence, provides access to funding sources under favorable terms, and enhances the Company's ability to capitalize on business growth and acquisition opportunities. The Company continues to maximize shareholder value through a mix of reinvesting in organic growth, evaluating acquisition opportunities that complement the Company's strategies, increasing dividends over time, and appropriately utilizing a share repurchase program. At December 31, 2018, the Company had a total risk-based capital ratio of 13.95 percent and $2.2 billion in total shareholders' equity, an increase of $46.9 million, or 2.2 percent, compared to total shareholders' equity at December 31, 2017. The Company repurchased 1.1 million shares of common stock at an average price of $64.84 per share during 2018 and paid $58.3 million in dividends, which represents a 12.3 percent increase compared to dividends paid during 2017.

Earnings Summary

The Company recorded consolidated income from continuing operations of $196.3 million for the year-ended December 31, 2018. This represents a 7.3 percent increase over 2017. Income from continuing operations for 2017 was $183.0 million, or an increase of 19.1 percent compared to 2016. Basic earnings per share from continuing operations for the year ended December 31, 2018, were $3.98 per share compared to $3.72 per share in 2017, an increase of 7.0 percent. Basic earnings per share from continuing operations were $3.15 per share in 2016, or an increase of 18.1 percent from 2016 to 2017. Fully diluted earnings per share from continuing operations increased 7.4 percent from 2017 to 2018, and increased 17.6 percent from 2016 to 2017.

The Company's net interest income increased to $610.4 million in 2018 compared to $558.9 million in 2017 and $495.3 million in 2016. In total, a favorable volume variance coupled with a favorable rate variance, resulted in a $51.5 million increase in net interest income in 2018, compared to 2017. See Table 2 on page 27. The favorable volume variance on earning assets was predominantly driven by the increase in average loan balances of $762.9

million, or 7.0 percent, for 2018 compared to the same period in 2017. Net interest margin, on a tax-equivalent basis, increased to 3.21 percent for 2018, compared to 3.15 percent for the same period in 2017. The Company has seen an increase in the benefit from interest-free funds compared to 2017. The impact of this benefit increased 15 basis points compared to 2017 and is illustrated on Table 3 on page 28. The magnitude and duration of this impact will be largely dependent upon the FRB's policy decisions and market movements. See Table 20 in Item 7A on page 50 for an illustration of the impact of an interest rate increase or decrease on net interest income as of December 31, 2018.

The provision for loan loss totaled $70.8 million for the year-ended December 31, 2018, which is an increase of $29.8 million, or 72.6 percent, compared to the same period in 2017. This increase was driven primarily by higher provision to cover the loss related to a single factoring credit relationship. See further discussion in "Provision and Allowance for Loan Losses" on page 28.

The Company had a decrease of $21.9 million, or 5.2 percent, in noninterest income in 2018, as compared to 2017, and an increase of $21.1 million, or 5.2 percent, in 2017, compared to 2016. The decrease in 2018 is primarily attributable to trading and investment banking, trust and securities processing, bankcard income, gains on sales of available-for-sale securities, and service charges on deposit accounts. The change in noninterest income in 2018 from 2017, and 2017 from 2016 is illustrated on Table 6 on page 31.

Noninterest expense increased in 2018 by $12.7 million, or 1.8 percent, compared to 2017 and increased by $38.4 million, or 5.8 percent, in 2017 compared to 2016. The increase in 2018 is primarily driven by increases in legal and consulting expense, salary and employee benefit expense, and processing fees, offset by a decrease in other expense. The increase in noninterest expense in 2018 from 2017, and 2017 from 2016 is illustrated on Table 7 on page 32.

Net Interest Income

Net interest income is a significant source of the Company's earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest earning assets and the related funding sources, the overall mix of these assets and liabilities, and the interest rates paid on each affect net interest income. Table 2 summarizes the change in net interest income resulting from changes in volume and rates for 2018, 2017 and 2016.

Net interest margin, presented in Table 1 on page 25, is calculated as net interest income on a fully tax equivalent basis (FTE) as a percentage of average earning assets. Net interest income is presented on a tax-equivalent basis to adjust for the tax-exempt status of earnings from certain loans and investments, which are primarily obligations of state and local governments. A critical component of net interest income and related net interest margin is the percentage of earning assets funded by interest-free sources. Table 3 analyzes net interest margin for the three years ended December 31, 2018, 2017 and 2016. Net interest income, average balance sheet amounts and the corresponding yields earned and rates paid for the years 2016 through 2018 are presented in Table 1 below.

The following table presents, for the periods indicated, the average earning assets and resulting yields, as well as the average interest-bearing liabilities and resulting yields, expressed in both dollars and rates.

Table 1

THREE YEAR AVERAGE BALANCE SHEETS/YIELDS AND RATES (tax-equivalent basis)

(in millions)

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense (1) | Rate Earned/ Paid (1) | | Average Balance | Interest Income/ Expense (1) | Rate Earned/ Paid (1) | |
| ASSETS | | | | | | | | |
| Loans and loans held for sale (FTE) (2) (3) | $11,606.5 | $ 559.4 | 4.82 | % | $10,843.6 | $ 461.3 | 4.25 | % |
| Securities: | | | | | | | | |
| Taxable | 3,858.8 | 83.3 | 2.16 | | 3,918.0 | 73.1 | 1.87 | |
| Tax-exempt (FTE) | 3,505.6 | 94.1 | 2.68 | | 3,658.0 | 112.5 | 3.08 | |
| Total securities | 7,364.4 | 177.4 | 2.41 | | 7,576.0 | 185.6 | 2.45 | |
| Federal funds sold and resell agreements | 178.8 | 4.8 | 2.69 | | 190.0 | 3.7 | 1.95 | |
| Interest-bearing due from banks | 419.8 | 7.9 | 1.88 | | 351.3 | 3.9 | 1.10 | |
| Other earning assets (FTE) | 49.3 | 2.5 | 4.97 | | 57.0 | 1.9 | 3.28 | |
| Total earning assets (FTE) | 19,618.8 | 752.0 | 3.83 | | 19,017.9 | 656.4 | 3.45 | |
| Allowance for loan losses | (100.9 ) | | | | (97.2 ) | | | |
| Cash and due from banks | 396.1 | | | | 379.6 | | | |
| Other assets | 1,085.8 | | | | 1,096.1 | | | |
| Total assets | $20,999.8 | | | | $20,396.4 | | | |
| | | | | | | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | |
| Interest-bearing demand and savings deposits | $10,113.3 | $ 80.9 | 0.80 | % | $8,819.4 | $ 27.6 | 0.31 | % |
| Time deposits under $250,000 | 355.3 | 3.8 | 1.07 | | 373.6 | 2.8 | 0.75 | |
| Time deposits of $250,000 or more | 687.4 | 7.4 | 1.08 | | 809.5 | 6.0 | 0.74 | |
| Total interest bearing deposits | 11,156.0 | 92.1 | 0.83 | | 10,002.5 | 36.4 | 0.36 | |
| Long-term debt | 79.2 | 4.7 | 5.93 | | 76.3 | 3.7 | 4.85 | |
| Federal funds purchased and repurchase agreements | 1,559.1 | 24.7 | 1.59 | | 2,095.1 | 17.9 | 0.85 | |
| Total interest bearing liabilities | 12,794.3 | 121.5 | 0.95 | | 12,173.9 | 58.0 | 0.48 | |
| Noninterest bearing demand deposits | 5,828.5 | | | | 5,936.2 | | | |
| Other | 182.2 | | | | 205.5 | | | |
| Total | 18,805.0 | | | | 18,315.6 | | | |
| Total shareholders' equity | 2,194.8 | | | | 2,080.8 | | | |
| Total liabilities and shareholders' equity | $20,999.8 | | | | $20,396.4 | | | |
| Net interest income (FTE) | | $ 630.5 | | | | $ 598.4 | | |

| | | | | |
|---|---|---|---|---|
| Net interest spread (FTE) | 2.88 | % | 2.97 | % |
| Net interest margin (FTE) | 3.21 | % | 3.15 | % |

(1) Interest income and yields are stated on a fully tax-equivalent (FTE) basis, using a marginal tax rate of 21% for 2018, while a rate of 35% was used for 2017 and 2016. The tax-equivalent interest income and yields give effect to tax-exempt interest income net of the disallowance of interest expense, for federal income tax purposes related to certain tax-free assets. Rates earned/paid may not compute to the rates shown due to presentation in millions. The tax-equivalent interest income totaled \$20.0 million, \$39.5 million, and \$31.0 million in 2018, 2017, and 2016, respectively.

(2) Loan fees are included in interest income. Such fees totaled \$17.0 million, \$15.4 million, and \$13.3 million in 2018, 2017, and 2016, respectively.

(3) Loans on non-accrual are included in the computation of average balances. Interest income on these loans is also included in loan income.

THREE YEAR AVERAGE BALANCE SHEETS/YIELDS AND RATES (tax-equivalent basis)

(in millions)

| | 2016 | | | |
|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense (1) | Rate Earned/ Paid (1) | |
| ASSETS | | | | |
| Loans and loans held for sale (FTE) (2) (3) | $9,992.9 | $ 386.3 | 3.87 | % |
| Securities: | | | | |
| Taxable | 4,545.0 | 73.6 | 1.62 | |
| Tax-exempt (FTE) | 3,077.6 | 88.3 | 2.87 | |
| Total securities | 7,622.6 | 161.9 | 2.12 | |
| Federal funds sold and resell agreements | 188.5 | 2.7 | 1.44 | |
| Interest-bearing due from banks | 410.2 | 2.3 | 0.57 | |
| Other earning assets (FTE) | 42.4 | 0.8 | 1.85 | |
| Total earning assets (FTE) | 18,256.6 | 554.0 | 3.03 | |
| Allowance for loan losses | (85.2 ) | | | |
| Cash and due from banks | 394.7 | | | |
| Other assets | 1,026.5 | | | |
| Total assets | $19,592.6 | | | |
| | | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Interest-bearing demand and savings deposits | $8,267.6 | $ 11.4 | 0.14 | % |
| Time deposits under $250,000 | 601.4 | 3.3 | 0.55 | |
| Time deposits of $250,000 or more | 563.7 | 3.2 | 0.57 | |
| Total interest bearing deposits | 9,432.7 | 17.9 | 0.19 | |
| Short-term debt | 3.8 | — | — | |
| Long-term debt | 81.9 | 3.2 | 3.91 | |
| Federal funds purchased and repurchase agreements | 2,005.6 | 6.6 | 0.33 | |
| Total interest bearing liabilities | 11,524.0 | 27.7 | 0.24 | |
| Noninterest bearing demand deposits | 5,906.0 | | | |
| Other | 178.9 | | | |
| Total | 17,608.9 | | | |
| Total shareholders' equity | 1,983.7 | | | |
| Total liabilities and shareholders' equity | $19,592.6 | | | |
| Net interest income (FTE) | | $ 526.3 | | |
| Net interest spread (FTE) | | | 2.79 | % |
| Net interest margin (FTE) | | | 2.88 | % |

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Table 2

RATE-VOLUME ANALYSIS (in thousands)

This analysis attributes changes in net interest income either to changes in average balances or to changes in average interest rates for earning assets and interest-bearing liabilities. The change in net interest income that is due to both volume and interest rate has been allocated to volume and interest rate in proportion to the relationship of the absolute dollar amount of the change in each. All interest rates are presented on a tax-equivalent basis and give effect to tax-exempt interest income net of the disallowance of interest expense for federal income tax purposes, related to certain tax-free assets. The loan average balances and rates include nonaccrual loans.

| Average Volume | | Average Rate | | | Increase (Decrease) | | |
|---|---|---|---|---|---|---|---|
| 2018 | 2017 | 2018 | 2017 | 2018 vs. 2017 | Volume | Rate | Total |
| | | | | Change in interest earned on: | | | |
| $11,606,544 | $10,843,642 | 4.82% | 4.25% | Loans | $33,952 | $64,098 | $98,050 |
| | | | | Securities: | | | |
| 3,858,829 | 3,918,001 | 2.16 | 1.87 | Taxable | (1,119) | 11,327 | 10,208 |
| 3,505,602 | 3,657,951 | 2.68 | 3.08 | Tax-exempt | 245 | 747 | 992 |
| 178,801 | 190,074 | 2.69 | 1.95 | Federal funds and resell agreements | (230) | 1,338 | 1,108 |
| 419,768 | 351,293 | 1.88 | 1.10 | Interest-bearing due from banks | 870 | 3,169 | 4,039 |
| 49,345 | 57,013 | 4.97 | 3.28 | Trading securities | (264) | 916 | 652 |
| 19,618,889 | 19,017,974 | 3.83 | 3.45 | Total | 33,454 | 81,595 | 115,049 |
| | | | | Change in interest incurred on: | | | |
| 11,156,002 | 10,002,497 | 0.83 | 0.36 | Interest-bearing deposits | 4,635 | 51,112 | 55,747 |
| 1,559,149 | 2,095,111 | 1.59 | 0.85 | Federal funds and repurchase agreements | (5,483) | 12,314 | 6,831 |
| 79,191 | 76,301 | 5.93 | 4.90 | Notes payable | 147 | 791 | 938 |
| $12,794,342 | $12,173,909 | 0.95% | 0.48% | Total | (701) | 64,217 | 63,516 |
| | | | | Net interest income | $34,155 | $17,378 | $51,533 |

| Average Volume | | Average Rate | | | Increase (Decrease) | | |
|---|---|---|---|---|---|---|---|
| 2017 | 2016 | 2017 | 2016 | 2017 vs. 2016 | Volume | Rate | Total |
| | | | | Change in interest earned on: | | | |
| $10,843,642 | $9,992,874 | 4.25% | 3.87% | Loans | $34,405 | $40,622 | $75,027 |
| | | | | Securities: | | | |
| 3,918,001 | 4,545,013 | 1.87 | 1.62 | Taxable | (10,884) | 10,449 | (435) |
| 3,657,951 | 3,077,562 | 3.08 | 2.87 | Tax-exempt | 11,542 | 4,361 | 15,903 |
| 190,074 | 188,572 | 1.95 | 1.44 | Federal funds and resell agreements | 22 | 970 | 992 |
| 351,293 | 410,163 | 1.10 | 0.57 | Interest-bearing due from banks | (378) | 1,908 | 1,530 |
| 57,013 | 42,437 | 3.28 | 1.85 | Trading securities | 265 | 599 | 864 |
| 19,017,974 | 18,256,621 | 3.45 | 3.03 | Total | 34,972 | 58,909 | 93,881 |
| | | | | Change in interest incurred on: | | | |
| 10,002,497 | 9,432,720 | 0.36 | 0.19 | Interest-bearing deposits | 1,144 | 17,274 | 18,418 |
| 2,095,111 | 2,005,631 | 0.85 | 0.33 | Federal funds and repurchase agreements | 304 | 11,078 | 11,382 |
| 76,301 | 85,658 | 4.90 | 3.79 | Notes payable | (383) | 874 | 491 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $12,173,909 | $11,524,009 | 0.48% | 0.24% | Total | 1,065 | 29,226 | 30,291 |
| | | | | Net interest income | $33,907 | $29,683 | $63,590 |

Table 3

ANALYSIS OF NET INTEREST MARGIN (in thousands)

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| Average earning assets | $19,618,889 | | $19,017,974 | | $18,256,621 | |
| Interest-bearing liabilities | 12,794,342 | | 12,173,909 | | 11,524,009 | |
| Interest-free funds | $6,824,547 | | $6,844,065 | | $6,732,612 | |
| Free funds ratio (interest free funds to average earning assets) | 34.79 | % | 35.99 | % | 36.88 | % |
| Tax-equivalent yield on earning assets | 3.83 | % | 3.45 | % | 3.03 | % |
| Cost of interest-bearing liabilities | 0.95 | | 0.48 | | 0.24 | |
| Net interest spread | 2.88 | % | 2.97 | % | 2.79 | % |
| Benefit of interest-free funds | 0.33 | | 0.18 | | 0.09 | |
| Net interest margin | 3.21 | % | 3.15 | % | 2.88 | % |

The Company experienced an increase in net interest income of $51.5 million, or 9.2 percent, for the year-ended December 31, 2018, compared to 2017. This follows an increase of $63.6 million, or 12.8 percent, for the year-ended December 31, 2017, compared to 2016. Average earning assets for the year ended December 31, 2018 increased by $600.9 million, or 3.2 percent, compared to the same period in 2017. Net interest margin, on a tax-equivalent basis, increased to 3.21 percent for 2018 compared to 3.15 percent in 2017.

The Company funds a significant portion of its balance sheet with noninterest-bearing demand deposits. Noninterest-bearing demand deposits represented 34.6 percent, 37.9 percent and 40.2 percent of total outstanding deposits at December 31, 2018, 2017 and 2016, respectively. As illustrated in Table 3, the impact from these interest-free funds was 33 basis points in 2018, as compared to 18 basis points in 2017 and nine basis points in 2016.

The Company has experienced an increase in net interest income during 2018 due to a volume variance of $34.2 million and a rate variance of $17.4 million. The average rate on earning assets during 2018 has increased by 38 basis points, while the average rate on interest-bearing liabilities increased by 47 basis points, resulting in a nine basis point decrease in spread. The volume of loans has increased from an average of $10.8 billion in 2017 to an average of $11.6 billion in 2018. Loan-related earning assets tend to generate a higher spread than those earned in the Company's investment portfolio. By design, the Company's investment portfolio is moderate in duration and liquid in its composition of assets.

During 2019, approximately $1.1 billion of available for sale securities are expected to have principal repayments. This includes approximately $272 million which will have principal repayments during the first quarter of 2018. The available for sale investment portfolio had an average life of 56.8 months, 51.7 months, and 54.3 months as of December 31, 2018, 2017, and 2016, respectively.

Provision and Allowance for Loan Losses

The allowance for loan losses (ALL) represents management's judgment of the losses inherent in the Company's loan portfolio as of the balance sheet date. An analysis is performed quarterly to determine the appropriate balance of the ALL. The analysis reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors. After the balance sheet analysis is performed for the ALL, the provision for loan losses is computed as the amount required to adjust the ALL to the appropriate level.

Table 4 presents the components of the allowance by loan portfolio segment.  The Company manages the ALL against the risk in the entire loan portfolio and therefore, the allocation of the ALL to a particular loan segment may change in the future.  Management of the Company believes the present ALL is adequate considering the Company's loss experience, delinquency trends and current economic conditions.  Future economic conditions and borrowers' ability to meet their obligations, however, are uncertainties which could affect the Company's ALL and/or need to change its current level of provision.  For more information on loan portfolio segments and ALL methodology refer to Note 3, "Loans and Allowance for Loan Losses," in the Notes to the Consolidated Financial Statements.

Table 4

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES (in thousands)

This table presents an allocation of the allowance for loan losses by loan portfolio segment, which represents the inherent probable loss derived by both quantitative and qualitative methods. The amounts presented are not necessarily indicative of actual future charge-offs in any particular category and are subject to change.

| | December 31, | | | | |
|---|---|---|---|---|---|
| Loan Category | 2018 | 2017 | 2016 | 2015 | 2014 |
| Commercial | $80,888 | $81,156 | $71,657 | $63,847 | $55,349 |
| Real estate | 13,664 | 9,312 | 10,569 | 8,220 | 10,725 |
| Consumer | 9,071 | 10,083 | 9,311 | 8,949 | 9,921 |
| Leases | 12 | 53 | 112 | 127 | 145 |
| Total allowance | $103,635 | $100,604 | $91,649 | $81,143 | $76,140 |

Table 5 presents a five-year summary of the Company's ALL. Also, please see "Quantitative and Qualitative Disclosures About Market Risk—Credit Risk Management" on page 53 in this report for information relating to nonaccrual, past due, restructured loans, and other credit risk matters. For more information on loan portfolio segments and ALL methodology refer to Note 3, "Loans and Allowance for Loan Losses," in the Notes to the Consolidated Financial Statements.

As illustrated in Table 5 below, the ALL decreased as a percentage of total loans to 0.85 percent as of December 31, 2018, compared to 0.89 percent as of December 31, 2017. The provision for loan loss totaled $70.8 million for the year-ended December 31, 2018, which is an increase of $29.8 million, or 72.6 percent, compared to the same period in 2017. This increase was driven by higher provision to cover the loss related to a single factoring credit relationship, which has since entered into bankruptcy, as well as based on the factors noted above. The provision for loan losses totaled $41.0 million and $32.5 million for the years-ended December 31, 2017 and 2016, respectively.

Table 5

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES (in thousands)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Allowance-beginning of year | $100,604 | $91,649 | $81,143 | $76,140 | $74,751 |
| Provision for loan losses | 70,750 | 41,000 | 32,500 | 15,500 | 17,000 |
| Charge-offs: | | | | | |
| Commercial | (64,371) | (27,985) | (12,788) | (5,239) | (7,307) |
| Consumer | | | | | |
| Credit card | (8,601) | (8,681) | (8,436) | (8,555) | (10,104) |
| Other | (1,143) | (948) | (843) | (1,103) | (1,323) |
| Real estate | (3,428) | (992) | (6,756) | (214) | (259) |
| Total charge-offs | (77,543) | (38,606) | (28,823) | (15,111) | (18,993) |
| Recoveries: | | | | | |
| Commercial | 6,753 | 3,522 | 3,596 | 1,824 | 848 |
| Consumer | | | | | |
| Credit card | 1,728 | 1,540 | 1,730 | 1,802 | 1,803 |
| Other | 898 | 533 | 518 | 667 | 687 |
| Real estate | 445 | 966 | 985 | 321 | 44 |
| Total recoveries | 9,824 | 6,561 | 6,829 | 4,614 | 3,382 |
| Net charge-offs | (67,719) | (32,045) | (21,994) | (10,497) | (15,611) |
| Allowance-end of year | $103,635 | $100,604 | $91,649 | $81,143 | $76,140 |
| Average loans, net of unearned interest | $11,604,633 | $10,841,486 | $9,986,151 | $8,423,997 | $6,974,246 |
| Loans at end of year, net of unearned interest | 12,178,150 | 11,280,514 | 10,540,383 | 9,430,761 | 7,465,794 |
| Allowance to loans at year-end | 0.85% | 0.89% | 0.87% | 0.86% | 1.02% |
| Allowance as a multiple of net charge-offs | 1.53x | 3.14x | 4.17x | 7.73x | 4.88x |
| Net charge-offs to: | | | | | |
| Provision for loan losses | 95.72% | 78.16% | 67.67% | 67.72% | 91.83% |
| Average loans | 0.58 | 0.30 | 0.22 | 0.12 | 0.22 |

## Noninterest Income

A key objective of the Company is the growth of noninterest income to provide a diverse source of revenue not directly tied to interest rates. Fee-based services are typically non-credit related and are not generally affected by fluctuations in interest rates. Noninterest income decreased in 2018 by $21.9 million, or 5.2 percent, compared to 2017 and increased in 2017 by $21.1 million, or 5.2 percent, compared to 2016. The decrease in 2018 is primarily attributable to trading and investment banking, trust and securities processing, bankcard income, gains on sales of available-for-sale securities, and service charges on deposit accounts. The increase in 2017 is primarily attributable to trust and securities processing, brokerage income, other income, and bankcard income.

The Company's fee-based services offer multiple products and services to customers which management believes will more closely align to the customer's product demand with the Company. The Company is currently emphasizing fee-based services including trust and securities processing, bankcard, securities trading & brokerage and cash & treasury management. Management believes that it can offer these products and services both efficiently and profitably, as most have common platforms and support structures.

Table 6

SUMMARY OF NONINTEREST INCOME (in thousands)

| | Year Ended December 31, | | | Dollar Change | | Percent Change | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 18-17 | 17-16 | 18-17 | 17-16 |
| Trust and securities processing | $172,163 | $176,646 | $166,315 | $(4,483) | $10,331 | (2.5)% | 6.2 % |
| Trading and investment banking | 15,584 | 23,183 | 21,422 | (7,599) | 1,761 | (32.8) | 8.2 |
| Service charges on deposit accounts | 84,287 | 87,680 | 86,662 | (3,393) | 1,018 | (3.9) | 1.2 |
| Insurance fees and commissions | 1,292 | 1,972 | 4,188 | (680) | (2,216) | (34.5) | (52.9) |
| Brokerage fees | 25,807 | 23,208 | 17,833 | 2,599 | 5,375 | 11.2 | 30.1 |
| Bankcard fees | 68,520 | 73,030 | 68,749 | (4,510) | 4,281 | (6.2) | 6.2 |
| Gains on sales of securities available for sale, net | 578 | 4,192 | 8,509 | (3,614) | (4,317) | (86.2) | (50.7) |
| Other | 33,467 | 33,651 | 28,833 | (184) | 4,818 | (0.5) | 16.7 |
| Total noninterest income | $401,698 | $423,562 | $402,511 | $(21,864) | $21,051 | (5.2)% | 5.2 % |

Noninterest income and the year-over-year changes in noninterest income are summarized in Table 6 above. The dollar change and percent change columns highlight the respective net increase or decrease in the categories of noninterest income in 2018 compared to 2017, and in 2017 compared to 2016.

Trust and securities processing income consists of fees earned on personal and corporate trust accounts, custody of securities services, trust investments and wealth management services, and mutual fund assets servicing. This income category decreased by $4.5 million, or 2.5 percent in 2018, compared to 2017, and increased by $10.3 million, or 6.2 percent, in 2017, compared to 2016. During 2018, fee income from fund services fees decrease $7.5 million and wealth management services decreased $1.0 million. These decreases were offset by an increase in corporate trust income of $4.0 million as compared to 2017. In 2017, fee income from wealth management services increased $5.3 million, fund administration and custody services increased $3.3 million, and corporate trust revenue increased $1.7 million, as compared to 2016.

Trading and investment banking income decreased $7.6 million, or 32.8 percent, in 2018 compared to 2017 and increased $1.8 million, or 8.2 percent, in 2017 compared to 2016. The decrease in 2018 compared to 2017 was driven by decreased bond trading income. Additionally, the Company liquidated seed investments in certain Scout funds in 2017, causing a decrease in 2018 from 2017, and an increase in 2017 from 2016.

Brokerage fees increased $2.6 million, or 11.2 percent, in 2018 compared to 2017 and increased $5.4 million, or 30.1 percent, in 2017 compared to 2016 primarily due to an increase in 12b-1 income driven by an increase in interest rates.

Bankcard fees decreased $4.5 million, or 6.2 percent, in 2018 compared to 2017, and increased $4.3 million, or 6.2 percent, in 2017 compared to 2016. The decrease in 2018 compared to 2017 was driven by increased rewards and rebate expense, partially offset by increased interchange revenue. The increase in 2017 compared to 2016 was driven by increased interchange income.

Gains on sales of securities available for sale decreased $3.6 million in 2018 compared to 2017 and decreased by $4.3 million in 2017 compared to 2016. The Company's goal in the management of its available-for-sale securities portfolio is to maximize return within the Company's parameters of liquidity goals, interest rate risk and credit risk. This can result in differences from period to period in the amount of realized gains.

Other noninterest income decreased $0.2 million, or 0.5 percent, in 2018 compared to 2017 and increased $4.8 million, or 16.7 percent, in 2017 compared to 2016. The decrease from 2017 to 2018 was primarily due to a decrease in company-owned life insurance income, partially offset by gains on sales of assets.

Noninterest Expense

Noninterest expense increased in 2018 by $12.7 million, or 1.8 percent, compared to 2017 and increased in 2017 by $38.4 million, or 5.8 percent, compared to 2016. The main drivers of the increase from 2017 to 2018 were legal and consulting expense, salaries and employee benefits expense, processing fees, and equipment expense. The main drivers of the increase from 2016 to 2017 were salaries and employee benefits expense, processing fees, and equipment expense.  Table 7 below summarizes the components of noninterest expense and the respective year-over-year changes for each category.

Table 7

SUMMARY OF NONINTEREST EXPENSE (in thousands)

| | Year Ended December 31, | | | Dollar Change | | Percent Change | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 18-17 | 17-16 | 18-17 | 17-16 |
| Salaries and employee benefits | $419,091 | $413,830 | $390,059 | $5,261 | $23,771 | 1.3 % | 6.1 % |
| Occupancy, net | 45,239 | 44,462 | 44,255 | 777 | 207 | 1.7 | 0.5 |
| Equipment | 75,184 | 72,008 | 66,337 | 3,176 | 5,671 | 4.4 | 8.5 |
| Supplies and services | 16,103 | 17,173 | 18,535 | (1,070 ) | (1,362 ) | (6.2 ) | (7.3 ) |
| Marketing and business development | 24,372 | 21,469 | 21,208 | 2,903 | 261 | 13.5 | 1.2 |
| Processing fees | 46,977 | 42,331 | 36,005 | 4,646 | 6,326 | 11.0 | 17.6 |
| Legal and consulting | 29,859 | 23,406 | 20,801 | 6,453 | 2,605 | 27.6 | 12.5 |
| Bankcard | 17,514 | 19,471 | 20,757 | (1,957 ) | (1,286 ) | (10.1) | (6.2 ) |
| Amortization of other intangible assets | 5,764 | 7,326 | 8,695 | (1,562 ) | (1,369 ) | (21.3) | (15.7) |
| Regulatory fees | 12,695 | 15,527 | 14,178 | (2,832 ) | 1,349 | (18.2) | 9.5 |
| Other | 25,002 | 28,126 | 25,915 | (3,124 ) | 2,211 | (11.1) | 8.5 |
| Total noninterest expense | $717,800 | $705,129 | $666,745 | $12,671 | $38,384 | 1.8 % | 5.8 % |

Salaries and employee benefits expense increased $5.3 million, or 1.3 percent, in 2018 compared to 2017 and $23.8 million, or 6.1 percent, in 2017 compared to 2016.  In 2018, salary and wage expense increased $11.1 million, or 4.3 percent, and bonus and commission expense increased $1.7 million, or 2.2 percent.  These increases were offset by decreased employee benefit expense of $7.6 million, or 10.1 percent driven by lower deferred compensation expense.  From 2016 to 2017, salary and wage expense increased $9.9 million, or 4.0 percent, employee benefit expense increased $9.3 million, or 14.0 percent, and bonus and commission expense increased $4.6 million, or 6.1 percent.

Equipment expense increased $3.2 million, or 4.4 percent, and $5.7 million, or 8.5 percent in 2018 and 2017, respectively.  This increase is driven by increased computer hardware and software expenses for the ongoing investments in digital channel and integrated platform solutions to support business growth and the continued modernization of its core systems in both years.

Processing fees expense increased $4.6 million, or 11.0 percent, in 2018 compared to 2017, and increased $6.3 million, or 17.6 percent, in 2017 compared to 2016.  The increases in 2018 and 2017 are primarily driven by ongoing investments in digital channel and integrated platform solutions to support business growth and the continued modernization of its core systems.

Legal and consulting expense increased $6.5 million, or 27.6 percent, in 2018 compared to 2017 and $2.6 million, or 12.5 percent, in 2017 compared to 2016.  The increase in 2018 was driven by an increase of $5.4 million in consulting expense and an increase of $1.1 million in legal and professional services expense.  This increase in 2017 was driven by an increase of $1.4 million in consulting expense and an increase of $1.3 million in legal and professional services expense.

Other noninterest expense decreased $3.1 million, or 11.1 percent, and increased $2.2 million, or 8.5 percent, in 2018 and 2017, respectively. The decrease in 2018 was driven by lower operational losses compared to 2017. The increase in 2017 was driven by increased contribution and derivative expense. The increase in 2017 was driven by increased contribution and derivative expense.

Income Taxes

Income tax expense for continuing operations totaled $27.3 million, $53.4 million and $45.0 million in 2018, 2017 and 2016, respectively. These amounts equate to effective tax rates of 12.2 percent, 22.6 percent, and 22.6 percent for 2018, 2017 and 2016, respectively. The decrease in effective rate from 2017 to 2018 is primarily a result of the Tax Cuts and Job Act (the Tax Act) which lowered the federal corporate income tax rate to 21 percent from

35 percent, effective January 1, 2018. The decrease is also attributable to a discrete tax benefit of $5.1 million related to 2017 federal provision-to-return adjustments. Of this amount, $5.0 million was due to the remeasurement of deferred tax assets and liabilities upon completion of the 2017 federal tax return during the fourth quarter of 2018. As of December 31, 2018, the accounting for the impact of the change in tax rate on deferred tax assets and liabilities is complete.

For further information on income taxes refer to Note 17, “Income Taxes,” in the Notes to the Consolidated Financial Statements.

Business Segments

The Company has strategically aligned its operations into the following four reportable segments: Commercial Banking, Institutional Banking, Personal Banking, and Healthcare Services (collectively, the Business Segments). Senior executive officers regularly evaluate Business Segment financial results produced by the Company’s internal reporting system in deciding how to allocate resources and assess performance for individual Business Segments. Previously, the Company had the following three Business Segments: Bank, Institutional Investment Management, and Asset Servicing. During 2017, the Company sold all of the outstanding stock of Scout, its institutional investment management subsidiary. As the operations of Scout are included in discontinued operations, the Company no longer presents such operations as one of its business segments. The management accounting system assigns balance sheet and income statement items to each Business Segment using methodologies that are refined on an ongoing basis.

Table 8

COMMERCIAL BANKING OPERATING RESULTS (in thousands)

| | Year Ended December 31, | | Dollar Change | Percent Change |
|---|---|---|---|---|
| | 2018 | 2017 | 18-17 | 18-17 |
| Net interest income | $380,266 | $353,627 | $26,639 | 7.5 % |
| Provision for loan losses | 63,841 | 32,937 | 30,904 | 93.8 |
| Noninterest income | 74,931 | 82,221 | (7,290) | (8.9) |
| Noninterest expense | 253,740 | 250,308 | 3,432 | 1.4 |
| Income before taxes | 137,616 | 152,603 | (14,987) | (9.8) |
| Income tax expense | 16,824 | 34,460 | (17,636) | (51.2) |
| Income from continuing operations | $120,792 | $118,143 | $2,649 | 2.2 % |

For the year ended December 31, 2018, Commercial Banking income from continuing operations increased by $2.6 million, or 2.2 percent, to $120.8 million compared to the same period in 2017. Net interest income increased $26.6 million, or 7.5 percent, for the year ended December 31, 2018, compared to the same period in 2017, primarily driven by strong loan growth, increased interest rates, and earning asset mix changes. Provision for loan losses increased by $30.9 million as compared to 2017. This increase was driven by higher provision to cover the loss related to a single factoring credit relationship, which has since entered into bankruptcy, and is consistent with our methodology, which considers the inherent risk in our loan portfolio, as well as other qualitative factors, such as macroeconomic conditions, loan growth, loan impairment changes, loan risk grading changes, and net charge-off levels. Noninterest income decreased $7.3 million, or 8.9 percent, over the same period in 2017 primarily driven by a decrease of $3.6 million in gains on securities available for sale and a decrease of $3.8 million in company-owned life insurance income.  Noninterest expense increased $3.4 million, or 1.4 percent, to $253.7 million.  This increase is primarily driven by increased salary and benefit expense and processing fees.

Table 9

INSTITUTIONAL BANKING OPERATING RESULTS (in thousands)

| | Year Ended December 31, | | Dollar Change | Percent Change |
|---|---|---|---|---|
| | 2018 | 2017 | 18-17 | 18-17 |
| Net interest income | $66,585 | $51,977 | $14,608 | 28.1 % |
| Provision for loan losses | 1,335 | 1,461 | (126 ) | (8.6 ) |
| Noninterest income | 173,591 | 187,003 | (13,412) | (7.2 ) |
| Noninterest expense | 189,708 | 184,618 | 5,090 | 2.8 |
| Income before taxes | 49,133 | 52,901 | (3,768 ) | (7.1 ) |
| Income tax expense | 6,007 | 11,946 | (5,939 ) | (49.7 ) |
| Income from continuing operations | $43,126 | $40,955 | $2,171 | 5.3 % |

For the year ended December 31, 2018, Institutional Banking income from continuing operations increased $2.2 million, or 5.3 percent, compared to the same period last year. Net interest income increased $14.6 million, or 28.1 percent, compared to the same period last year, due to an increase in funds transfer pricing driven by higher interest rates. Provision for loan losses remained flat. Noninterest income decreased $13.4 million, or 7.2 percent. Asset servicing income declined $7.5 million primarily driven by the exit of a large asset manager client that consolidated all of their global service needs to one provider during 2018. Bond trading fees decreased $5.9 million from lower trading volume and deposit service charges decreased $3.9 million due to customer repricing. Additionally, there was a $1.4 million decrease on income from company-owned life insurance and a decrease of $0.8 million in bankcard income. These decreases were offset by increases in corporate trust income of $4.0 million and brokerage fees of $2.4 million. Noninterest expense increased $5.1 million, or 2.8 percent, primarily driven by an increase of $4.4 million in salary and employee benefits expense primarily from increased salary and wages. Furniture and equipment expense increased $2.1 million for increases in computer and hardware costs related to investments for digital and integrated platform solutions to support business growth and the continued ongoing modernization of the Company's core systems. These increases were partially offset by a decrease of $2.4 million in processing fees.

Table 10

PERSONAL BANKING OPERATING RESULTS (in thousands)

| | Year Ended December 31, | | Dollar Change | Percent Change |
|---|---|---|---|---|
| | 2018 | 2017 | 18-17 | 18-17 |
| Net interest income | $125,045 | $122,304 | $2,741 | 2.2 % |
| Provision for loan losses | 5,574 | 6,602 | (1,028) | (15.6 ) |
| Noninterest income | 118,344 | 118,896 | (552 ) | (0.5 ) |
| Noninterest expense | 225,406 | 226,634 | (1,228) | (0.5 ) |
| Income before taxes | 12,409 | 7,964 | 4,445 | 55.8 |

| | | | | |
|---|---|---|---|---|
| Income tax expense | 1,517 | 1,798 | (281 ) | (15.6 ) |
| Income from continuing operations | $10,892 | $6,166 | $4,726 | 76.6 % |

For the year ended December 31, 2018, Personal Banking income from continuing operations increased $4.7 million, or 76.6 percent, compared to the same period last year. Net interest income increased $2.7 million, or 2.2 percent, compared to the same period last year due to increased interest rates. Provision for loan losses declined $1.0 million, or 15.6 percent, consistent with our methodology, which considers the inherent risk in our loan portfolio, as well as other qualitative factors, such as macroeconomic conditions, loan growth, loan impairment changes, loan risk grading changes, and net charge-off levels. Noninterest income was relatively flat for the same period. Noninterest expense decreased $1.2 million, or 0.5 percent, primarily due to decreased bankcard administrative expenses of $1.1 million, decreased regulatory expense of $1.1 million, decreased other noninterest expense of $1.0 million, largely driven by fewer operational losses. These decreases were offset by increased marketing and business development expense of $1.4 million, driven by advertising expense from the recent deposit campaigns in the third quarter, and increased salary and employee benefits expense of $0.5 million.

Table 11

HEALTHCARE SERVICES OPERATING RESULTS (in thousands)

| | Year Ended December 31, 2018 | 2017 | Dollar Change 18-17 | Percent Change 18-17 |
|---|---|---|---|---|
| Net interest income | $38,550 | $31,005 | $7,545 | 24.3 % |
| Provision for loan losses | — | — | — | — |
| Noninterest income | 34,832 | 35,442 | (610 ) | (1.7 ) |
| Noninterest expense | 48,946 | 43,569 | 5,377 | 12.3 |
| Income before taxes | 24,436 | 22,878 | 1,558 | 6.8 |
| Income tax expense | 2,986 | 5,166 | (2,180) | (42.2 ) |
| Income from continuing operations | $21,450 | $17,712 | $3,738 | 21.1 % |

For the year ended December 31, 2018, Healthcare Services income from continuing operations increased $3.7 million, or 21.1 percent, compared to the same period last year. Net interest income increased $7.5 million, or 24.3 percent, compared to the same period last year, due to an increase in number of accounts and deposits, coupled with increased funds transfer pricing credits on deposits from higher interest rates. The impact of higher interest rates, increased competitive pressures from traditional and non-traditional participants, and industry consolidation will likely impact the future levels of net interest income in this segment. Noninterest income declined $0.6 million, or 1.7 percent, compared to the same period last year, in part driven by increased revenue share with our larger healthcare partners. This decrease is primarily driven by decreased bankcard fee income of $1.5 million due to lower interchange and decreased income from company-owned life insurance of $0.4 million, partially offset by increased service charges on deposit accounts of $1.7 million. Noninterest expense increased $5.4 million, or 12.3 percent, primarily due to increased technology, service, and overhead expenses of $4.3 million and increased salary and employee benefits expense of $0.6 million, and increased processing fees of $0.4 million.

Balance Sheet Analysis

Loans and Loans Held For Sale

Loans represent the Company's largest source of interest income. Loan balances held for investment increased by $897.6 million, or 8.0 percent, in 2018. This increase was primarily driven by an increase of $675.4 million, or 14.8 percent, in commercial loans, $150.7 million, or 4.2 percent, in commercial real estate loans, and $74.7 million, or 10.4 percent in construction real estate loans.

Table 12

ANALYSIS OF LOANS BY TYPE (in thousands)

| | December 31, 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Commercial | $5,228,402 | $4,553,040 | $4,410,806 | $4,205,736 | $3,814,009 |
| Asset-based | 380,738 | 336,614 | 225,878 | 219,244 | — |
| Factoring | 261,591 | 221,672 | 139,902 | 90,686 | — |
| Commercial - credit card | 166,334 | 172,291 | 146,735 | 125,361 | 115,709 |
| Real estate - construction | 792,565 | 717,849 | 741,804 | 416,568 | 256,006 |
| Real estate - commercial | 3,714,280 | 3,563,630 | 3,165,922 | 2,662,772 | 1,866,301 |
| Leases | 5,248 | 23,967 | 39,532 | 41,857 | 39,090 |
| Total business-related | 10,549,158 | 9,589,063 | 8,870,579 | 7,762,224 | 6,091,115 |
| Real estate - residential | 707,504 | 638,591 | 548,350 | 492,227 | 319,827 |
| Real estate - HELOC | 545,721 | 648,379 | 711,794 | 729,963 | 643,586 |
| Consumer - credit card | 230,982 | 252,697 | 270,098 | 291,570 | 310,296 |
| Consumer - other | 144,785 | 151,783 | 139,562 | 154,777 | 100,970 |
| Total consumer-related | 1,628,992 | 1,691,450 | 1,669,804 | 1,668,537 | 1,374,679 |
| Loans before allowance and loans held for sale | 12,178,150 | 11,280,513 | 10,540,383 | 9,430,761 | 7,465,794 |
| Allowance for loan losses | (103,635) | (100,604) | (91,649) | (81,143) | (76,140) |
| Net loans | 12,074,515 | 11,179,909 | 10,448,734 | 9,349,618 | 7,389,654 |
| Loans held for sale | 3,192 | 1,460 | 5,279 | 589 | 624 |
| Net loans and loans held for sale | $12,077,707 | $11,181,369 | $10,454,013 | $9,350,207 | $7,390,278 |
| | | | | | |
| As a % of total loans and loans held for sale | | | | | |
| Commercial | 42.92 % | 40.36 % | 41.84 % | 44.60 % | 51.08 % |
| Asset-based | 3.12 | 2.98 | 2.14 | 2.32 | — |
| Factoring | 2.15 | 1.96 | 1.33 | 0.96 | — |
| Commercial - credit card | 1.37 | 1.53 | 1.39 | 1.33 | 1.55 |
| Real estate – construction | 6.51 | 6.36 | 7.03 | 4.42 | 3.43 |
| Real estate – commercial | 30.49 | 31.59 | 30.02 | 28.23 | 25.00 |
| Leases | 0.04 | 0.21 | 0.37 | 0.44 | 0.52 |
| Total business-related | 86.60 | 84.99 | 84.12 | 82.30 | 81.58 |
| Real estate - residential | 5.81 | 5.65 | 5.20 | 5.22 | 4.28 |
| Real estate - HELOC | 4.48 | 5.75 | 6.75 | 7.74 | 8.62 |

| | | | | | |
|---|---|---|---|---|---|
| Consumer - credit card | 1.89 | 2.24 | 2.56 | 3.09 | 4.16 |
| Consumer - other | 1.19 | 1.35 | 1.32 | 1.64 | 1.35 |
| Total consumer-related | 13.37 | 14.99 | 15.83 | 17.69 | 18.41 |
| Loans held for sale | 0.03 | 0.02 | 0.05 | 0.01 | 0.01 |
| Total loans and loans held for sale | 100.00 % | 100.00 % | 100.00 % | 100.00 % | 100.00 % |

Included in Table 12 is a five-year breakdown of loans by type. Business-related loans continue to represent the largest segment of the Company's loan portfolio, comprising approximately 86.6 percent and 85.0 percent of total loans and loans held for sale at the end of 2018 and 2017, respectively.

Commercial loans represent the largest percent of total loans. Commercial loans at December 31, 2018 have increased $675.4 million, or 14.8 percent, as compared to December 31, 2017, to 42.9 percent of total loans. Commercial loans represented 40.4 percent of total loans at December 31, 2017.

As a percentage of total loans, commercial real estate and construction real estate loans now comprise 37.0 percent of total loans compared to 37.9 percent in 2017. Commercial real estate loans increased $150.7 million, or 4.2 percent, and construction real estate loans increased $74.7 million, or 10.4 percent, compared to 2017. Generally, these loans are made for working capital or expansion purposes and are primarily secured by real estate with a maximum loan-to-value of 80 percent. Most of these properties are owner-occupied and/or have other collateral or guarantees as security.

Residential real estate increased $68.9 million, or 10.8 percent, and represented 5.8 percent of total loans. HELOC loans decreased $102.7 million, or 15.8 percent, and represent 4.5 percent of total loans.

Asset based loans increased $44.1 million, or 13.1 percent, and represented 3.1 percent of total loans as of December 31, 2018. Factoring loans increased $39.9 million, or 18.0 percent, and represented 2.2 percent of total loans as of December 31, 2018.

Nonaccrual, past due and restructured loans are discussed under "Quantitative and Qualitative Disclosure about Market Risk – Credit Risk Management" in Item 7A on page 53 of this report.

Investment Securities

The Company's investment portfolio contains trading, available-for-sale (AFS), and held-to-maturity (HTM) securities as well as FRB stock, Federal Home Loan Bank (FHLB) stock, and other miscellaneous investments. Investment securities totaled $7.8 billion as of December 31, 2018 and $7.6 billion as of December 31, 2017 and comprised 36.3 percent and 37.5 percent of the Company's earning assets, respectively, as of those dates.

The Company's AFS securities portfolio comprised 83.4 percent of the Company's investment securities portfolio at December 31, 2018, compared to 81.9 percent at year-end 2017. The Company's AFS securities portfolio provides liquidity as a result of the composition and average life of the underlying securities. This liquidity can be used to fund loan growth or to offset the outflow of traditional funding sources. The average life of the AFS securities portfolio increased from 51.7 months at December 31, 2017 to 56.8 months at December 31, 2018 due to portfolio mix changes and extension in the portfolio related to slower projected prepayments. In addition to providing a potential source of liquidity, the AFS securities portfolio can be used as a tool to manage interest rate sensitivity. The Company's goal in the management of its AFS securities portfolio is to maximize return within the Company's parameters of liquidity goals, interest rate risk and credit risk.

Management expects collateral pledging requirements for public funds, loan demand, and deposit funding to be the primary factors impacting changes in the level of AFS securities. There were $5.7 billion of AFS securities pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, derivative transactions, and repurchase agreements at December 31, 2018. Of this amount, securities with a market value of $1.0 billion at December 31, 2018 were pledged at the Federal Reserve Discount Window but were unencumbered as of that date.

The Company's HTM securities portfolio consists of private placement bonds, which are issued primarily to refinance existing revenue bonds in the healthcare and education sectors. The HTM portfolio totaled $1.2 billion as of December 31, 2018, a decrease of $90.4 million, or 7.2 percent, from December 31, 2017. The average life of the HTM portfolio was 6.9 years at December 31, 2018, compared to 7.2 years at December 31, 2017.

The securities portfolio generates the Company's second largest component of interest income. The AFS and HTM securities portfolios achieved an average yield on a tax-equivalent basis of 2.41 percent for 2018, compared to 2.45 percent in 2017, and 2.12 percent in 2016. Securities available for sale had a net unrealized loss of $127.3 million at year-end, compared to a net unrealized loss of $75.4 million the preceding year. This market value change primarily reflects the impact of a larger portfolio size, longer average life, and rising market interest rates as of December 31, 2018, compared to December 31, 2017. These amounts are reflected, on an after-tax basis, in the

Company's Accumulated other comprehensive income (loss) in shareholders' equity, as an unrealized loss of $96.0 million at year-end 2018, compared to an unrealized loss of $44.5 million for 2017. The AFS securities portfolio contains securities that have unrealized losses and are not deemed to be other-than-temporarily impaired (see the table of these securities in Note 4, "Securities," in the Notes to the Consolidated Financial Statements on page 77 of this document). The unrealized losses in the Company's investments in direct obligations of U.S. Treasury obligations, U.S. government agencies, federal agency mortgage-backed securities, and municipal securities were caused by changes in interest rates. The Company does not have the intent to sell these securities and does not believe it is more likely than not that the Company will be required to sell these securities before a recovery of fair value. The Company expects to recover its cost basis in the securities and does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

Included in Tables 13 and 14 are analyses of the cost, fair value and average yield (tax-equivalent basis) of securities available for sale and securities held to maturity.

Table 13

SECURITIES AVAILABLE FOR SALE (in thousands)

| December 31, 2018 | Amortized Cost | Fair Value |
|---|---|---|
| U.S. Treasury | $ 248,494 | $247,130 |
| U.S. Agencies | 200 | 199 |
| Mortgage-backed | 3,914,289 | 3,812,211 |
| State and political subdivisions | 2,507,107 | 2,483,260 |
| Total | $ 6,670,090 | $6,542,800 |

| December 31, 2017 | Amortized Cost | Fair Value |
|---|---|---|
| U.S. Treasury | $ 40,092 | $38,643 |
| U.S. Agencies | 14,762 | 14,752 |
| Mortgage-backed | 3,719,369 | 3,649,243 |
| State and political subdivisions | 2,546,517 | 2,542,673 |
| Corporates | 13,278 | 13,266 |
| Total | $ 6,334,018 | $6,258,577 |

| December 31, 2016 | Amortized Cost | Fair Value |
|---|---|---|
| U.S. Treasury | $ 95,315 | $93,826 |
| U.S. Agencies | 198,158 | 198,177 |
| Mortgage-backed | 3,773,090 | 3,711,699 |
| State and political subdivisions | 2,425,155 | 2,395,757 |
| Corporates | 66,997 | 66,875 |
| Total | $ 6,558,715 | $6,466,334 |

| | U.S. Treasury Securities | U.S. Agency Securities |
|---|---|---|
| December 31, 2018 | Weighted | Weighted |

| | Fair Value | Average Yield | | Fair Value | Average Yield | |
|---|---|---|---|---|---|---|
| Due in one year or less | $184,916 | 2.66 | % | $199 | 1.46 | % |
| Due after 1 year through 5 years | 52,874 | 2.08 | | — | — | |
| Due after 5 years through 10 years | 9,340 | 1.48 | | — | — | |
| Due after 10 years | — | — | | — | — | |
| Total | $247,130 | 2.49 | % | $199 | 1.46 | % |

| | Mortgage-backed Securities | | State and Political Subdivisions | |
|---|---|---|---|---|
| | | Weighted | | Weighted |
| December 31, 2018 | Fair Value | Average Yield | Fair Value | Average Yield |
| Due in one year or less | $32,859 | 2.26 % | $349,303 | 1.97 % |
| Due after 1 year through 5 years | 2,756,639 | 2.27 | 877,224 | 2.24 |
| Due after 5 years through 10 years | 983,288 | 2.80 | 699,227 | 2.48 |
| Due after 10 years | 39,425 | 3.49 | 557,506 | 3.66 |
| Total | $3,812,211 | 2.42 % | $2,483,260 | 2.59 % |

| | U.S. Treasury Securities | | U.S. Agency Securities | |
|---|---|---|---|---|
| | | Weighted | | Weighted |
| December 31, 2017 | Fair Value | Average Yield | Fair Value | Average Yield |
| Due in one year or less | $— | — % | $14,553 | 1.24 % |
| Due after 1 year through 5 years | 29,223 | 1.21 | 199 | 1.46 |
| Due after 5 years through 10 years | 9,420 | 1.48 | — | — |
| Due after 10 years | — | — | — | — |
| Total | $38,643 | 1.28 % | $14,752 | 1.24 % |

| | Mortgage-backed Securities | | State and Political Subdivisions | |
|---|---|---|---|---|
| | | Weighted | | Weighted |
| December 31, 2017 | Fair Value | Average Yield | Fair Value | Average Yield |
| Due in one year or less | $12,823 | 2.87 % | $260,957 | 2.06 % |
| Due after 1 year through 5 years | 2,541,152 | 2.08 | 1,096,967 | 2.56 |
| Due after 5 years through 10 years | 1,057,436 | 2.27 | 822,801 | 2.91 |
| Due after 10 years | 37,832 | 3.17 | 361,948 | 3.44 |
| Total | $3,649,243 | 2.15 % | $2,542,673 | 2.74 % |

| | Corporates | |
|---|---|---|
| | | Weighted |
| December 31, 2017 | Fair Value | Average Yield |
| Due in one year or less | $13,266 | 1.31 % |
| Due after 1 year through 5 years | — | — |
| Due after 5 years through 10 years | — | — |
| Due after 10 years | — | — |
| Total | $13,266 | 1.31 % |

| December 31, 2016 | U.S. Treasury Securities Fair Value | U.S. Treasury Securities Weighted Average Yield | | U.S. Agency Securities Fair Value | U.S. Agency Securities Weighted Average Yield | |
|---|---|---|---|---|---|---|
| Due in one year or less | $55,240 | 0.72 | % | $181,209 | 0.83 | % |
| Due after 1 year through 5 years | 29,260 | 1.21 | | 16,968 | 1.31 | |
| Due after 5 years through 10 years | 9,326 | 1.48 | | — | — | |
| Due after 10 years | — | — | | — | — | |
| Total | $93,826 | 0.95 | % | $198,177 | 0.87 | % |

| December 31, 2016 | Mortgage-backed Securities Fair Value | Mortgage-backed Securities Weighted Average Yield | | State and Political Subdivisions Fair Value | State and Political Subdivisions Weighted Average Yield | |
|---|---|---|---|---|---|---|
| Due in one year or less | $21,906 | 3.00 | % | $221,261 | 1.99 | % |
| Due after 1 year through 5 years | 2,853,678 | 2.01 | | 1,035,482 | 2.46 | |
| Due after 5 years through 10 years | 812,041 | 1.98 | | 853,368 | 2.83 | |
| Due after 10 years | 24,074 | 3.18 | | 285,646 | 3.05 | |
| Total | $3,711,699 | 2.02 | % | $2,395,757 | 2.62 | % |

| | Corporates | | |
|---|---|---|---|
| December 31, 2016 | Fair Value | Weighted Average Yield | |
| Due in one year or less | $53,205 | 1.09 | % |
| Due after 1 year through 5 years | 13,670 | 1.31 | |
| Due after 5 years through 10 years | — | — | |
| Due after 10 years | — | — | |
| Total | $66,875 | 1.13 | % |

Table 14

SECURITIES HELD TO MATURITY (in thousands)

| December 31, 2018 | Amortized Cost | Fair Value | Weighted Average Yield/Average Maturity | |
|---|---|---|---|---|
| Due in one year or less | $ 3,386 | $3,395 | 2.02 | % |
| Due after 1 year through 5 years | 115,162 | 107,641 | 2.64 | |
| Due after 5 years through 10 years | 380,108 | 357,381 | 2.38 | |
| Due over 10 years | 671,990 | 602,115 | 2.74 | |
| Total | $ 1,170,646 | $1,070,532 | 2.61 | % |
| | | | | |
| December 31, 2017 | | | | |
| Due in one year or less | $ 2,275 | $2,254 | 2.11 | % |
| Due after 1 year through 5 years | 100,648 | 100,925 | 2.61 | |
| Due after 5 years through 10 years | 372,234 | 363,123 | 2.29 | |
| Due over 10 years | 785,857 | 741,145 | 2.65 | |
| Total | $ 1,261,014 | $1,207,447 | 2.54 | % |
| | | | | |
| December 31, 2016 | | | | |
| Due in one year or less | $ 6,077 | $5,135 | 2.13 | % |
| Due after 1 year through 5 years | 82,650 | 83,552 | 2.66 | |
| Due after 5 years through 10 years | 341,741 | 347,574 | 2.21 | |
| Due over 10 years | 685,464 | 669,766 | 2.59 | |
| Total | $ 1,115,932 | $1,106,027 | 2.48 | % |

FEDERAL RESERVE BANK STOCK AND OTHER SECURITIES (in thousands)

| | Amortized Cost | Fair Value |
|---|---|---|
| 2018 | | |
| FRB and FHLB stock | $ 33,262 | $33,262 |
| Other securities – marketable | — | 4,385 |
| Other securities – non-marketable | 32,011 | 36,045 |
| Total Federal Reserve Bank stock and other | $ 65,273 | $73,692 |
| | | |
| 2017 | | |
| FRB and FHLB stock | $ 33,262 | $33,262 |
| Other securities – marketable | 3 | 4,640 |
| Other securities – non-marketable | 26,606 | 27,995 |
| Total Federal Reserve Bank stock and other | $ 59,871 | $65,897 |
| | | |
| 2016 | | |
| FRB and FHLB stock | $ 33,262 | $33,262 |
| Other securities – marketable | 4 | 9,952 |
| Other securities – non-marketable | 24,272 | 25,092 |
| Total Federal Reserve Bank stock and other | $ 57,538 | $68,306 |

Other marketable and non-marketable securities include PCM alternative investments in hedge funds and private equity funds, which are accounted for as equity-method investments. The fair value of other marketable securities includes alternative investment securities of $4.4 million at December 31, 2018, compared to $4.6 million at December 31, 2017. The fair value of other non-marketable securities includes the alternative investment securities fair value of $5.8 million and $3.4 million at December 31, 2018 and December 31, 2017, respectively.

Other Earning Assets

Federal funds transactions essentially are overnight loans between financial institutions, which allow for either the daily investment of excess funds or the daily borrowing of another institution's funds in order to meet short-term liquidity needs. The net borrowed position was $6.2 million at both December 31, 2018 and December 31, 2017.

The Bank buys and sells federal funds as agent for non-affiliated banks. Because the transactions are pursuant to agency arrangements, these transactions do not appear on the balance sheet and averaged $171.3 million in 2018 and $217.1 million in 2017.

At December 31, 2018, the Company held securities purchased under agreements to resell of $626.5 million compared to $186.5 million at December 31, 2017. The Company uses these instruments as short-term secured investments, in lieu of selling federal funds, or to acquire securities required for collateral purposes. Balances will fluctuate based on the Company's liquidity and investment decisions as well as the Company's correspondent bank borrowing levels. These investments averaged $172.1 million in 2018 and $186.8 million in 2017.

The Company also maintains an active securities trading inventory. The average holdings in the securities trading inventory in 2018 were $49.3 million, compared to $57.0 million in 2017, and were recorded at fair market value. As discussed in “Quantitative and Qualitative Disclosures About Market Risk -- Trading Account” in Part II, Item 7A on page 52, the Company offsets the trading account securities by the sale of exchange-traded financial futures contracts, with both the trading account and futures contracts marked to market daily.

Interest-bearing due from banks totaled $1.0 billion as of December 31, 2018 compared to $1.4 billion as of December 31, 2017 and includes amounts due from the FRB and interest-bearing accounts held at other financial institutions. The amount due from the FRB averaged $396.0 million and $303.8 million during December 31, 2018 and 2017, respectively. The increase in the FRB balance from 2017 to 2018 is primarily due to an increase in public fund and institutional deposit balances. The interest-bearing accounts held at other financial institutions totaled $18.8 million and $28.2 million at December 31, 2018 and 2017, respectively.

Deposits and Borrowed Funds

Deposits represent the Company’s primary funding source for its asset base. In addition to the core deposits garnered by the Company’s retail branch structure, the Company continues to focus on its cash management services, as well as its asset management and mutual fund servicing businesses in order to attract and retain additional core deposits. Deposits totaled $19.3 billion at December 31, 2018 and $18.0 billion at December 31, 2017, an increase of $1.3 billion or 7.0 percent. Deposits averaged $17.0 billion in 2018, and $15.9 billion in 2017.

Noninterest-bearing demand deposits averaged $5.8 billion in 2018 and $5.9 billion in 2017. These deposits represented 34.3 percent of average deposits in 2018, compared to 37.2 percent in 2017. The Company’s large commercial customer base provides a significant source of noninterest-bearing deposits. Many of these commercial accounts do not earn interest; however, they receive an earnings credit to offset the cost of other services provided by the Company.

Table 15

MATURITIES OF TIME DEPOSITS OF $250,000 OR MORE (in thousands)

| | December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Maturing within 3 months | $426,912 | $524,173 | $295,395 |
| After 3 months but within 6 months | 34,880 | 116,491 | 111,043 |
| After 6 months but within 12 months | 35,918 | 44,986 | 47,664 |
| After 12 months | 55,134 | 46,624 | 68,030 |
| Total | $552,844 | $732,274 | $522,132 |

Table 16

ANALYSIS OF AVERAGE DEPOSITS (in thousands)

| | December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Amount: | | | |
| Noninterest-bearing demand | $5,828,545 | $5,936,172 | $5,906,021 |
| Interest-bearing demand and savings | 10,113,263 | 8,819,387 | 8,267,634 |
| Time deposits under $250,000 | 355,344 | 373,553 | 601,383 |
| Total core deposits | 16,297,152 | 15,129,112 | 14,775,038 |
| Time deposits of $250,000 or more | 687,395 | 809,557 | 563,703 |
| Total deposits | $16,984,547 | $15,938,669 | $15,338,741 |
| | | | |
| As a % of total deposits: | | | |
| Noninterest-bearing demand | 34.32 % | 37.24 % | 38.50 % |
| Interest-bearing demand and savings | 59.54 | 55.34 | 53.90 |
| Time deposits under $250,000 | 2.09 | 2.34 | 3.92 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total core deposits | 95.95 | | 94.92 | | 96.32 | |
| Time deposits of $250,000 or more | 4.05 | | 5.08 | | 3.68 | |
| Total deposits | 100.00 | % | 100.00 | % | 100.00 | % |

Repurchase agreements are transactions involving the exchange of investment funds by the customer for securities by the Company, under an agreement to repurchase the same issues at an agreed-upon price and date. Securities sold under agreements to repurchase and federal funds purchased totaled $1.5 billion at December 31, 2018, and $1.3 billion at December 31, 2017. These agreements averaged $1.6 billion in 2018 and $2.1 billion in 2017. The Company enters into these transactions with its downstream correspondent banks, commercial customers, and various trust, mutual fund, and local government relationships.

The Company is a member bank with the FHLB of Des Moines, and through this relationship, the Company owns $10.0 million of FHLB stock and has access to additional liquidity and funding sources through FHLB advances. The Company's borrowing capacity is dependent upon the amount of collateral the Company places at the FHLB. Based on the collateral pledged, the Company had $814.6 million of borrowing capacity at the FHLB at December 31, 2018. The Company had no outstanding advances at FHLB Des Moines as of December 31, 2018.

Table 17

SHORT-TERM BORROWINGS (in thousands)

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | Amount | Rate | Amount | Rate | Amount | Rate |
| At December 31: | | | | | | |
| Federal funds purchased | $6,679 | 2.42% | $11,334 | 1.27% | $419,843 | 0.50% |
| Repurchase agreements | 1,512,241 | 2.08 | 1,249,370 | 1.10 | 1,437,094 | 0.45 |
| Other | — | — | — | — | — | — |
| Total | $1,518,920 | 2.09% | $1,260,704 | 1.10% | $1,856,937 | 0.46% |
| Average for year: | | | | | | |
| Federal funds purchased | $301,503 | 2.54% | $879,857 | 1.37% | $439,062 | 0.60% |
| Repurchase agreements | 1,257,646 | 1.53 | 1,215,254 | 0.76 | 1,566,569 | 0.30 |
| Other | 3 | — | 3 | — | 3,753 | 0.72 |
| Total | $1,559,152 | 1.59% | $2,095,114 | 0.85% | $2,009,384 | 0.33% |
| Maximum month-end balance: | | | | | | |
| Federal funds purchased | $631,578 | | $1,737,252 | | $1,094,017 | |
| Repurchase agreements | 1,512,241 | | 1,475,361 | | 1,815,830 | |
| Other | — | | — | | — | |

Long-term debt totaled $82.7 million at December 31, 2018. The majority of the Company's long-term debt was assumed from the acquisition of Marquette and consists of debt obligations payable to four unconsolidated trusts (Marquette Capital Trust I, Marquette Capital Trust II, Marquette Capital Trust III, and Marquette Capital Trust IV) that previously issued trust preferred securities. These long-term debt obligations had an aggregate contractual balance of $103.1 million and had a carrying value of $69.3 million at December 31, 2018. Interest rates on trust preferred securities are tied to the three-month London Interbank Offered Rate (LIBOR) with spreads ranging from 133 basis points to 160 basis points, and reset quarterly. The trust preferred securities have maturity dates ranging from January 2036 to September 2036. For further information on long-term debt refer to Note 9, "Borrowed Funds," in the Notes to the Consolidated Financial Statements.

Capital Resources and Liquidity

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

Total shareholders' equity increased $46.9 million, or 2.2 percent to $2.2 billion at December 31, 2018 as compared to December 31, 2017.

The Company's Board of Directors (the Board) authorized, at its April 24, 2018 and April 25, 2017 meetings, the repurchase of up to two million shares of the Company's common stock during the twelve months following each meeting (each a Repurchase Authorization). During 2018 and 2017, the Company acquired 1,136,594 shares and 217,071 shares, respectively, of its common stock pursuant to the applicable Repurchase Authorization. During 2018, the Company entered into an agreement with Bank of America Merrill Lynch (BAML) to repurchase an aggregate of $50.0 million of the Company's common stock through an accelerated share repurchase agreement (the ASR). Under the ASR, the Company repurchased a total of 780,321 shares. The final settlement of the transactions under the ASR occurred in December 2018. The ASR was entered into pursuant to the April 24, 2018 Repurchase Authorization and the Company has not made any repurchase of its securities other than pursuant to the Repurchase Authorizations.

Through the Company's relationship with the FHLB of Des Moines, the Company owns $10.0 million of FHLB stock and has access to additional liquidity and funding sources through FHLB advances. The Company's borrowing capacity is dependent upon the amount of collateral the Company places at the FHLB. The Company's borrowing capacity with the FHLB was $814.6 million as of December 31, 2018. The Company had no outstanding FHLB advances at FHLB of Des Moines as of December 31, 2018.

Risk-based capital guidelines established by regulatory agencies set minimum capital standards based on the level of risk associated with a financial institution's assets. The Company has implemented the Basel III regulatory capital rules adopted by the FRB. Basel III capital rules include a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5 percent and a minimum tier 1 risk-based capital ratio of 6 percent. A financial institution's total capital is also required to equal at least 8 percent of risk-weighted assets. The Basel III regulatory capital rules include transitional periods for various components of the rules that require full compliance for the Company by January 1, 2019, including a capital conservation buffer requirement of 2.5 percent of risk-weighted assets for which the transitional period began on January 1, 2016.

The risk-based capital guidelines indicate the specific risk weightings by type of asset. Certain off-balance sheet items (such as standby letters of credit and binding loan commitments) are multiplied by credit conversion factors to translate them into balance sheet equivalents before assigning them specific risk weightings. The Company is also required to maintain a leverage ratio equal to or greater than 4 percent. The leverage ratio is tier 1 core capital to total average assets less goodwill and intangibles. The Company's capital position as of December 31, 2018 is summarized in the table below and exceeded regulatory requirements.

For further discussion of capital and liquidity, see the "Quantitative and Qualitative Disclosures about Market Risk – Liquidity Risk" in Item 7A on page 54 of this report.

Table 18

RISK-BASED CAPITAL (in thousands)

This table computes risk-based capital in accordance with current regulatory guidelines. These guidelines as of December 31, 2018, excluded net unrealized gains or losses on securities available for sale from the computation of regulatory capital and the related risk-based capital ratios.

| | Risk-Weighted Category | | | | | |
|---|---|---|---|---|---|---|
| | 0% | 20% | 50% | 100% | 150% | Total |
| Risk-Weighted Assets | | | | | | |
| Loans held for sale | $— | $— | $3,192 | $— | $— | $3,192 |
| Loans and leases | 10,306 | 44,973 | 748,112 | 11,325,733 | 49,027 | 12,178,151 |
| Securities available for sale | 854,518 | 5,805,835 | 9,737 | — | — | 6,670,090 |
| Securities held to maturity | — | 28,524 | 1,142,122 | — | — | 1,170,646 |
| Federal funds and resell agreements | — | 500 | — | — | — | 500 |
| Trading securities | — | 3,776 | 37,974 | 19,261 | — | 61,011 |
| Cash and due from banks | 1,110,255 | 582,697 | — | — | — | 1,692,952 |
| All other assets | 23,530 | 19,434 | 26,343 | 902,604 | — | 971,911 |
| Category totals | $1,998,609 | $6,485,739 | $1,967,480 | $12,247,598 | $49,027 | $22,748,453 |
| Risk-weighted totals | — | 1,297,148 | 983,740 | 12,247,598 | 73,541 | 14,602,027 |
| Off-balance-sheet items (3) | — | 4,877 | 28,280 | 1,987,242 | — | 2,020,399 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total risk-weighted assets | $— | $1,302,025 | $1,012,020 | $14,234,840 | $73,541 | $16,622,426 |

| | Total |
|---|---|
| Regulatory Capital | |
| Shareholders’ equity | $2,228,470 |
| Less adjustments (1) | (86,001 ) |
| Common equity Tier 1/Tier 1 capital | 2,142,469 |
| Additional Tier 2 capital (2) | 175,676 |
| Total capital | $2,318,145 |

| | Company | |
|---|---|---|
| Capital ratios | | |
| Common Equity Tier 1 capital to risk-weighted assets | 12.89 | % |
| Tier 1 capital to risk-weighted assets | 12.89 | % |
| Total capital to risk-weighted assets | 13.95 | % |
| Leverage ratio (Tier 1 capital to total average assets less adjustments (1)) | 9.87 | % |

(1) Adjustments include a portion of goodwill and intangibles as well as unrealized gains/losses on available-for-sale securities.
(2) Includes the Company's ALL (inclusive of the reserve for off-balance sheet arrangements) and trust preferred subordinated notes.
(3) After credit conversion factor and risk weighting is applied.

For further discussion of regulatory capital requirements, see Note 10, "Regulatory Requirements" within the Notes to Consolidated Financial Statements under Item 8 on pages 83 through 84.

Commitments, Contractual Obligations and Off-balance Sheet Arrangements

The Company's main off-balance sheet arrangements are loan commitments, commercial and standby letters of credit, futures contracts and forward exchange contracts, which have maturity dates rather than payment due dates. These commitments and contingent liabilities are not required to be recorded on the Company's balance sheet. Since commitments associated with letters of credit and lending and financing arrangements may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. See Table 19 below, as well as Note 15, "Commitments, Contingencies and Guarantees" in the Notes to Consolidated Financial Statements under Item 8 on pages 94 through 96 for detailed information and further discussion of these arrangements. Management does not anticipate any material losses from its off-balance sheet arrangements.

Table 19

COMMITMENTS, CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS (in thousands)

The table below details the contractual obligations for the Company as of December 31, 2018, and includes principal payments only. The Company has no capital leases or long-term purchase obligations.

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Contractual Obligations | | | | | |
| Fed funds purchased and repurchase agreements | $1,518,920 | $1,518,920 | $— | $— | $— |
| Long-term debt obligations | 82,671 | 2,180 | 6,607 | 2,238 | 71,646 |
| Operating lease obligations | 74,362 | 12,257 | 20,478 | 14,535 | 27,092 |
| Time deposits | 1,146,748 | 863,845 | 249,945 | 32,958 | — |
| Total | $2,822,701 | $2,397,202 | $277,030 | $49,731 | $98,738 |

| | Maturities due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Commitments, Contingencies and Guarantees | | | | | |
| Commitments to extend credit for loans (excluding credit card loans) | $6,870,451 | $3,045,082 | $1,828,048 | $1,052,059 | $945,262 |
| Commitments to extend credit under credit card loans | 3,152,439 | 3,152,439 | — | — | — |
| Commercial letters of credit | 1,892 | 1,892 | — | — | — |
| Standby letters of credit | 298,915 | 202,274 | 83,800 | 3,874 | 8,967 |
| Forward contracts | 29,796 | 29,796 | — | — | — |
| Spot foreign exchange contracts | 11,183 | 11,183 | — | — | — |
| Total | $10,364,676 | $6,442,666 | $1,911,848 | $1,055,933 | $954,229 |

As of December 31, 2018, our total liabilities for unrecognized tax benefits were $4.9 million. The Company cannot reasonably estimate the settlement of these liabilities. Therefore, these liabilities have been excluded from the table above. See Note 17, “Income Taxes,” in the Notes to the Consolidated Financial Statements for information regarding the liabilities associated with unrecognized tax benefits.

Critical Accounting Policies and Estimates

Management’s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company’s Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to customers and suppliers, allowance for loan losses, bad debts, investments, financing operations, long-lived assets, taxes, other contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which have formed the basis for making such judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from the recorded estimates.

Management believes that the Company’s critical accounting policies are those relating to: the allowance for loan losses, goodwill and other intangibles, revenue recognition, accounting for uncertainty in income taxes, and fair value measurements.

Allowance for Loan Losses

The Company’s allowance for loan losses represents management’s judgment of the loan losses inherent in the loan portfolio. The allowance is reviewed quarterly, considering both quantitative and qualitative factors such as historical trends, internal risk ratings, migration analysis, concentrations of credit, current economic conditions, loan growth and individual impairment testing.

Larger commercial loans are individually reviewed for potential impairment.  For these loans, if management deems it probable that the borrower cannot meet its contractual obligations with respect to payment or timing such loans are deemed to be impaired under current accounting standards.  Such loans are then reviewed for potential impairment based on management's estimate of the borrower's ability to repay the loan given the availability of cash flows, collateral and other legal options.  Any allowance related to the impairment of an individually impaired loan is based on the present value of discounted expected future cash flows, the fair value of the underlying collateral, or the fair value of the loan.  Based on this analysis, some loans that are classified as impaired do not have a specific allowance as the discounted expected future cash flows or the fair value of the underlying collateral exceeds the Company's basis in the impaired loan.

The Company also maintains an internal risk grading system for other loans not subject to individual impairment. An estimate of the inherent loan losses on such risk-graded loans is based on a migration analysis which computes the net charge-off experience related to each risk category.

An estimate of inherent losses is computed on remaining loans based on the type of loan. Each type of loan is segregated into a pool based on the nature of such loans. This includes remaining commercial loans that have a low risk grade, as well as other homogenous loans. Homogenous loans include automobile loans, credit card loans and other consumer loans. Allowances are established for each pool based on the loan type using historical loss rates, certain statistical measures and loan growth.

An estimate of the total inherent loss is based on the above three computations. From this an adjustment can be made based on other factors management considers to be important in evaluating the probable losses in the portfolio such as general economic conditions, loan trends, risk management and loan administration and changes in internal policies. For more information on loan portfolio segments and ALL methodology refer to Note 3, “Loans and Allowance for Loan Losses,” in the Notes to the Consolidated Financial Statements.

Goodwill and Other Intangibles

Goodwill is tested for impairment annually as of October 1 and more frequently whenever events or changes in circumstance indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying value. To test goodwill for impairment, the Company performs a qualitative assessment of each reporting unit. If the Company determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, the quantitative impairment test is not required. Otherwise, the Company compares the fair value of its reporting units to their carrying amounts to determine if impairment exists and the amount of impairment loss. An impairment loss is measured as the excess of the carrying value of a reporting unit’s goodwill over its fair value. As a result of such impairment analysis, the Company did not recognize an impairment charge in 2018.

For customer-based identifiable intangibles, the Company amortizes the intangibles over their estimated useful lives of up to 17 years. When facts and circumstances indicate potential impairment of amortizing intangible assets, the Company evaluates the fair value of the asset and compares it to the carrying value for possible impairment. For more information see “Goodwill and Other Intangibles” in Note 7 in the Notes to the Consolidated Financial Statements.

Revenue Recognition

Revenue recognition includes the recording of interest on loans and securities and is recognized based on a rate multiplied by the principal amount outstanding and also includes the impact of the amortization of related premiums and discounts. Interest accrual is discontinued when, in the opinion of management, the likelihood of collection becomes doubtful, or the loan is past due for a period of ninety days or more unless the loan is both well-secured and in the process of collection. Other noninterest income is recognized when performance obligations are satisfied.

Income Taxes

The Company records a provision for income taxes for the anticipated tax consequences of our reported results of operations using the asset and liability method. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as tax loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which future realization is uncertain. Although the Company believes its assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact the amounts provided for income taxes in the consolidated financial statements.

Accounting for Uncertainty in Income Taxes

The Company is subject to income taxes in the U.S. federal and various state jurisdictions. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in these jurisdictions. The Company records the financial statement effects of an income tax position when it is more likely than not, based on the technical merits, that it will be sustained upon examination. The estimate for any uncertain tax issue is based on management’s best judgment. These estimates may change as a result of changes in tax laws and regulations, interpretations of law by taxing authorities, and income tax examinations among other factors. Due to the complexity of these uncertainties, the ultimate resolution may differ from the current estimate of the tax liabilities. These differences will be reflected as increases or decreases to Income tax expense in the period in which they are determined. See the discussion of “Liabilities Associated with Unrecognized Tax Benefits” under Note 17 in the Notes to the Consolidated Financial Statements.

Fair Value Measurements

Fair value is measured in accordance with GAAP, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value include the market approach, income approach and cost approach. The market approach uses prices or relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach involves discounting future amounts to a single present amount and is based on current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of the asset.

GAAP establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument’s fair value measurement. The three levels within the fair value hierarchy are described as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that are available at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Company’s own financial data such as internally developed pricing models and discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The Company’s fair value measurements involve various valuation techniques and models, which involve inputs that are observable, when available, and the most significant of which include available-for-sale and trading securities measured at fair value on a recurring basis.

Fair value pricing information obtained from third party data providers and pricing services for investment securities are reviewed for appropriateness on a periodic basis.  The third party service providers are also analyzed to understand and evaluate the valuation methodologies utilized.  This review includes an analysis of current market prices compared to pricing provided by the third party pricing service to assess the relative accuracy of the data provided.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

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

Interest Rate Risk

In the banking industry, a major risk exposure is changing interest rates. To minimize the effect of interest rate changes to net interest income and exposure levels to economic losses, the Company manages its exposure to changes in interest rates through asset and liability management within guidelines established by its Asset Liability Committee (ALCO) and approved by the Board. The ALCO is responsible for approving and ensuring compliance with asset/liability management policies, including interest rate exposure. The Company's primary method for measuring and analyzing consolidated interest rate risk is the Net Interest Income Simulation Analysis. The Company also uses a Net Portfolio Value model to measure market value risk under various rate change scenarios and a gap analysis to measure maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time. On a limited basis, the Company uses hedges such as swaps and futures contracts to manage interest rate risk on certain loans, trading securities, trust preferred securities, and deposits. See further information in Note 18 "Derivatives and Hedging Activities" in the Notes to the Company's Consolidated Financial Statements.

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

Net Interest Income Modeling

The Company's primary interest rate risk tool, the Net Interest Income Simulation Analysis, measures interest rate risk and the effect of interest rate changes on net interest income and net interest margin. This analysis incorporates all of the Company's assets and liabilities together with assumptions that reflect the current interest rate environment. Through these simulations, management estimates the impact on net interest income of a 300 basis point upward or a 100 basis point downward gradual change (e.g. ramp) and immediate change (e.g. shock) of market interest rates over a two year period. In ramp scenarios, rates change gradually for a one year period and remain constant in year two. In shock scenarios, rates change immediately and the change is sustained for the remainder of the two year scenario horizon. Assumptions are made to project rates for new loans and deposits based on historical analysis, management outlook and repricing strategies. Asset prepayments and other market risks are developed from industry estimates of prepayment speeds and other market changes. The results of these simulations can be significantly influenced by assumptions utilized and management evaluates the sensitivity of the simulation results on a regular basis.

Table 20 shows the net interest income percentage increase or decrease over the next twelve and twenty-four month periods as of December 31, 2018 and 2017 based on hypothetical changes in interest rates and a constant sized balance sheet with runoff being replaced.

Table 20

MARKET RISK

| | Hypothetical change in interest rate – Rate Ramp | | | |
|---|---|---|---|---|
| | Year One | | Year Two | |
| | December 31, 2018 Percentage | December 31, 2017 Percentage | December 31, 2018 Percentage | December 31, 2017 Percentage |
| (basis points) | change | change | change | change |
| 300 | 5.2 % | 1.3 % | 11.5 % | 7.1 % |
| 200 | 3.1 | 0.1 | 6.9 | 3.7 |
| 100 | 1.0 | (1.1 ) | 2.3 | 0.2 |
| Static | — | — | — | — |
| (100) | (3.4 ) | (1.5 ) | (6.4 ) | (6.0 ) |

| | Hypothetical change in interest rate – Rate Shock | | | |
|---|---|---|---|---|
| | Year One | | Year Two | |
| | December 31, 2018 Percentage | December 31, 2017 Percentage | December 31, 2018 Percentage | December 31, 2017 Percentage |
| (basis points) | change | change | change | change |
| 300 | 11.9 % | 6.1 % | 13.8 % | 10.5 % |
| 200 | 7.6 | 3.3 | 8.5 | 5.9 |
| 100 | 3.3 | 0.5 | 3.1 | 1.4 |
| Static | — | — | — | — |
| (100) | (6.2 ) | (5.3 ) | (7.5 ) | (9.3 ) |

The Company is positioned slightly asset sensitive to changes in interest rates. Net interest income is predicted to increase in all upward rate scenarios and decrease in 100 bps down scenario. The increase in net interest income in rising rate scenarios is due to yields on earning assets increasing more due to changes in market rates than the cost of paying liabilities is projected to increase. Net interest income in the down 100 bps scenario is lower due to earning asset yields decreasing more relative to changes in market rates than liability expense. The Company's ability to price deposits in a rising rate environment consistent with our history is a key assumption in these scenarios.

Repricing Mismatch Analysis

The Company also evaluates its interest rate sensitivity position in an attempt to maintain a balance between the amount of interest-bearing assets and interest-bearing liabilities which are expected to mature or reprice at any point in time. While a traditional repricing mismatch analysis (gap analysis) provides a snapshot of interest rate risk, it does not take into consideration that assets and liabilities with similar repricing characteristics may not, in fact, reprice at the same time or the same degree. Also, it does not necessarily predict the impact of changes in general levels of interest rates on net interest income.

Table 21 is a static gap analysis, which presents the Company's assets and liabilities, based on their repricing or maturity characteristics and reflecting principal amortization.  Table 22 presents the break-out of fixed and variable rate loans by repricing or maturity characteristics for each loan class.

Table 21

INTEREST RATE SENSITIVITY ANALYSIS (in millions)

| | 1-90 Days | 91-180 Days | 181-365 Days | Total | 1-5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|---|
| December 31, 2018 | | | | | | | |
| Earning assets | | | | | | | |
| Loans | $7,280.3 | $410.7 | $645.8 | $8,336.8 | $3,077.4 | $767.1 | $12,181.3 |
| Securities | 1,556.6 | 252.0 | 648.2 | 2,456.8 | 2,760.4 | 2,569.9 | 7,787.1 |
| Federal funds sold and resell agreements | 627.0 | — | — | 627.0 | — | — | 627.0 |
| Other | 1,108.9 | — | — | 1,108.9 | — | — | 1,108.9 |
| Total earning assets | $10,572.8 | $662.7 | $1,294.0 | $12,529.5 | $5,837.8 | $3,337.0 | $21,704.3 |
| % of total earning assets | 48.7 % | 3.0 % | 6.0 % | 57.7 % | 26.9 % | 15.4 % | 100.0 % |
| Funding sources | | | | | | | |
| Interest-bearing demand and savings | $2,040.2 | $1,529.8 | $3,059.7 | $6,629.7 | $393.9 | $4,430.8 | $11,454.4 |
| Time deposits | 582.4 | 118.8 | 162.6 | 863.8 | 268.5 | 14.4 | 1,146.7 |
| Federal funds purchased and repurchase agreements | 1,518.9 | — | — | 1,518.9 | — | — | 1,518.9 |
| Borrowed funds | 69.4 | — | 0.2 | 69.6 | 3.1 | 10.0 | 82.7 |
| Noninterest-bearing sources | 4,323.5 | 86.9 | 161.5 | 4,571.9 | 875.5 | 2,054.2 | 7,501.6 |
| Total funding sources | $8,534.4 | $1,735.5 | $3,384.0 | $13,653.9 | $1,541.0 | $6,509.4 | $21,704.3 |
| % of total earning assets | 39.3 % | 8.0 % | 15.6 % | 62.9 % | 7.1 % | 30.0 % | 100.0 % |
| Interest sensitivity gap | $2,038.4 | $(1,072.8) | $(2,090.0) | $(1,124.4) | $4,296.8 | $(3,172.4) | |
| Cumulative gap | 2,038.4 | 965.6 | (1,124.4) | (1,124.4) | 3,172.4 | — | |
| As a % of total earning assets | 9.4 % | 4.4 % | (5.2 )% | (5.2 )% | 14.6 % | — % | |
| Ratio of earning assets to funding sources | 1.24 | 0.38 | 0.38 | 0.92 | 3.79 | 0.51 | |
| Cumulative ratio of earning assets to funding sources | | | | | | | |