UMB FINANCIAL CORP
Form 10-Q
August 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

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

Commission file number001-38481

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 Number)

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

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

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

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

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

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

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

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

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

As of July 27, 2018, UMB Financial Corporation had 50,096,718 shares of common stock outstanding.

UMB FINANCIAL CORPORATION

FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UMB FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

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

	June 30, 2018	December 31, 2017
ASSETS		
Loans	$ 11,631,628	$ 11,280,513
Allowance for loan losses	(98,298)	(100,604)
Net loans	11,533,330	11,179,909
Loans held for sale	3,482	1,460
Securities:		
Available for sale	6,011,684	6,258,577
Held to maturity (fair value of $1,103,937 and $1,207,447, respectively)	1,204,582	1,261,014
Trading securities	67,091	54,055
Other securities	66,547	65,897
Total investment securities	7,349,904	7,639,543
Federal funds sold and securities purchased under agreements to resell	70,346	191,601
Interest-bearing due from banks	113,875	1,351,760
Cash and due from banks	379,433	392,723
Premises and equipment, net	274,408	275,942
Accrued income	100,133	98,863
Goodwill	180,867	180,867
Other intangibles, net	17,210	20,257
Other assets	508,482	438,658
Total assets	$ 20,531,470	$ 21,771,583
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 5,994,426	$ 6,839,171
Interest-bearing demand and savings	9,471,698	9,903,565
Time deposits under $250,000	512,446	547,990
Time deposits of $250,000 or more	407,508	732,274
Total deposits	16,386,078	18,023,000
Federal funds purchased and repurchase agreements	1,666,158	1,260,704
Long-term debt	78,692	79,281
Accrued expenses and taxes	147,608	191,464
Other liabilities	51,122	35,603
Total liabilities	18,329,658	19,590,052
SHAREHOLDERS' EQUITY		

Common stock, $1.00 par value; 80,000,000 shares authorized; 55,056,730		
shares issued; and 50,086,844 and 49,894,990 shares outstanding, respectively	55,057	55,057
Capital surplus	1,050,660	1,046,095
Retained earnings	1,434,342	1,338,110
Accumulated other comprehensive loss, net	(128,959)	(45,525)
Treasury stock, 4,969,886 and 5,161,740 shares, at cost, respectively	(209,288)	(212,206)
Total shareholders' equity	2,201,812	2,181,531
Total liabilities and shareholders' equity	$20,531,470	$21,771,583

See Notes to Consolidated Financial Statements.

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UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
INTEREST INCOME				
Loans	$135,150	$112,724	$261,284	$219,284
Securities:				
Taxable interest	20,523	18,441	40,303	37,631
Tax-exempt interest	18,290	18,296	36,993	35,479
Total securities income	38,813	36,737	77,296	73,110
Federal funds and resell agreements	752	711	1,790	1,630
Interest-bearing due from banks	1,056	580	2,636	1,131
Trading securities	709	459	1,139	746
Total interest income	176,480	151,211	344,145	295,901
INTEREST EXPENSE				
Deposits	18,334	7,835	32,169	13,801
Federal funds and repurchase agreements	6,666	4,994	11,398	8,463
Other	1,254	988	2,430	1,928
Total interest expense	26,254	13,817	45,997	24,192
Net interest income	150,226	137,394	298,148	271,709
Provision for loan losses	7,000	14,500	17,000	23,500
Net interest income after provision for loan losses	143,226	122,894	281,148	248,209
NONINTEREST INCOME				
Trust and securities processing	42,845	44,811	86,847	87,352
Trading and investment banking	4,653	6,173	8,754	13,715
Service charges on deposit accounts	20,722	22,731	42,627	44,806
Insurance fees and commissions	340	513	641	1,159
Brokerage fees	6,291	5,889	12,644	11,266
Bankcard fees	17,184	20,234	35,307	37,986
Gain on sales of securities available for sale, net	228	1,280	367	1,748
Other	8,026	8,675	18,627	15,191
Total noninterest income	100,289	110,306	205,814	213,223
NONINTEREST EXPENSE				
Salaries and employee benefits	104,175	102,773	212,143	206,425
Occupancy, net	10,813	11,061	21,766	22,029
Equipment	18,842	17,956	37,668	35,438
Supplies and services	4,146	4,792	7,906	8,886
Marketing and business development	6,184	5,732	11,218	9,873
Processing fees	11,537	10,743	22,698	19,942
Legal and consulting	6,460	6,467	10,304	11,517
Bankcard	4,165	5,033	8,791	9,936
Amortization of other intangible assets	1,485	1,924	3,047	3,970

Regulatory fees	3,772	4,071	6,677	7,904
Other	5,639	6,387	10,876	14,829
Total noninterest expense	177,218	176,939	353,094	350,749
Income before income taxes	66,297	56,261	133,868	110,683
Income tax expense	10,873	11,490	20,911	23,936
Income from continuing operations	55,424	44,771	112,957	86,747
Discontinued Operations				
(Loss) income from discontinued operations before income taxes	—	(2,599)	(917)	308
Income tax (benefit) expense	—	(649)	(170)	53
(Loss) income from discontinued operations	—	(1,950)	(747)	255
NET INCOME	$55,424	$42,821	$112,210	$87,002

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PER SHARE DATA				
Basic:				
Income from continuing operations	$1.12	$0.91	$2.28	$1.76
(Loss) income from discontinued operations	—	(0.04)	(0.01)	0.01
Net income – basic	1.12	0.87	2.27	1.77
Diluted:				
Income from continuing operations	1.11	0.90	2.26	1.74
(Loss) income from discontinued operations	—	(0.04)	(0.01)	0.01
Net income - diluted	1.11	0.86	2.25	1.75
Dividends	0.290	0.255	0.580	0.510
Weighted average shares outstanding - basic	49,551,920	49,269,786	49,486,626	49,190,271
Weighted average shares outstanding - diluted	50,007,022	49,848,903	49,973,992	49,829,193

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$55,424	$42,821	$112,210	$87,002
Other comprehensive (loss) income, net of tax:				
Unrealized gains and losses on debt securities:				
Change in unrealized holding gains and losses, net	(16,020)	35,311	(96,682)	57,582
Less: Reclassification adjustment for gains included in net income	(228)	(1,280)	(367)	(1,748)
Change in unrealized gains and losses on debt securities during the period	(16,248)	34,031	(97,049)	55,834
Change in unrealized gains and losses on derivative hedges	910	(1,157)	3,112	(911)
Income tax benefit (expense)	3,770	(12,340)	23,552	(21,006)
Other comprehensive (loss) income before reclassifications	(11,568)	20,534	(70,385)	33,917
Amounts reclassified from accumulated other comprehensive income(1)(2)	—	—	(13,049)	—
Net current-period other comprehensive (loss) income	(11,568)	20,534	(83,434)	33,917
Comprehensive income	$43,856	$63,355	$28,776	$120,919

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

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

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance - January 1, 2017	$55,057	$1,033,419	$1,142,887	$(57,542)	$(211,437)	$1,962,384
Total comprehensive income	—	—	87,002	33,917	—	120,919
Dividends ($0.510 per share)	—	—	(25,453)	—	—	(25,453)
Purchase of treasury stock	—	—	—	—	(4,279)	(4,279)
Issuance of equity awards	—	(3,929)	—	—	4,401	472
Recognition of equity-based compensation	—	6,243	—	—	—	6,243
Sale of treasury stock	—	321	—	—	244	565
Exercise of stock options	—	1,844	—	—	8,424	10,268
Balance - June 30, 2017	$55,057	$1,037,898	$1,204,436	$(23,625)	$(202,647)	$2,071,119
Balance - January 1, 2018	$55,057	$1,046,095	$1,338,110	$(45,525)	$(212,206)	$2,181,531
Total comprehensive income (loss)	—	—	112,210	(83,434)	—	28,776
Reclassification of certain tax effects(1)	—	—	12,917	—	—	12,917
Dividends ($0.580 per share)	—	—	(29,040)	—	—	(29,040)
Purchase of treasury stock	—	—	—	—	(6,211)	(6,211)
Issuance of equity awards	—	(2,457)	—	—	2,951	494
Recognition of equity-based compensation	—	5,201	—	—	—	5,201
Sale of treasury stock	—	278	—	—	275	553
Exercise of stock options	—	1,543	—	—	5,903	7,446
Cumulative effect adjustments(2)	—	—	145	—	—	145
Balance - June 30, 2018	$55,057	$1,050,660	$1,434,342	$(128,959)	$(209,288)	$2,201,812

(1) Related to the adoption of ASU No. 2018-02. See Note 3, “New Accounting Pronouncements,” for further detail.

(2) Related to the adoption of ASU Nos. 2016-01 and 2017-12. See Note 3, “New Accounting Pronouncements,” for further detail.

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	For the Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Net income	$112,210	$87,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	17,000	23,500
Net accretion of premiums and discounts from acquisition	(184)	(1,691)
Depreciation and amortization	26,544	28,535
Deferred income tax benefit	(34,703)	(1,737)
Net increase in trading securities and other earning assets	(14,742)	(19,209)
Gains on sales of securities available for sale, net	(367)	(1,748)
Losses on sales of assets	212	19
Amortization of securities premiums, net of discount accretion	22,647	24,139
Originations of loans held for sale	(25,502)	(32,809)
Gains on sales of loans held for sale, net	(550)	(745)
Proceeds from sales of loans held for sale	24,030	35,390
Equity-based compensation	5,695	6,715
Net tax benefit related to equity compensation plans	2,059	3,100
Changes in:		
Accrued income	(1,270)	(77)
Accrued expenses and taxes	(43,856)	(11,497)
Other assets and liabilities, net	9,592	(19,640)
Net cash provided by operating activities	98,815	119,247
INVESTING ACTIVITIES		
Proceeds from maturities of securities held to maturity	66,253	32,812
Proceeds from sales of securities available for sale	41,272	271,824
Proceeds from maturities of securities available for sale	599,647	741,395
Purchases of securities held to maturity	(10,307)	(197,425)
Purchases of securities available for sale	(515,636)	(733,530)
Net increase in loans	(373,358)	(322,944)
Net decrease in fed funds sold and resell agreements	121,255	139,806
Net cash activity from acquisitions and divestitures	2,874	(1,954)
Net decrease in interest bearing balances due from other financial institutions	7,336	24,285
Purchases of premises and equipment	(22,152)	(11,323)
Proceeds from sales of premises and equipment	26	33
Proceeds from bank-owned life insurance death benefit	16	—
Net cash used in investing activities	(82,774)	(57,021)
FINANCING ACTIVITIES		
Net decrease in demand and savings deposits	(1,276,612)	(572,374)

Net (decrease) increase in time deposits	(360,310)	98,426
Net increase in fed funds purchased and repurchase agreements	405,454	29,433
Repayment of long-term debt	(1,138)	(1,226)
Cash dividends paid	(29,062)	(25,456)
Proceeds from exercise of stock options and sales of treasury shares	7,999	10,833
Purchases of treasury stock	(6,211)	(4,279)
Net cash used in financing activities	(1,259,880)	(464,643)
Decrease in cash and cash equivalents	(1,243,839)	(402,417)
Cash and cash equivalents at beginning of period	1,716,262	1,063,967
Cash and cash equivalents at end of period	$472,423	$661,550
Supplemental Disclosures:		
Income taxes paid	$51,701	$20,679
Total interest paid	43,901	23,633

See Notes to Consolidated Financial Statements.

UMB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 (UNAUDITED)

1. Financial Statement Presentation

The Consolidated Financial Statements include the accounts of UMB Financial Corporation and its subsidiaries (collectively, the Company) after the elimination of all intercompany transactions. In the opinion of management of the Company, all adjustments relating to items that are of a normal recurring nature and necessary for a fair presentation of the financial position and results of operations have been made. The results of operations and cash flows for the interim periods presented may not be indicative of the results of the full year ending December 31, 2018. The financial statements should be read in conjunction with "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" within this Quarterly Report on Form 10-Q (the Form 10-Q) and in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission (SEC) on February 22, 2018 (the Form 10-K).

The Company is a financial holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices. The Company's national bank, UMB Bank, National Association (the Bank), has its principal office in Missouri and also has branches in Arizona, Colorado, Illinois, Kansas, Nebraska, Oklahoma, and Texas. The Company also has offices in Pennsylvania, South Dakota, Indiana, Utah, Minnesota, California, and Wisconsin.

Until November 17, 2017, the Company owned Scout Investments, Inc. (Scout), an institutional asset-management company that offered domestic and international equity strategies. On November 17, 2017, the Company closed on the sale of Scout to Carillon Tower Advisers, Inc., a Florida corporation, for a purchase price of approximately $172.5 million, after giving effect to customary purchase price adjustments. In accordance with Accounting Standards Codification (ASC) Topic 205-20, Discontinued Operations, the results of Scout have been presented separately as (Loss) income from discontinued operations in the Company's Consolidated Statements of Income.

2. Summary of Significant Accounting Policies

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

Cash and cash equivalents

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

This table provides a summary of cash and cash equivalents as presented on the Consolidated Statements of Cash Flows as of June 30, 2018 and June 30, 2017 (in thousands):

	June 30,	
	2018	2017
Due from the FRB	$92,990	$282,402
Cash and due from banks	379,433	379,148
Cash and cash equivalents at end of period	$472,423	$661,550

Also included in the Interest-bearing due from banks, but not considered cash and cash equivalents, are interest-bearing accounts held at other financial institutions, which totaled $20.9 million and $49.7 million at June 30, 2018 and June 30, 2017, respectively.

Per Share Data

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted quarter-to-date net income per share includes the dilutive effect of 455,102 and 579,116 shares issuable upon the exercise of options granted by the Company and outstanding at June 30, 2018 and 2017, respectively. Diluted year-to-date net income per share includes the dilutive effect of 487,366 and 638,922 shares issuable upon the exercise of options granted by the Company and outstanding at June 30, 2018 and 2017, respectively.

Options issued under employee benefits plans to purchase 137,630 and 150,739 shares of common stock were outstanding at June 30, 2018 and 2017, respectively, but were not included in the computation of quarter-to-date and year-to-date diluted earnings per share because the options were anti-dilutive.

Derivatives

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

3. New Accounting Pronouncements

Revenue Recognition In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, “Revenue from Contracts with Customers.” The ASU replaced most existing revenue recognition guidance in U.S. GAAP when it became effective. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU No. 2014-09 to annual reporting periods that begin after December 15, 2017. In March, April, and May 2016, the FASB issued implementation amendments to the May 2014 ASU (collectively, the amended guidance). The amended guidance affects any entity that enters into contracts with customers to transfer goods and services, unless those contracts are within the scope of other standards. The amended guidance specifically excludes interest income, as well as other revenues associated with financial assets and liabilities, including loans, leases, securities, and derivatives. The amended guidance permits the use of either the full retrospective approach or a modified retrospective approach. The Company adopted the amended guidance using the modified retrospective approach on January 1, 2018. The adoption of this guidance had no impact on the Company’s Consolidated Financial Statements, except for additional financial statement disclosures. See Note 9, “Revenue Recognition” for related disclosures.

Financial Instruments In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” The amendment is intended to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update were adopted on January 1, 2018. Upon adoption, the Company recorded a cumulative effect adjustment to the Company’s Consolidated Balance Sheets of $132 thousand as an increase to the opening balance of total shareholders’ equity.

Leases In February 2016, the FASB issued ASU No. 2016-02, “Leases.” The amendment changes the accounting treatment of leases, in that lessees will recognize most leases on-balance sheet. This will increase reported assets and liabilities, as lessees will be required to recognize a right-of-use asset along with a lease liability, measured on a discounted basis. Lessees are allowed to account for short-term leases (those with a term of twelve months or less) off-balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The standard requires the use of the modified retrospective transition method. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its Consolidated Financial Statements.

Extinguishments of Liabilities In March 2016, the FASB issued ASU No. 2016-04, "Recognition of Breakage for Certain Prepaid Stored-Value Products." The amendment is intended to reduce the diversity in practice related to the recognition of breakage. Breakage refers to the portion of a prepaid stored-value product, such as a gift card, that goes unused wholly or partially for an indefinite period of time. This amendment requires that breakage be accounted for consistent with the breakage guidance within ASU No. 2014-09, "Revenue from Contracts with Customers." The amendments in this update were adopted January 1, 2018 in conjunction with the adoption of ASU 2014-09, and the adoption had no impact on the Company's Consolidated Financial Statements.

Credit Losses In September 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This update replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption in fiscal years beginning after December 15, 2018 is permitted. The amendment requires the use of the modified retrospective approach for adoption. The Company is currently evaluating the impact that this standard will have on its Consolidated Financial Statements.

Statement of Cash Flows In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Receipts and Cash Payments." This amendment adds to and clarifies existing guidance regarding the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice with respect to eight types of cash flows. The amendments in this update require full retrospective adoption. The amendments in this update were adopted on January 1, 2018 and did not have an impact on the Company's Consolidated Financial Statements.

Derivatives and Hedging In August 2017, the FASB issued ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities." The purpose of this updated guidance is to better align financial reporting for hedging activities with the economic objectives of those activities. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted, and require the modified retrospective transition approach as of the date of adoption. The Company early adopted ASU 2017-12 with an effective date of January 1, 2018. Upon adoption, the Company recorded a cumulative effect adjustment to the Company's Consolidated Balance Sheets of $13 thousand as an increase to the opening balance of total shareholders' equity.

Comprehensive Income In February 2018, the FASB issued ASU No. 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” Under existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in AOCI are adjusted, certain tax effects become stranded in AOCI. This amendment allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the Tax Act), and requires certain disclosures about stranded tax effects. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption, including adoption in any interim period, is permitted. The Company early adopted ASU 2018-02 using a security-by-security approach with an effective date of January 1, 2018. Upon adoption, the Company reclassified stranded tax effects totaling $12.9 million from AOCI to retained earnings.

4. Loans and Allowance for Loan Losses

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to minimize the level of risk within the loan portfolio. Diversification of the loan portfolio manages the risk associated with fluctuations in economic conditions. Authority levels are established for the extension of credit to ensure consistency throughout the Company. It is necessary that policies, processes and practices implemented to control the risks of individual credit transactions and portfolio segments are sound and adhered to. The Company maintains an independent loan review department that reviews and validates the risk assessment on a continual basis. Management regularly evaluates the results of the loan reviews. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Commercial loans are made based on the identified cash flows of the borrower and on the underlying collateral provided by the borrower. The cash flows of the borrower, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts from its customers. Commercial credit cards are generally unsecured and are underwritten with criteria similar to commercial loans including an analysis of the borrower's cash flow, available business capital, and overall credit-worthiness of the borrower.

Asset-based loans are offered primarily in the form of revolving lines of credit to commercial borrowers that do not generally qualify for traditional bank financing. Asset-based loans are underwritten based primarily upon the value of the collateral pledged to secure the loan, rather than on the borrower's general financial condition. The Company utilizes pre-loan due diligence techniques, monitoring disciplines, and loan management practices common within the asset-based lending industry to underwrite loans to these borrowers.

Factoring loans provide working capital through the purchase and/or financing of accounts receivable to borrowers in the transportation industry and to commercial borrowers that do not generally qualify for traditional bank financing.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The Company requires that an appraisal of the collateral be made at origination and on an as-needed basis, in conformity with current market conditions and regulatory requirements. The underwriting standards address both owner and non-owner occupied real estate.

Construction loans are underwritten using feasibility studies, independent appraisal reviews, sensitivity analysis or absorption and lease rates and financial analysis of the developers and property owners. Construction loans are based upon estimates of costs and value associated with the complete project. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their repayment being sensitive to interest rate changes, governmental regulation of real property, economic conditions, and the availability of long-term financing.

Underwriting standards for residential real estate and home equity loans are based on the borrower's loan-to-value percentage, collection remedies, and overall credit history.

Consumer loans are underwritten based on the borrower's repayment ability. The Company monitors delinquencies on all of its consumer loans and leases and periodically reviews the distribution of FICO scores relative to historical periods to monitor credit risk on its credit card loans. The underwriting and review practices combined with the relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Consumer loans and leases that are 90 days past due or more are considered non-performing.

Credit risk is a potential loss resulting from nonpayment of either the primary or secondary exposure. Credit risk is mitigated with formal risk management practices and a thorough initial credit-granting process including consistent underwriting standards and approval process. Control factors or techniques to minimize credit risk include knowing the client, understanding total exposure, analyzing the client and debtor's financial capacity, and monitoring the client's activities. Credit risk and portions of the portfolio risk are managed through concentration considerations, average risk ratings, and other aggregate characteristics.

Loan Aging Analysis

This table provides a summary of loan classes and an aging of past due loans at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Loans						
Commercial:						
Commercial	$5,709	$ 819	$37,568	$44,096	$4,592,913	$4,637,009
Asset-based	—	—	—	—	368,328	368,328
Factoring	—	—	—	—	249,351	249,351
Commercial – credit card	676	36	—	712	186,379	187,091
Real estate:						
Real estate – construction	—	—	—	—	789,458	789,458
Real estate – commercial	3,335	—	14,245	17,580	3,731,046	3,748,626
Real estate – residential	331	—	683	1,014	686,250	687,264
Real estate – HELOC	791	—	3,089	3,880	575,024	578,904
Consumer:						
Consumer – credit card	1,875	1,856	407	4,138	223,187	227,325
Consumer – other	151	172	38	361	137,913	138,274
Leases	—	—	—	—	19,998	19,998
Total loans	$12,868	$ 2,883	$56,030	$71,781	$11,559,847	$11,631,628

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	December 31, 2017					
	30-89 Days Past Due and Accruing	Greater than 90 Days Past Due and Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Loans						
Commercial:						
Commercial	$11,216	$ 672	$38,644	$50,532	$4,502,508	$4,553,040
Asset-based	—	—	—	—	336,614	336,614
Factoring	—	—	—	—	221,672	221,672
Commercial – credit card	387	79	—	466	171,825	172,291
Real estate:						
Real estate – construction	6,666	243	93	7,002	710,847	717,849
Real estate – commercial	832	—	16,115	16,947	3,546,683	3,563,630
Real estate – residential	791	—	929	1,720	636,871	638,591
Real estate – HELOC	1,254	—	3,013	4,267	644,112	648,379
Consumer:						
Consumer – credit card	2,155	2,057	312	4,524	248,173	252,697
Consumer – other	835	40	36	911	150,872	151,783
Leases	—	—	—	—	23,967	23,967
Total loans	$24,136	$ 3,091	$59,142	$86,369	$11,194,144	$11,280,513

The Company sold residential real estate loans with proceeds of $24.0 million and $35.4 million in the secondary market without recourse during the six months ended June 30, 2018 and June 30, 2017, respectively.

The Company has ceased the recognition of interest on loans with a carrying value of $56.0 million and $59.1 million at June 30, 2018 and December 31, 2017, respectively. Restructured loans totaled $21.1 million and $41.0 million at June 30, 2018 and December 31, 2017, respectively. Loans 90 days past due and still accruing interest amounted to $2.9 million and $3.1 million at June 30, 2018 and December 31, 2017, respectively. There was an insignificant amount of interest recognized on impaired loans during 2018 and 2017.

Credit Quality Indicators

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

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

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

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

All other classes of loans are generally evaluated and monitored based on payment activity. Non-performing loans include restructured loans on non-accrual and all other non-accrual loans.

This table provides an analysis of the credit risk profile of each loan class excluded from ASC 310-30, Loans and Debt Securities Purchased with Deteriorated Credit Quality, at June 30, 2018 and December 31, 2017 (in thousands):

Credit Exposure

Credit Risk Profile by Risk Rating

	Commercial		Asset-based		Factoring	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Non-watch list	$4,142,433	$ 4,048,238	$291,213	$ 306,899	$249,163	$ 220,795
Watch	161,466	162,788	—	—	—	—
Special Mention	117,253	106,638	77,115	29,715	188	47
Substandard	215,857	235,376	—	—	—	830
Total	$4,637,009	$ 4,553,040	$368,328	$ 336,614	$249,351	$ 221,672

	Real estate – construction		Real estate – commercial	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Non-watch list	$787,424	$ 716,830	$3,594,253	$ 3,434,982
Watch	1,841	631	55,776	50,715
Special Mention	—	—	34,051	35,940
Substandard	193	388	64,546	41,993
Total	$789,458	$ 717,849	$3,748,626	$ 3,563,630

Credit Exposure

Credit Risk Profile Based on Payment Activity

	Commercial – credit card		Real estate – residential		Real estate – HELOC	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Performing	$187,091	$ 172,291	$686,581	$ 637,662	$575,815	$ 645,366

Non-performing	—	—	683	929	3,089	3,013
Total	$187,091	$ 172,291	$687,264	$ 638,591	$578,904	$ 648,379

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	Consumer – credit card		Consumer – other		Leases	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Performing	$226,918	$ 252,385	$138,236	$ 151,747	$19,998	$ 23,967
Non-performing	407	312	38	36	—	—
Total	$227,325	$ 252,697	$138,274	$ 151,783	$19,998	$ 23,967

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's judgment of inherent probable losses within the Company's loan portfolio as of the balance sheet date. The allowance is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. Accordingly, the methodology is based on historical loss trends. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for probable loan losses reflects loan quality trends, including the levels of, and trends related to, non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and estimated losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific loans; however, the entire allowance is available for any loan that, in management's judgment, should be charged off. While management utilizes its best judgment and information available at the time, the adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and changes in the regulatory environment.

The Company's allowance for loan losses consists of specific valuation allowances and general valuation allowances based on historical loan loss experience for similar loans with similar characteristics and trends, general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of impaired loans. Loans are classified based on an internal risk grading process that evaluates the obligor's ability to repay, the underlying collateral, if any, and the economic environment and industry in which the borrower operates. When a loan is considered impaired, the loan is analyzed to determine the need, if any, to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk rating of the loan and economic conditions affecting the borrower's industry.

General valuation allowances are calculated based on the historical loss experience of specific types of loans including an evaluation of the time span and volume of the actual charge-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are updated based on actual charge-off experience. A valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio, time span to charge-off, and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial loans, commercial real estate loans, commercial credit card, home equity loans, consumer real estate loans and consumer and other loans. The Company also considers a loan migration analysis for criticized loans. This analysis includes an assessment of the probability that a loan will move to a loss position based on its risk rating. The consumer credit card pool is evaluated based on delinquencies and credit scores. In addition, a portion of the allowance is determined by a review of qualitative factors by management.

Generally, the unsecured portion of a commercial or commercial real estate loan is charged off when, after analyzing the borrower's financial condition, it is determined that the borrower is incapable of servicing the debt, little or no prospect for near term improvement exists, and no realistic and significant strengthening action is pending. For collateral dependent commercial or commercial real estate loans, an analysis is completed regarding the Company's collateral position to determine if the amounts due from the borrower are in excess of the calculated current fair value of the collateral. Specific allocations of the allowance for loan losses are made for any collateral deficiency. If a collateral deficiency is ultimately deemed to be uncollectible, the amount is charged off. Revolving commercial loans (such as commercial credit cards) which are past due 90 cumulative days are classified as a loss and charged off.

Generally, a consumer loan, or a portion thereof, is charged off in accordance with regulatory guidelines which provide that such loans be charged off when the Company becomes aware of the loss, such as from a triggering event that may include, but is not limited to, new information about a borrower's intent and ability to repay the loan, bankruptcy, fraud, or death. However, the charge-off timeframe should not exceed the specified delinquency time frames, which state that closed-end retail loans (such as real estate mortgages, home equity loans and consumer installment loans) that become past due 120 cumulative days and open-end retail loans (such as home equity lines of credit and consumer credit cards) that become past due 180 cumulative days are classified as a loss and charged off.

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS

This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2018 (in thousands):

	Three Months Ended June 30, 2018				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$81,057	$9,738	$ 9,460	$ 47	$100,302
Charge-offs	(6,616)	(1,108)	(2,553)	—	(10,277)
Recoveries	479	73	721	—	1,273
Provision	2,171	3,523	1,312	(6)	7,000
Ending balance	$77,091	$12,226	$ 8,940	$ 41	$98,298

	Six Months Ended June 30, 2018				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$81,156	$9,312	$10,083	$53	$100,604
Charge-offs	(13,934)	(2,850)	(5,253)	—	(22,037)
Recoveries	950	303	1,478	—	2,731
Provision	8,919	5,461	2,632	(12)	17,000
Ending balance	$77,091	$12,226	$8,940	$41	$98,298
Ending balance: individually evaluated for impairment	$4,340	$121	$—	$—	$4,461
Ending balance: collectively evaluated for impairment	72,751	12,105	8,940	41	93,837
Loans:					
Ending balance: loans	$5,441,779	$5,804,252	$365,599	$19,998	$11,631,628
Ending balance: individually evaluated for impairment	41,556	10,791	—	—	52,347

Ending balance: collectively evaluated for impairment	5,400,223	5,793,461	365,599	19,998	11,579,281

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This table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2017 (in thousands):

	Three Months Ended June 30, 2017				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$73,197	$10,512	$ 9,510	$ 104	$93,323
Charge-offs	(9,602)	(263)	(2,624)	—	(12,489)
Recoveries	1,631	358	474	—	2,463
Provision	11,632	1,298	1,601	(31)	14,500
Ending balance	$76,858	$11,905	$ 8,961	$ 73	$97,797

	Six Months Ended June 30, 2017				
	Commercial	Real estate	Consumer	Leases	Total
Allowance for loan losses:					
Beginning balance	$71,657	$10,569	$9,311	$112	$91,649
Charge-offs	(15,583)	(449)	(5,161)	—	(21,193)
Recoveries	2,329	419	1,093	—	3,841
Provision	18,455	1,366	3,718	(39)	23,500
Ending balance	$76,858	$11,905	$8,961	$73	$97,797
Ending balance: individually evaluated for impairment	$8,362	$74	$—	$—	$8,436
Ending balance: collectively evaluated for impairment	68,496	11,831	8,961	73	89,361
Loans:					
Ending balance: loans	$5,208,864	$5,243,881	$368,029	$27,804	$10,848,578
Ending balance: individually evaluated for impairment	68,359	9,086	—	—	77,445
Ending balance: collectively evaluated for impairment	5,140,505	5,234,795	368,029	27,804	10,771,133

Impaired Loans

This table provides an analysis of impaired loans by class at June 30, 2018 and December 31, 2017 (in thousands):

	As of June 30, 2018					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	$76,063	$ 27,143	$ 14,413	$ 41,556	$ 4,340	$ 50,064
Asset-based	—	—	—	—	—	—
Factoring	—	—	—	—	—	458

Commercial – credit card	—	—	—	—	—	—
Real estate:						
Real estate – construction	108	93	—	93	—	93
Real estate – commercial	17,261	10,183	216	10,399	45	12,628
Real estate – residential	311	203	96	299	76	309
Real estate – HELOC	—	—	—	—	—	—
Consumer:						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	—	—	—	—	—	—
Leases	—	—	—	—	—	—
Total	$93,743	$ 37,622	$ 14,725	$ 52,347	$ 4,461	$ 63,552

	As of December 31, 2017					
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial:						
Commercial	$84,749	$ 44,525	$ 16,465	$ 60,990	$ 6,299	$ 65,385
Asset-based	—	—	—	—	—	—
Factoring	830	—	830	830	306	207
Commercial – credit card	—	—	—	—	—	—
Real estate:						
Real estate – construction	108	93	—	93	—	148
Real estate – commercial	16,284	7,968	4,477	12,445	3	10,506
Real estate – residential	427	321	97	418	75	221
Real estate – HELOC	—	—	—	—	—	—
Consumer:						
Consumer – credit card	—	—	—	—	—	—
Consumer – other	—	—	—	—	—	8
Leases	—	—	—	—	—	—
Total	$102,398	$ 52,907	$ 21,869	$ 74,776	$ 6,683	$ 76,475

Troubled Debt Restructurings

A loan modification is considered a troubled debt restructuring (TDR) when a concession has been granted to a debtor experiencing financial difficulties. The Company's modifications generally include interest rate adjustments, principal reductions, and amortization and maturity date extensions. These modifications allow the debtor short-term cash relief to allow them to improve their financial condition. The Company's restructured loans are individually evaluated for impairment and evaluated as part of the allowance for loan loss as described above in the Allowance for Loan Losses section of this note.

The Company had no outstanding commitments to lend to borrowers with loan modifications classified as TDRs as of June 30, 2018. As of June 30, 2017 the Company had $1.6 million in commitments to lend to borrowers with loan modifications classified as TDRs. The Company monitors loan payments on an on-going basis to determine if a loan is considered to have a payment default. Determination of payment default involves analyzing the economic conditions that exist for each customer and their ability to generate positive cash flows during the loan term.

For the three and six month periods ended June 30, 2018, the Company had one commercial TDR with a pre-modification loan balance of $6.2 million and a post-modification loan balance of $6.1 million, and one residential real estate TDR with a pre-modification loan balance of $93 thousand and a post-modification loan balance of $92 thousand. For the three month period ended June 30, 2017, the Company had no new TDRs. For the six month period ended June 30, 2017, the Company had one commercial TDR with a pre- and post-modification loan balance of $7.2 million.

5. Securities

Securities Available for Sale

This table provides detailed information about securities available for sale at June 30, 2018 and December 31, 2017 (in thousands):

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$40,098	$ —	$(2,008)	$38,090
U.S. Agencies	200	—	(2)	198
Mortgage-backed	3,809,164	819	(137,027)	3,672,956
State and political subdivisions	2,333,242	3,291	(37,561)	2,298,972
Corporates	1,470	—	(2)	1,468
Total	$6,184,174	$ 4,110	$(176,600)	$6,011,684

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$40,092	$ —	$ (1,449)	$38,643
U.S. Agencies	14,762	—	(10)	14,752
Mortgage-backed	3,719,369	1,914	(72,040)	3,649,243
State and political subdivisions	2,546,517	11,965	(15,809)	2,542,673
Corporates	13,278	—	(12)	13,266
Total	$6,334,018	$ 13,879	$ (89,320)	$6,258,577

The following table presents contractual maturity information for securities available for sale at June 30, 2018 (in thousands):

	Amortized Cost	Fair Value
Due in 1 year or less	$325,043	$324,844
Due after 1 year through 5 years	999,207	992,435
Due after 5 years through 10 years	750,393	730,715
Due after 10 years	300,367	290,734
Total	2,375,010	2,338,728

Mortgage-backed securities	3,809,164	3,672,956
Total securities available for sale	$6,184,174	$6,011,684

Securities may be disposed of before contractual maturities due to sales by the Company or because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

For the six months ended June 30, 2018, proceeds from the sales of securities available for sale were $41.3 million compared to $271.8 million for the same period in 2017. Securities transactions resulted in gross realized gains of $370 thousand and $1.7 million for the six months ended June 30, 2018 and 2017, respectively. Securities transactions resulted in gross realized losses of $3 thousand for the six months ended June 30, 2018 and there were no gross realized losses for the six months ended June 30, 2017.

Securities available for sale with a fair value of $5.0 billion at June 30, 2018 and $5.7 billion at December 31, 2017 were pledged to secure U.S. Government deposits, other public deposits, certain trust deposits, derivative transactions, and repurchase agreements. Of this amount, securities with a market value of $1.6 billion and $1.8 billion at June 30, 2018 and December 31, 2017, respectively, were pledged at the Federal Reserve Discount Window but were unencumbered as of those dates.

The following table shows the Company's available for sale investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2018 and December 31, 2017 (in thousands):

	Less than 12 months		12 months or more		Total	
June 30, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury	$9,802	$(134)	$28,288	$(1,874)	$38,090	$(2,008)
U.S. Agencies	198	(2)	—	—	198	(2)
Mortgage-backed	2,143,258	(57,180)	1,407,240	(79,847)	3,550,498	(137,027)
State and political subdivisions	1,488,089	(20,901)	341,027	(16,660)	1,829,116	(37,561)
Corporates	1,468	(2)	—	—	1,468	(2)
Total temporarily-impaired debt securities available for sale	$3,642,815	$				