

COMMERCE BANCSHARES INC /MO/  
Form 10-Q  
August 06, 2018  
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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

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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

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For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 0-2989  
COMMERCE BANCSHARES, INC.  
(Exact name of registrant as specified  
in its charter)

Missouri 43-0889454  
(State of Incorporation) (IRS Employer Identification No.)

1000 Walnut, 64106  
Kansas City, MO  
(Address of principal executive offices) (Zip Code)

(816) 234-2000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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, 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	Accelerated	Non-accelerated	Smaller reporting	Emerging growth
filer <input checked="" type="checkbox"/>	filer <input type="checkbox"/>	filer <input type="checkbox"/>	company <input type="checkbox"/>	company <input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 1, 2018, the registrant had outstanding 106,616,850 shares of its \$5 par value common stock, registrant's only class of common stock.

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Commerce Bancshares, Inc. and Subsidiaries

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## PART I: FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries  
CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
	(Unaudited)	
	(In thousands)	
<b>ASSETS</b>		
Loans	\$ 13,954,111	\$ 13,983,674
Allowance for loan losses	(159,532 )	(159,532 )
Net loans	13,794,579	13,824,142
Loans held for sale (including \$10,750,000 and \$15,327,000 of residential mortgage loans carried at fair value at June 30, 2018 and December 31, 2017, respectively)	20,352	21,398
Investment securities:		
Available for sale debt (\$557,698,000 and \$662,515,000 pledged at June 30, 2018 and December 31, 2017, respectively, to secure swap and repurchase agreements)	8,412,376	8,725,442
Trading debt	31,156	18,269
Equity	4,444	50,591
Other	112,309	99,005
Total investment securities	8,560,285	8,893,307
Federal funds sold and short-term securities purchased under agreements to resell	31,500	42,775
Long-term securities purchased under agreements to resell	700,000	700,000
Interest earning deposits with banks	114,947	30,631
Cash and due from banks	386,339	438,439
Land, buildings and equipment, net	331,782	335,110
Goodwill	138,921	138,921
Other intangible assets, net	8,083	7,618
Other assets	437,954	401,074
Total assets	\$24,524,742	\$24,833,415
<b>LIABILITIES AND EQUITY</b>		
Deposits:		
Non-interest bearing	\$6,876,756	\$7,158,962
Savings, interest checking and money market	11,761,832	11,499,620
Time open and C.D.'s of less than \$100,000	603,629	634,646
Time open and C.D.'s of \$100,000 and over	1,079,340	1,132,218
Total deposits	20,321,557	20,425,446
Federal funds purchased and securities sold under agreements to repurchase	1,166,759	1,507,138
Other borrowings	9,291	1,758
Other liabilities	255,752	180,889
Total liabilities	21,753,359	22,115,231
Commerce Bancshares, Inc. stockholders' equity:		
Preferred stock, \$1 par value		
Authorized 2,000,000 shares; issued 6,000 shares	144,784	144,784
Common stock, \$5 par value		
Authorized 120,000,000 shares;		
issued 107,081,397 shares	535,407	535,407

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Capital surplus	1,804,057	1,815,360
Retained earnings	408,374	221,374
Treasury stock of 275,577 shares at June 30, 2018 and 276,968 shares at December 31, 2017, at cost	(15,854 )	(14,473 )
Accumulated other comprehensive income (loss)	(108,781 )	14,108
Total Commerce Bancshares, Inc. stockholders' equity	2,767,987	2,716,560
Non-controlling interest	3,396	1,624
Total equity	2,771,383	2,718,184
Total liabilities and equity	\$24,524,742	\$24,833,415

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
(In thousands, except per share data)				
	(Unaudited)			
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 154,135	\$ 134,273	\$ 301,150	\$ 262,596
Interest and fees on loans held for sale	372	263	676	459
Interest on investment securities	65,564	54,975	118,806	110,240
Interest on federal funds sold and short-term securities purchased under agreements to resell	177	37	357	60
Interest on long-term securities purchased under agreements to resell	3,785	3,684	7,899	7,477
Interest on deposits with banks	1,590	362	2,730	759
Total interest income	225,623	193,594	431,618	381,591
<b>INTEREST EXPENSE</b>				
Interest on deposits:				
Savings, interest checking and money market	6,519	4,342	12,108	8,232
Time open and C.D.'s of less than \$100,000	694	674	1,356	1,318
Time open and C.D.'s of \$100,000 and over	3,483	2,822	6,322	5,585
Interest on federal funds purchased and securities sold under agreements to repurchase	3,956	2,038	7,957	3,577
Interest on other borrowings	12	911	24	1,799
Total interest expense	14,664	10,787	27,767	20,511
Net interest income	210,959	182,807	403,851	361,080
Provision for loan losses	10,043	10,758	20,439	21,886
Net interest income after provision for loan losses	200,916	172,049	383,412	339,194
<b>NON-INTEREST INCOME</b>				
Bank card transaction fees	43,215	37,295	84,668	73,046
Trust fees	37,036	33,120	73,098	65,134
Deposit account charges and other fees	23,893	22,861	46,875	44,803
Capital market fees	1,992	2,156	4,283	4,498
Consumer brokerage services	3,971	3,726	7,739	7,375
Loan fees and sales	3,229	4,091	6,091	7,259
Other	11,514	12,131	21,786	22,878
Total non-interest income	124,850	115,380	244,540	224,993
<b>INVESTMENT SECURITIES GAINS (LOSSES), NET</b>	(3,075)	)1,651	2,335	879
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	115,589	108,829	231,483	221,198
Net occupancy	11,118	11,430	22,702	22,873
Equipment	4,594	4,776	9,025	9,385
Supplies and communication	5,126	5,446	10,439	11,155
Data processing and software	21,016	20,035	41,706	39,940
Marketing	5,142	4,488	9,947	7,712
Deposit insurance	3,126	3,592	6,583	7,063
Community service	656	2,916	1,385	5,860
Other	15,493	15,378	30,867	31,081
Total non-interest expense	181,860	176,890	364,137	356,267

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Income before income taxes	140,831	112,190	266,150	208,799
Less income taxes	29,507	33,201	52,765	58,108
Net income	111,324	78,989	213,385	150,691
Less non-controlling interest expense	994	29	2,071	227
Net income attributable to Commerce Bancshares, Inc.	110,330	78,960	211,314	150,464
Less preferred stock dividends	2,250	2,250	4,500	4,500
Net income available to common shareholders	\$108,080	\$76,710	\$206,814	\$145,964
Net income per common share — basic	\$1.02	\$.71	\$1.94	\$1.36
Net income per common share — diluted	\$1.01	\$.71	\$1.93	\$1.36

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
	(Unaudited)			
Net income	\$ 111,324	\$ 78,989	\$ 213,385	\$ 150,691
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	(123	)76	(78	)171
Net unrealized gains (losses) on other securities	(19,489	)11,241	(93,210	)30,243
Pension loss amortization	394	341	787	681
Other comprehensive income (loss)	(19,218	)11,658	(92,501	)31,095
Comprehensive income	92,106	90,647	120,884	181,786
Less non-controlling interest expense	994	29	2,071	227
Comprehensive income attributable to Commerce Bancshares, Inc.	\$91,112	\$90,618	\$118,813	\$181,559
See accompanying notes to consolidated financial statements.				



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Commerce Bancshares, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Commerce Bancshares, Inc. Shareholders

(In thousands, except per share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Unaudited)							
Balance December 31, 2017	\$ 144,784	\$ 535,407	\$ 1,815,360	\$ 221,374	\$ (14,473)	\$ 14,108	\$ 1,624	\$ 2,718,184
Adoption of ASU 2018-02				(2,932 )		2,932		—
Adoption of ASU 2016-01				33,320		(33,320 )		—
Net income				211,314			2,071	213,385
Other comprehensive income (loss)						(92,501 )		(92,501 )
Distributions to non-controlling interest							(299 )	(299 )
Purchases of treasury stock					(19,069 )			(19,069 )
Issuance of stock under purchase and equity compensation plans			(17,697 )		17,688			(9 )
Stock-based compensation			6,394					6,394
Cash dividends on common stock (\$.470 per share)				(50,202 )				(50,202 )
Cash dividends on preferred stock (\$.750 per depository share)				(4,500 )				(4,500 )
Balance June 30, 2018	\$ 144,784	\$ 535,407	\$ 1,804,057	\$ 408,374	\$ (15,854)	\$ (108,781 )	\$ 3,396	\$ 2,771,383
Balance December 31, 2016	\$ 144,784	\$ 510,015	\$ 1,552,454	\$ 292,849	\$ (15,294)	\$ 10,975	\$ 5,349	\$ 2,501,132
Adoption of ASU 2016-09			3,441	(2,144 )				1,297
Net income				150,464			227	150,691
Other comprehensive income						31,095		31,095
Distributions to non-controlling interest							(1,252 )	(1,252 )
Purchases of treasury stock					(10,628 )			(10,628 )
Issuance of stock under purchase and equity compensation plans			(15,556 )		15,549			(7 )
			6,195					6,195

Stock-based compensation								
Cash dividends on common stock (\$.429 per share)				(45,816 )				(45,816 )
Cash dividends on preferred stock (\$.750 per depositary share)				(4,500 )				(4,500 )
Balance June 30, 2017	\$ 144,784	\$510,015	\$1,546,534	\$390,853	\$(10,373)	\$ 42,070	\$ 4,324	\$2,628,207
See accompanying notes to consolidated financial statements.								

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Six Months Ended June 30	
	2018	2017
	(Unaudited)	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$213,385	\$150,691
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	20,439	21,886
Provision for depreciation and amortization	19,180	19,890
Amortization of investment security premiums, net	11,679	17,827
Investment securities gains, net (A)	(2,335 )	(879 )
Net gains on sales of loans held for sale	(2,671 )	(3,547 )
Originations of loans held for sale	(89,183 )	(96,943 )
Proceeds from sales of loans held for sale	91,671	92,423
Net (increase) decrease in trading debt securities	(23,843 )	6,097
Stock-based compensation	6,394	6,195
Increase in interest receivable	(1,717 )	(428 )
Decrease in interest payable	(601 )	(692 )
Increase in income taxes payable	25,721	1,483
Other changes, net	19,958	(6,939 )
Net cash provided by operating activities	288,077	207,064
<b>INVESTING ACTIVITIES:</b>		
Proceeds from sales of investment securities (A)	192,522	6,552
Proceeds from maturities/pay downs of investment securities (A)	812,970	910,411
Purchases of investment securities (A)	(748,707 )	(625,931 )
Net (increase) decrease in loans	7,978	(234,405 )
Repayments of long-term securities purchased under agreements to resell	—	100,000
Purchases of land, buildings and equipment	(13,525 )	(14,117 )
Sales of land, buildings and equipment	1,667	2,527
Net cash provided by investing activities	252,905	145,037
<b>FINANCING ACTIVITIES:</b>		
Net increase (decrease) in non-interest bearing, savings, interest checking and money market deposits	(27,222 )	77,562
Net decrease in time open and C.D.'s	(83,895 )	(157,367 )
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(340,379 )	(467,461 )
Repayment of long-term borrowings	(149 )	(146 )
Net increase in short-term borrowings	7,682	—
Purchases of treasury stock	(19,069 )	(10,628 )
Issuance of stock under equity compensation plans	(9 )	(7 )
Cash dividends paid on common stock	(50,202 )	(45,816 )
Cash dividends paid on preferred stock	(4,500 )	(4,500 )
Net cash used in financing activities	(517,743 )	(608,363 )
Increase (decrease) in cash, cash equivalents and restricted cash	23,239	(256,262 )
Cash, cash equivalents and restricted cash at beginning of year	524,352	801,641
Cash, cash equivalents and restricted cash at June 30	\$547,591	\$545,379
(A) Available for sale debt securities, equity securities and other securities		
Income tax payments, net	\$24,969	\$54,621

Interest paid on deposits and borrowings	\$28,368	\$21,203
Loans transferred to foreclosed real estate	\$1,044	\$461
See accompanying notes to consolidated financial statements.		

Restricted cash is comprised of cash collateral posted by the Company to secure interest rate swap agreements. This balance is included in other assets in the consolidated balance sheets and totaled \$14.8 million and \$14.3 million at June 30, 2018 and 2017, respectively.

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Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 (Unaudited)

1. Principles of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). Most of the Company's operations are conducted by its subsidiary bank, Commerce Bank (the Bank). The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2017 data to conform to current year presentation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Management has evaluated subsequent events for potential recognition or disclosure. The results of operations for the three and six month periods ended June 30, 2018 are not necessarily indicative of results to be attained for the full year or any other interim period.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's most recent Annual Report on Form 10-K, containing the latest audited consolidated financial statements and notes thereto.

These financial statements reflect the adoption of several FASB Accounting Standards Updates (ASUs) on January 1, 2018. In some cases, the adoption of these ASUs resulted in changes to former accounting policies as described in Note 1 to the financial statements in the 2017 Annual Report on Form 10-K. The ASUs which affected the Company's 2018 financial statements include:

ASU 2014-09, Revenue from Contracts with Customers, which is discussed further in Note 13.

ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which is discussed further in Note 3 - Investment Securities, Note 8 - Accumulated Other Comprehensive Income, and Note 15 - Fair Value of Financial Instruments.

ASU 2016-18, Restricted Cash, which requires that the beginning and end of period amounts shown on the statement of cash flows include not only cash and cash equivalents, but also restricted cash and restricted cash equivalents, as considered such by the reporting entity.

ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which is discussed further in Note 6 - Pension.

ASU 2018-02, Reclassification for Certain Tax Effects from Accumulated Other Comprehensive Income, which is discussed further in Note 8 - Accumulated Other Comprehensive Income.



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## 2. Loans and Allowance for Loan Losses

Major classifications within the Company's held for investment loan portfolio at June 30, 2018 and December 31, 2017 are as follows:

(In thousands)	June 30, 2018	December 31, 2017
Commercial:		
Business	\$4,990,298	\$4,958,554
Real estate – construction and land	967,151	968,820
Real estate – business	2,727,580	2,697,452
Personal Banking:		
Real estate – personal	2,102,586	2,062,787
Consumer	2,012,644	2,104,487
Revolving home equity	374,557	400,587
Consumer credit card	775,214	783,864
Overdrafts	4,081	7,123
Total loans	\$13,954,111	\$13,983,674

At June 30, 2018, loans of \$3.7 billion were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. Additional loans of \$1.7 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

## Allowance for loan losses

A summary of the activity in the allowance for loan losses during the three and six months ended June 30, 2018 and 2017, respectively, follows:

(In thousands)	For the Three Months Ended June 30			For the Six Months Ended June 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	\$93,065	\$66,467	\$159,532	\$93,704	\$65,828	\$159,532
Provision	485	9,558	10,043	(409)	20,848	20,439
Deductions:						
Loans charged off	362	13,323	13,685	728	26,688	27,416
Less recoveries on loans	663	2,979	3,642	1,284	5,693	6,977
Net loan charge-offs (recoveries)	(301)	10,344	10,043	(556)	20,995	20,439
Balance June 30, 2018	\$93,851	\$65,681	\$159,532	\$93,851	\$65,681	\$159,532
Balance at beginning of period	\$92,951	\$64,881	\$157,832	\$91,361	\$64,571	\$155,932
Provision	(111)	10,869	10,758	1,002	20,884	21,886
Deductions:						
	531	13,415	13,946	1,077	25,745	26,822

Loans charged off						
Less recoveries on loans	430	2,758	3,188	1,453	5,383	6,836
Net loan charge-offs (recoveries)	101	10,657	10,758	(376	)20,362	19,986
Balance June 30, 2017	\$92,739	\$65,093	\$157,832	\$92,739	\$65,093	\$157,832



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The following table shows the balance in the allowance for loan losses and the related loan balance at June 30, 2018 and December 31, 2017, disaggregated on the basis of impairment methodology. Impaired loans evaluated under Accounting Standards Codification (ASC) 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans discussed below, which are deemed to have similar risk characteristics and are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

(In thousands)	Impaired Loans		All Other Loans	
	Allowance for Loan Losses	Loans Outstanding	Allowance for Loan Losses	Loans Outstanding
June 30, 2018				
Commercial	\$2,631	\$ 90,724	\$91,220	\$8,594,305
Personal Banking	919	18,172	64,762	5,250,910
Total	\$3,550	\$ 108,896	\$ 155,982	\$13,845,215
December 31, 2017				
Commercial	\$3,067	\$ 92,613	\$90,637	\$8,532,213
Personal Banking	1,176	22,182	64,652	5,336,666
Total	\$4,243	\$ 114,795	\$ 155,289	\$13,868,879

## Impaired loans

The table below shows the Company's investment in impaired loans at June 30, 2018 and December 31, 2017. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. They are discussed further in the "Troubled debt restructurings" section on page 15.

(In thousands)	June 30, 2018	Dec. 31, 2017
Non-accrual loans	\$9,472	\$11,983
Restructured loans (accruing)	99,424	102,812
Total impaired loans	\$108,896	\$114,795

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The following table provides additional information about impaired loans held by the Company at June 30, 2018 and December 31, 2017, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided.

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
June 30, 2018			
With no related allowance recorded:			
Business	\$ 4,946	\$ 8,936	\$ —
Real estate – business	1,210	1,300	—
	\$ 6,156	\$ 10,236	\$ —
With an allowance recorded:			
Business	\$ 70,871	\$ 71,157	\$ 2,090
Real estate – construction and land	1,342	1,346	39
Real estate – business	12,355	12,928	502
Real estate – personal	5,707	8,134	295
Consumer	5,464	5,464	52
Revolving home equity	114	114	11
Consumer credit card	6,887	6,887	561
	\$ 102,740	\$ 106,030	\$ 3,550
Total	\$ 108,896	\$ 116,266	\$ 3,550
December 31, 2017			
With no related allowance recorded:			
Business	\$ 5,356	\$ 9,000	\$ —
Real estate – business	1,299	1,303	—
Consumer	779	817	—
	\$ 7,434	\$ 11,120	\$ —
With an allowance recorded:			
Business	\$ 72,589	\$ 73,168	\$ 2,455
Real estate – construction and land	837	841	27
Real estate – business	12,532	13,071	585
Real estate – personal	9,126	11,914	532
Consumer	5,388	5,426	67
Revolving home equity	204	204	11
Consumer credit card	6,685	6,685	566
	\$ 107,361	\$ 111,309	\$ 4,243
Total	\$ 114,795	\$ 122,429	\$ 4,243

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Total average impaired loans for the three and six month periods ended June 30, 2018 and 2017, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended June 30, 2018			
Non-accrual loans	\$ 7,676	\$ 2,005	\$ 9,681
Restructured loans (accruing)	81,832	17,122	98,954
Total	\$ 89,508	\$ 19,127	\$ 108,635
For the six months ended June 30, 2018			
Non-accrual loans	\$ 8,097	\$ 2,464	\$ 10,561
Restructured loans (accruing)	80,552	17,943	98,495
Total	\$ 88,649	\$ 20,407	\$ 109,056
For the three months ended June 30, 2017			
Non-accrual loans	\$ 9,867	\$ 4,539	\$ 14,406
Restructured loans (accruing)	34,765	15,780	50,545
Total	\$ 44,632	\$ 20,319	\$ 64,951
For the six months ended June 30, 2017			
Non-accrual loans	\$ 10,238	\$ 4,027	\$ 14,265
Restructured loans (accruing)	33,333	15,991	49,324
Total	\$ 43,571	\$ 20,018	\$ 63,589

The table below shows interest income recognized during the three and six month periods ended June 30, 2018 and 2017, respectively, for impaired loans held at the end of each period. This interest all relates to accruing restructured loans, as discussed in the "Troubled debt restructurings" section on page 15.

(In thousands)	For the		For the Six	
	Three Months Ended June 30	2018	2017	Months Ended June 30
Interest income recognized on impaired loans:				
Business	\$821	\$319	\$1,641	\$637
Real estate – construction and land	22	1	44	2
Real estate – business	147	88	294	175
Real estate – personal	52	36	103	71
Consumer	82	80	164	159
Revolving home equity	1	6	2	12
Consumer credit card	159	145	317	289
Total	\$1,284	\$675	\$2,565	\$1,345

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## Delinquent and non-accrual loans

The following table provides aging information on the Company's past due and accruing loans, in addition to the balances of loans on non-accrual status, at June 30, 2018 and December 31, 2017.

(In thousands)	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual	Total
June 30, 2018					
Commercial:					
Business	\$4,983,337	\$1,404	\$443	\$5,114	\$4,990,298
Real estate – construction and land	963,654	3,492	—	5	967,151
Real estate – business	2,718,888	6,227	—	2,465	2,727,580
Personal Banking:					
Real estate – personal	2,092,350	7,155	1,193	1,888	2,102,586
Consumer	1,985,195	25,096	2,353	—	2,012,644
Revolving home equity	372,865	708	984	—	374,557
Consumer credit card	758,230	8,504	8,480	—	775,214
Overdrafts	3,731	350	—	—	4,081
Total	\$13,878,250	\$52,936	\$13,453	\$9,472	\$13,954,111
December 31, 2017					
Commercial:					
Business	\$4,949,148	\$3,085	\$374	\$5,947	\$4,958,554
Real estate – construction and land	967,321	1,473	21	5	968,820
Real estate – business	2,694,234	482	—	2,736	2,697,452
Personal Banking:					
Real estate – personal	2,050,787	6,218	3,321	2,461	2,062,787
Consumer	2,067,025	32,674	3,954	834	2,104,487
Revolving home equity	397,349	1,962	1,276	—	400,587
Consumer credit card	764,568	10,115	9,181	—	783,864
Overdrafts	6,840	283	—	—	7,123
Total	\$13,897,272	\$56,292	\$18,127	\$11,983	\$13,983,674

## Credit quality

The following table provides information about the credit quality of the Commercial loan portfolio, using the Company's internal rating system as an indicator. The internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the "pass" category is monitored for early identification of credit deterioration. The "special mention" rating is applied to loans where the borrower exhibits negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. It is a transitional grade that is closely monitored for improvement or deterioration. The "substandard" rating is applied to loans where the borrower exhibits well-defined weaknesses that jeopardize its continued performance and are of a severity that the distinct possibility of default exists. Loans are placed on "non-accrual" when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment.



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## Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate- Business	Total
June 30, 2018				
Pass	\$4,771,613	\$ 954,492	\$2,648,144	\$8,374,249
Special mention	58,771	10,501	33,791	103,063
Substandard	154,800	2,153	43,180	200,133
Non-accrual	5,114	5	2,465	7,584
Total	\$4,990,298	\$ 967,151	\$2,727,580	\$8,685,029
December 31, 2017				
Pass	\$4,740,013	\$ 955,499	\$2,593,005	\$8,288,517
Special mention	59,177	10,614	50,577	120,368
Substandard	153,417	2,702	51,134	207,253
Non-accrual	5,947	5	2,736	8,688
Total	\$4,958,554	\$ 968,820	\$2,697,452	\$8,624,826

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above "Delinquent and non-accrual loans" section. In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a borrower's financial history. The Bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain personal real estate loans for which FICO scores are not obtained because they generally pertain to commercial customer activities and are often underwritten with other collateral considerations. These loans totaled \$211.1 million at June 30, 2018 and \$219.2 million at December 31, 2017. The table also excludes consumer loans related to the Company's patient healthcare loan program, which totaled \$161.8 million at June 30, 2018 and \$145.0 million at December 31, 2017. As the healthcare loans are guaranteed by the hospital, FICO scores are not considered relevant for this program. The personal real estate loans and consumer loans excluded below totaled less than 8% of the Personal Banking portfolio. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at June 30, 2018 and December 31, 2017 by FICO score.

## Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer Home Equity	Revolving	Consumer Credit Card
June 30, 2018				
FICO score:				
Under 600	1.1 %	3.2 %	.8 %	4.6 %
600 - 659	2.0	5.1	1.6	14.1
660 - 719	10.0	18.0	9.2	35.3
720 - 779	23.6	23.6	22.1	26.4
780 and over	63.3	50.1	66.3	19.6
Total	100.0 %	100.0 %	100.0 %	100.0 %
December 31, 2017				
FICO score:				
Under 600	1.3 %	3.3 %	1.1 %	4.7 %
600 - 659	2.1	5.5	1.7	14.4
660 - 719	10.5	17.3	9.5	34.4

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720 - 779	25.6	26.8	21.4	26.0
780 and over	60.5	47.1	66.3	20.5
Total	100.0%	100.0 %	100.0 %	100.0 %

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## Troubled debt restructurings

As mentioned previously, the Company's impaired loans include loans which have been classified as troubled debt restructurings, as shown in the table below. Restructured loans are those extended to borrowers who are experiencing financial difficulty and who have been granted a concession. Restructured loans are placed on non-accrual status if the Company does not believe it probable that amounts due under the contractual terms will be collected. Other performing restructured loans are comprised of certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates judged not to be market rates for new debt with similar risk and as a result were classified as troubled debt restructurings. These loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. Troubled debt restructurings also include certain credit card loans under various debt management and assistance programs. Modifications to credit card loans generally involve removing the available line of credit, placing loans on amortizing status, and lowering the contractual interest rate. The Company also classified certain loans as troubled debt restructurings because they were not reaffirmed by the borrower in bankruptcy proceedings. These loans are comprised of personal real estate, revolving home equity and consumer loans. Interest on these loans is being recognized on an accrual basis, as the borrowers are continuing to make payments.

(In thousands)	June 30, 2018	December 31, 2017
Accruing loans:		
Non-market interest rates	\$86,906	\$ 88,588
Assistance programs	6,887	6,685
Bankruptcy non-affirmation	5,335	7,283
Other	296	256
Non-accrual loans	7,156	7,796
Total troubled debt restructurings	\$106,580	\$ 110,608

The table below shows the balance of troubled debt restructurings by loan classification at June 30, 2018, in addition to the outstanding balances of these restructured loans which the Company considers to have been in default at any time during the past twelve months. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due as to interest or principal.

(In thousands)	June 30, 2018	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	\$75,680	\$ 32
Real estate - construction and land	1,337	—
Real estate - business	12,311	—
Personal Banking:		
Real estate - personal	4,787	303
Consumer	5,464	115
Revolving home equity	114	42
Consumer credit card	6,887	577



Total troubled debt restructurings \$ 106,580 \$ 1,069

For those loans on non-accrual status also classified as restructured, the modification did not create any further financial effect on the Company as those loans were already recorded at net realizable value. For those performing commercial loans classified as restructured, there were no concessions involving forgiveness of principal or interest and, therefore, there was no financial impact to the Company as a result of modification to these loans. No financial impact resulted from those performing loans where the debt was not reaffirmed in bankruptcy, as no changes to loan terms occurred in that process. The effects of modifications to consumer credit card loans were estimated to decrease interest income by approximately \$925 thousand on an annual, pre-tax basis, compared to amounts contractually owed.

The allowance for loan losses related to troubled debt restructurings on non-accrual status is determined by individual evaluation, including collateral adequacy, using the same process as loans on non-accrual status which are not classified as troubled debt restructurings. Those performing loans classified as troubled debt restructurings are accruing loans which management expects to

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collect under contractual terms. Performing commercial loans have had no other concessions granted other than being renewed at an interest rate judged not to be market. As such, they have similar risk characteristics as non-troubled debt commercial loans and are collectively evaluated based on internal risk rating, loan type, delinquency, historical experience and current economic factors. Performing personal banking loans classified as troubled debt restructurings resulted from the borrower not reaffirming the debt during bankruptcy and have had no other concession granted, other than the Bank's future limitations on collecting payment deficiencies or in pursuing foreclosure actions. As such, they have similar risk characteristics as non-troubled debt personal banking loans and are evaluated collectively based on loan type, delinquency, historical experience and current economic factors.

If a troubled debt restructuring defaults and is already on non-accrual status, the allowance for loan losses continues to be based on individual evaluation, using discounted expected cash flows or the fair value of collateral. If an accruing troubled debt restructuring defaults, the loan's risk rating is downgraded to non-accrual status and the loan's related allowance for loan losses is determined based on individual evaluation, or if necessary, the loan is charged off and collection efforts begun.

The Company had commitments of \$6.1 million at June 30, 2018 to lend additional funds to borrowers with restructured loans.

Loans held for sale

The Company designates certain long-term fixed rate personal real estate loans as held for sale, and the Company has elected the fair value option for these loans. The election of the fair value option aligns the accounting for these loans with the related economic hedges discussed in Note 10. The loans are primarily sold to FNMA, FHLMC, and GNMA. At June 30, 2018, the fair value of these loans was \$10.8 million, and the unpaid principal balance was \$10.4 million.

The Company also designates student loan originations as held for sale. The borrowers are credit-worthy students who are attending colleges and universities. The loans are intended to be sold in the secondary market, and the Company maintains contracts with Sallie Mae to sell the loans within 210 days after the last disbursement to the student. These loans are carried at lower of cost or fair value, which at June 30, 2018 totaled \$9.6 million.

At June 30, 2018, none of the loans held for sale were on non-accrual status or 90 days past due and still accruing.

Foreclosed real estate/repossessed assets

The Company's holdings of foreclosed real estate totaled \$1.0 million and \$681 thousand at June 30, 2018 and December 31, 2017, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled \$2.3 million and \$2.7 million at June 30, 2018 and December 31, 2017, respectively. Upon acquisition, these assets are recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. They are subsequently carried at the lower of this cost basis or fair value less estimated selling costs.

3. Investment Securities

Investment securities as shown in this report reflect revised categories as required by the Company's adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", on January 1, 2018. That new guidance refined the definition of equity securities and required their segregation from available for sale debt securities. For comparability purposes, prior period disclosures in this report have been revised to show the new categorization.

	June 30,	December
(In thousands)	2018	31, 2017
Available for sale debt securities	\$8,412,376	\$8,725,442
Trading debt securities	31,156	18,269

## Equity securities:

Readily determinable fair value	2,741	48,838
No readily determinable fair value	1,703	1,753

## Other:

Federal Reserve Bank stock	33,369	33,253
Federal Home Loan Bank stock	10,000	10,000
Private equity investments	68,940	55,752
Total investment securities	\$8,560,285	\$8,893,307

While changes in the fair value of available for sale debt securities continue to be recorded in the equity category of accumulated other comprehensive income, the new guidance requires changes in the fair value of equity securities to be recorded in current earnings. As required by the new guidance, the unrealized gain in fair value on equity securities (recorded in accumulated other

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comprehensive income at December 31, 2017) was reclassified to retained earnings on January 1, 2018. The amount of the reclassification was \$33.3 million, net of tax.

Equity securities include common and preferred stock with readily determinable fair values that totaled \$2.5 million at cost and \$2.7 million at fair value at June 30, 2018. The decline in these balances from prior periods was due to a third party merger transaction in June 2018, in which the majority of these securities were redeemed for cash of \$39.9 million. During the first six months of 2018, unrealized net losses of \$176 thousand were recognized in current earnings on equity securities still held at June 30, 2018.

Equity securities also include securities with a carrying value of \$1.7 million that do not have readily determinable fair values. The Company has elected, under the ASU, to measure these at cost minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or similar investment of the same issuer. The Company did not record any impairment or other adjustments to the carrying amount of these investments during the period.

Other investment securities whose accounting is not addressed in the ASU include Federal Reserve Bank (FRB) stock, Federal Home Loan Bank (FHLB) stock, and investments in portfolio concerns held by the Company's private equity subsidiaries. FRB stock and FHLB stock are held for debt and regulatory purposes. Investment in FRB stock is based on the capital structure of the investing bank, and investment in FHLB stock is tied to the level of borrowings from the FHLB. These holdings are carried at cost. The private equity investments, in the absence of readily ascertainable market values, are carried at estimated fair value.

The majority of the Company's investment portfolio is comprised of available for sale debt securities, which are carried at fair value with changes in fair value reported in accumulated other comprehensive income (AOCI). A summary of the available for sale debt securities by maturity groupings as of June 30, 2018 is shown below. The investment portfolio includes agency mortgage-backed securities, which are guaranteed by agencies such as the FHLMC, FNMA, GNMA and FDIC, in addition to non-agency mortgage-backed securities, which have no guarantee but are collateralized by commercial and residential mortgages. Also included are certain other asset-backed securities, which are primarily collateralized by credit cards, automobiles, student loans, and commercial loans. These securities differ from traditional debt securities primarily in that they may have uncertain maturity dates and are priced based on estimated prepayment rates on the underlying collateral.

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(In thousands)	Amortized Cost	Fair Value
U.S. government and federal agency obligations:		
Within 1 year	\$52,660	\$52,603
After 1 but within 5 years	645,431	634,819
After 5 but within 10 years	157,967	155,108
After 10 years	69,202	68,562
Total U.S. government and federal agency obligations	925,260	911,092
Government-sponsored enterprise obligations:		
Within 1 year	117,562	117,444
After 1 but within 5 years	121,584	119,743
After 5 but within 10 years	34,984	33,946
After 10 years	42,852	40,228
Total government-sponsored enterprise obligations	316,982	311,361
State and municipal obligations:		
Within 1 year	147,325	147,668
After 1 but within 5 years	598,663	600,688
After 5 but within 10 years	591,819	590,950
After 10 years	40,963	39,858
Total state and municipal obligations	1,378,770	1,379,164
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	3,194,764	3,131,025
Non-agency mortgage-backed securities	1,019,545	1,010,331
Asset-backed securities	1,351,461	1,338,542
Total mortgage and asset-backed securities	5,565,770	5,479,898
Other debt securities:		
Within 1 year	9,003	8,971
After 1 but within 5 years	257,704	252,151
After 5 but within 10 years	73,283	69,739
Total other debt securities	339,990	330,861
Total available for sale debt securities	\$8,526,772	\$8,412,376

Investments in U.S. government and federal agency obligations include U.S. Treasury inflation-protected securities, which totaled \$443.8 million, at fair value, at June 30, 2018. Interest paid on these securities increases with inflation and decreases with deflation, as measured by the Consumer Price Index. Included in state and municipal obligations are \$15.1 million, at fair value, of auction rate securities, which were purchased from bank customers in 2008. Interest on these bonds is currently being paid at the maximum failed auction rates.

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For debt securities classified as available for sale, the following table shows the unrealized gains and losses (pre-tax) in AOCI, by security type.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
U.S. government and federal agency obligations	\$925,260	\$ 503	\$(14,671 )	\$911,092
Government-sponsored enterprise obligations	316,982	—	(5,621 )	311,361
State and municipal obligations	1,378,770	8,105	(7,711 )	1,379,164
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,194,764	5,995	(69,734 )	3,131,025
Non-agency mortgage-backed securities	1,019,545	6,232	(15,446 )	1,010,331
Asset-backed securities	1,351,461	2,343	(15,262 )	1,338,542
Total mortgage and asset-backed securities	5,565,770	14,570	(100,442 )	5,479,898
Other debt securities	339,990	—	(9,129 )	330,861
Total	\$8,526,772	\$ 23,178	\$(137,574 )	\$8,412,376
December 31, 2017				
U.S. government and federal agency obligations	\$917,494	\$ 4,096	\$(4,443 )	\$917,147
Government-sponsored enterprise obligations	408,266	26	(1,929 )	406,363
State and municipal obligations	1,592,707	21,413	(2,754 )	1,611,366
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,046,701	17,956	(23,744 )	3,040,913
Non-agency mortgage-backed securities	903,920	6,710	(4,837 )	905,793
Asset-backed securities	1,495,380	2,657	(5,237 )	1,492,800
Total mortgage and asset-backed securities	5,446,001	27,323	(33,818 )	5,439,506
Other debt securities	350,988	1,250	(1,178 )	351,060
Total	\$8,715,456	\$ 54,108	\$(44,122 )	\$8,725,442

The Company's impairment policy requires a review of all securities for which fair value is less than amortized cost. Special emphasis and analysis is placed on securities whose credit rating has fallen below A3 (Moody's) or A- (Standard & Poor's), whose fair values have fallen more than 20% below purchase price for an extended period of time, or who have been identified based on management's judgment. These securities are placed on a watch list, and for all such securities, cash flow analyses are prepared. For more complex analyses, detailed cash flow models are prepared which use inputs specific to each security. Inputs to these models include factors such as cash flow received, contractual payments required, and various other information related to the underlying collateral (including current delinquencies), collateral loss severity rates (including loan to values), expected delinquency rates, credit support from other tranches, and prepayment speeds. Stress tests are performed at varying levels of delinquency rates, prepayment speeds and loss severities in order to gauge probable ranges of credit loss. At June 30, 2018, the fair value of securities on this watch list was \$57.3 million compared to \$68.0 million at December 31, 2017.

As of June 30, 2018, the Company had recorded other-than-temporary impairment (OTTI) on certain non-agency mortgage-backed securities, part of the watch list mentioned above, which had an aggregate fair value of \$22.4 million. The cumulative credit-related portion of the impairment on these securities, which was recorded in earnings, totaled \$14.2 million. The Company does not intend to sell these securities and believes it is not likely that it will be required to sell the securities before the recovery of their amortized cost.

The credit-related portion of the loss on these securities was based on the cash flows projected to be received over the estimated life of the securities, discounted to present value, and compared to the current amortized cost bases of the securities. Significant inputs to the cash flow models used to calculate the credit losses on these securities at June 30,

2018 included the following:

Significant Inputs	Range
Prepayment CPR	0% -25%
Projected cumulative default	13%-52%
Credit support	0% -20%
Loss severity	14%-63%

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The following table presents a rollforward of the cumulative OTTI credit losses recognized in earnings on all available for sale debt securities.

(In thousands)	For the Six Months Ended June 30	
	2018	2017
Cumulative OTTI credit losses at January 1	\$ 14,199	\$ 14,080
Credit losses on debt securities for which impairment was not previously recognized	58	46
Credit losses on debt securities for which impairment was previously recognized	10	274
Increase in expected cash flows that are recognized over remaining life of security	(104)	(146)
Cumulative OTTI credit losses at June 30	\$ 14,163	\$ 14,254

Debt securities with unrealized losses recorded in AOCI are shown in the table below, along with the length of the impairment period.

(In thousands)	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018						
U.S. government and federal agency obligations	\$ 707,018	\$ 12,156	\$ 90,340	\$ 2,515	\$ 797,358	\$ 14,671
Government-sponsored enterprise obligations	261,378	5,605	49,983	16	311,361	5,621
State and municipal obligations	458,880	5,700	51,863	2,011	510,743	7,711
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	2,029,957	45,267	566,986	24,467	2,596,943	69,734
Non-agency mortgage-backed securities	773,890	12,076	134,679	3,370	908,569	15,446
Asset-backed securities	862,416	13,296	173,895	1,966	1,036,311	15,262
Total mortgage and asset-backed securities	3,666,263	70,639	875,560	29,803	4,541,823	100,442
Other debt securities	311,714	8,033	19,147	1,096	330,861	9,129
Total	\$ 5,405,253	\$ 102,133	\$ 1,086,893	\$ 35,441	\$ 6,492,146	\$ 137,574
December 31, 2017						
U.S. government and federal agency obligations	\$ 618,617	\$ 4,443	\$ —	\$ —	\$ 618,617	\$ 4,443
Government-sponsored enterprise obligations	286,393	1,712	49,766	217	336,159	1,929
State and municipal obligations	282,843	1,752	49,339	1,002	332,182	2,754
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	1,320,689	9,433	619,300	14,311	1,939,989	23,744
Non-agency mortgage-backed securities	577,017	2,966	153,813	1,871	730,830	4,837
Asset-backed securities	786,048	3,168	264,295	2,069	1,050,343	5,237
Total mortgage and asset-backed securities	2,683,754	15,567	1,037,408	18,251	3,721,162	33,818
Other debt securities	144,090	727	20,202	451	164,292	1,178
Total	\$ 4,015,697	\$ 24,201	\$ 1,156,715	\$ 19,921	\$ 5,172,412	\$ 44,122

The available for sale debt portfolio included \$6.5 billion of securities that were in a loss position at June 30, 2018, compared to \$5.2 billion at December 31, 2017. The total amount of unrealized loss on these securities was \$137.6 million at June 30, 2018, an increase of \$93.5 million compared to the loss at December 31, 2017. This increase in losses was mainly due to a rising rate environment.



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The following tables present proceeds from sales of securities and the components of investment securities gains and losses which have been recognized in earnings.

(In thousands)	For the Six Months Ended June 30	
	2018	2017
Proceeds from sales of securities:		
Available for sale debt securities	\$152,541	\$4,972
Equity securities	39,981	584
Other	—	996
Total proceeds	\$192,522	\$6,552
Investment securities gains (losses), net:		
Available for sale debt securities:		
Losses realized on called bonds	\$—	\$(254 )
Gains realized on sales	423	—
Losses realized on sales	—	(22 )
Other-than-temporary impairment recognized on debt securities	(68 )	(320 )
Equity securities:		
Gains realized on donations of securities	—	4,315
Gains realized on sales	102	584
Losses realized on sales	(8,917 )	—
Fair value adjustments, net	2,699	—
Other:		
Gains realized on sales	—	58
Losses realized on sales	—	(652 )
Fair value adjustments, net	8,096	(2,830 )
Total investment securities gains, net	\$2,335	\$879

Securities gains for the six months ended June 30, 2018 included gains in fair value of \$8.1 million on private equity investments and \$2.7 million on equity securities. These were offset by an \$8.9 million adjustment to recognize dividend income on a equity security liquidated during the second quarter of 2018.

At June 30, 2018, securities totaling \$3.8 billion in fair value were pledged to secure public fund deposits, securities sold under agreements to repurchase, trust funds, and borrowings at the FRB and FHLB. Securities pledged under agreements pursuant to which the collateral may be sold or re-pledged by the secured parties approximated \$557.7 million, while the remaining securities were pledged under agreements pursuant to which the secured parties may not sell or re-pledge the collateral. Except for obligations of various government-sponsored enterprises such as FNMA, FHLB and FHLMC, no investment in a single issuer exceeded 10% of stockholders' equity.

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## 4. Goodwill and Other Intangible Assets

The following table presents information about the Company's intangible assets which have estimable useful lives.

(In thousands)	June 30, 2018				December 31, 2017			
	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	\$31,270	\$ (28,650 )	\$ —	-\$ 2,620	\$31,270	\$ (28,305 )	\$ —	\$ 2,965
Mortgage servicing rights	8,996	(3,533 )	—	5,463	7,906	(3,244 )	(9 )	4,653
Total	\$40,266	\$ (32,183 )	\$ —	-\$ 8,083	\$39,176	\$ (31,549 )	\$ (9 )	\$ 7,618

Aggregate amortization expense on intangible assets was \$313 thousand and \$330 thousand for the three month periods ended June 30, 2018 and 2017, respectively, and \$634 thousand and \$678 thousand for the six month periods ended June 30, 2018 and 2017, respectively. The following table shows the estimated annual amortization expense for the next five fiscal years. This expense is based on existing asset balances and the interest rate environment as of June 30, 2018. The Company's actual amortization expense in any given period may be different from the estimated amounts depending upon the acquisition of intangible assets, changes in mortgage interest rates, prepayment rates and other market conditions.

(In thousands)	
2018	\$ 1,232
2019	1,094
2020	937
2021	816
2022	720

Changes in the carrying amount of goodwill and net other intangible assets for the six month period ended June 30, 2018 are as follows:

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance January 1, 2018	\$138,921	\$ 2,965	\$ 4,653
Originations	—	—	1,090
Amortization	—	(345 )	(289 )
Impairment reversal	—	—	9
Balance June 30, 2018	\$138,921	\$ 2,620	\$ 5,463

Goodwill allocated to the Company's operating segments at June 30, 2018 and December 31, 2017 is shown below.

(In thousands)	
Consumer segment	\$70,721
Commercial segment	67,454
Wealth segment	746
Total goodwill	\$138,921

## 5. Guarantees

The Company, as a provider of financial services, routinely issues financial guarantees in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Company generally to guarantee the payment or performance obligation of a customer to a third party. While these represent a potential outlay by the Company, a significant amount of the commitments may expire without being drawn upon. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby

letter of credit. The letters of credit are subject to the same credit policies, underwriting standards and approval process as loans made by the Company. Most of the standby letters of credit are secured, and in the event of nonperformance by customers, the Company has rights to the underlying collateral, which could include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities.

Upon issuance of standby letters of credit, the Company recognizes a liability for the fair value of the obligation undertaken, which is estimated to be equivalent to the amount of fees received from the customer over the life of the agreement. At June 30, 2018, that net liability was \$2.2 million, which will be accreted into income over the remaining life of the respective commitments.

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The contractual amount of these letters of credit, which represents the maximum potential future payments guaranteed by the Company, was \$377.5 million at June 30, 2018.

The Company periodically enters into credit risk participation agreements (RPAs) as a guarantor to other financial institutions, in order to mitigate those institutions' credit risk associated with interest rate swaps with third parties. The RPA stipulates that, in the event of default by the third party on the interest rate swap, the Company will reimburse a portion of the loss borne by the financial institution. These interest rate swaps are normally collateralized (generally with real property, inventories and equipment) by the third party, which limits the credit risk associated with the Company's RPAs. The third parties usually have other borrowing relationships with the Company. The Company monitors overall borrower collateral and at June 30, 2018, believes sufficient collateral is available to cover potential swap losses. The RPAs are carried at fair value throughout their term with all changes in fair value, including those due to a change in the third party's creditworthiness, recorded in current earnings. The terms of the RPAs, which correspond to the terms of the underlying swaps, range from 2 to 11 years. At June 30, 2018, the fair value of the Company's guarantee liabilities for RPAs was \$67 thousand, and the notional amount of the underlying swaps was \$103.2 million. The maximum potential future payment guaranteed by the Company cannot be readily estimated but is dependent upon the fair value of the interest rate swaps at the time of default.

## 6. Pension

The amount of net pension cost is shown in the table below:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(In thousands)	2018	2017	2018	2017
Service cost - benefits earned during the period	\$152	\$128	\$305	\$257
Interest cost on projected benefit obligation	951	973	1,901	1,946
Expected return on plan assets	(1,438)	(1,438)	(2,875)	(2,876)
Amortization of prior service cost	(67)	(68)	(135)	(136)
Amortization of unrecognized net loss	592	617	1,184	1,234
Net periodic pension cost	\$190	\$212	\$380	\$425

Substantially all benefits accrued under the Company's defined benefit pension plan were frozen effective January 1, 2005, and the remaining benefits were frozen effective January 1, 2011. During the first six months of 2018, the Company made no funding contributions to its defined benefit pension plan and made minimal funding contributions to a supplemental executive retirement plan (the CERP), which carries no segregated assets.

The Company adopted ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", on January 1, 2018. This guidance requires that the service cost component of net periodic pension cost be reported in the same income statement line item as other compensation costs, while other components of net periodic pension cost be reported separately from the service cost component. Historically, the Company has reported all components of pension cost in salaries and employee benefits. Beginning in 2018, only the service cost component has been included in this category, and the other components have been recorded in other non-interest expense. Prior period financial statements have not been revised because the amount of the reclassification was not significant.

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## 7. Common Stock \*

Presented below is a summary of the components used to calculate basic and diluted income per share. The Company applies the two-class method of computing income per share, as nonvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. The two-class method requires the calculation of separate income per share amounts for the nonvested share-based awards and for common stock. Income per share attributable to common stock is shown in the table below. Nonvested share-based awards are further discussed in Note 12.

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
(In thousands, except per share data)				
Basic income per common share:				
Net income attributable to Commerce Bancshares, Inc.	\$ 110,330	\$ 78,960	\$ 211,314	\$ 150,464
Less preferred stock dividends	2,250	2,250	4,500	4,500
Net income available to common shareholders	108,080	76,710	206,814	145,964
Less income allocated to nonvested restricted stock	1,139	943	2,260	1,888
Net income allocated to common stock	\$ 106,941	\$ 75,767	\$ 204,554	\$ 144,076
Weighted average common shares outstanding	105,686	105,583	105,660	105,486
Basic income per common share	\$ 1.02	\$ .71	\$ 1.94	\$ 1.36
Diluted income per common share:				
Net income available to common shareholders	\$ 108,080	\$ 76,710	\$ 206,814	\$ 145,964
Less income allocated to nonvested restricted stock	1,136	941	2,254	1,883
Net income allocated to common stock	\$ 106,944	\$ 75,769	\$ 204,560	\$ 144,081
Weighted average common shares outstanding	105,686	105,583	105,660	105,486
Net effect of the assumed exercise of stock-based awards - based on the treasury stock method using the average market price for the respective periods	343	360	338	389
Weighted average diluted common shares outstanding	106,029	105,943	105,998	105,875
Diluted income per common share	\$ 1.01	\$ .71	\$ 1.93	\$ 1.36

Unexercised stock appreciation rights of 295 thousand and 132 thousand were excluded in the computation of diluted income per common share for the six month periods ended June 30, 2018 and 2017, respectively, because their inclusion would have been anti-dilutive.

\* All prior year share and per share amounts in this note have been restated for the 5% common stock dividend distributed in December 2017.

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## 8. Accumulated Other Comprehensive Income

The table below shows the activity and accumulated balances for components of other comprehensive income. The largest component is the unrealized holding gains and losses on available for sale debt securities. Unrealized gains and losses on debt securities for which an other-than-temporary impairment (OTTI) has been recorded in current earnings are shown separately below. The other component is the amortization from other comprehensive income of losses associated with pension benefits, which occurs as the losses are included in current net periodic pension cost.

(In thousands)	Unrealized Gains (Losses) on Securities (1)		Pension Loss	Total Accumulated Other Comprehensive Income (Loss)
	OTTI	Other		
Balance January 1, 2018	\$3,411	\$30,326	\$(19,629)	\$ 14,108
ASU 2018-02 Reclassification of tax rate change	715	6,359	(4,142)	)2,932
ASU 2016-01 Reclassification of unrealized gain on equity securities	—	(33,320)	)—	(33,320 )
Other comprehensive loss before reclassifications to current earnings	(173)	) (123,854)	)—	(124,027 )
Amounts reclassified to current earnings from accumulated other comprehensive income	68	(424)	)1,049	693
Current period other comprehensive income (loss), before tax	(105)	) (124,278)	)1,049	(123,334 )
Income tax (expense) benefit	27	31,068	(262)	)30,833
Current period other comprehensive income (loss), net of tax	(78)	) (93,210)	)787	(92,501 )
Transfer of unrealized gain on securities for which impairment was not previously recognized	12	(12)	)—	—
Balance June 30, 2018	\$4,060	\$(89,857)	\$(22,984)	\$ (108,781 )
Balance January 1, 2017	\$2,975	\$27,328	\$(19,328)	\$ 10,975
Other comprehensive income (loss) before reclassifications to current earnings	(44)	)53,072	—	53,028
Amounts reclassified to current earnings from accumulated other comprehensive income	320	(4,293)	)1,098	(2,875 )
Current period other comprehensive income, before tax	276	48,779	1,098	50,153
Income tax expense	(105)	) (18,536)	) (417)	) (19,058 )
Current period other comprehensive income, net of tax	171	30,243	681	31,095
Transfer of unrealized gain on securities for which impairment was not previously recognized	24	(24)	)—	—
Balance June 30, 2017	\$3,170	\$57,547	\$(18,647)	\$ 42,070

(1) The pre-tax amounts reclassified from accumulated other comprehensive income to current earnings are included in "investment securities gains (losses), net" in the consolidated statements of income.

The requirement to revalue deferred tax assets and liabilities in the period of enactment stranded the effects of the tax rate change, mandated by the Tax Cuts and Jobs Act, in accumulated other comprehensive income. In response, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", which the Company adopted on January 1, 2018. This ASU allowed the reclassification of the stranded tax effects from accumulated other comprehensive income (as shown in the table above) to retained earnings.

As mentioned in Note 3, additional new accounting guidance, which was effective January 1, 2018, required the reclassification of unrealized gains on equity securities from accumulated other comprehensive income to retained earnings (also shown above).

## 9. Segments

The Company segregates financial information for use in assessing its performance and allocating resources among three operating segments: Consumer, Commercial and Wealth. The Consumer segment consists of various consumer loan and deposit products offered through its retail branch network of approximately 180 locations. This segment also

includes indirect and other consumer loan financing businesses, along with debit and credit card loan and fee businesses. Residential mortgage origination, sales and servicing functions are included in this Consumer segment, but residential mortgage loans retained by the Company are not considered part of this segment. The Commercial segment provides corporate lending, leasing, and international services, along with business and governmental deposit products and commercial cash management services. This segment includes both merchant and commercial bank card products. It also includes the Capital Markets Group which sells fixed income securities and provides safekeeping and accounting services to its business and correspondent bank customers. The Wealth segment provides traditional trust and estate planning, advisory and discretionary investment management, and brokerage services. This segment also provides various loan and deposit related services to its private banking customers.

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The following table presents selected financial information by segment and reconciliations of combined segment totals to consolidated totals. There were no material intersegment revenues among the three segments. Management periodically makes changes to methods of assigning costs and income to its business segments to better reflect operating results. If appropriate, these changes are reflected in prior year information presented below.

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/Elimination	Consolidated Totals
<b>Three Months Ended June 30, 2018</b>						
Net interest income	\$73,471	\$85,721	\$11,857	\$171,049	\$39,910	\$210,959
Provision for loan losses	(10,409)	)308	16	(10,085)	)42	(10,043)
Non-interest income	32,116	51,651	42,896	126,663	(1,813)	)124,850
Investment securities losses, net	—	—	—	—	(3,075)	) (3,075)
Non-interest expense	(72,095)	) (75,360)	) (30,254)	) (177,709)	) (4,151)	) (181,860)
Income before income taxes	\$23,083	\$62,320	\$24,515	\$109,918	\$30,913	\$140,831
<b>Six Months Ended June 30, 2018</b>						
Net interest income	\$144,908	\$167,816	\$23,302	\$336,026	\$67,825	\$403,851
Provision for loan losses	(20,924)	)488	(48)	(20,484)	)45	(20,439)
Non-interest income	62,332	100,862	84,997	248,191	(3,651)	)244,540
Investment securities gains, net	—	—	—	—	2,335	2,335
Non-interest expense	(142,266)	) (148,158)	) (62,113)	) (352,537)	) (11,600)	) (364,137)
Income before income taxes	\$44,050	\$121,008	\$46,138	\$211,196	\$54,954	\$266,150
<b>Three Months Ended June 30, 2017</b>						
Net interest income	\$69,274	\$82,137	\$11,934	\$163,345	\$19,462	\$182,807
Provision for loan losses	(10,802)	)111	24	(10,667)	) (91)	) (10,758)
Non-interest income	29,617	46,088	38,852	114,557	823	115,380
Investment securities gains, net	—	—	—	—	1,651	1,651
Non-interest expense	(68,374)	) (72,134)	) (29,494)	) (170,002)	) (6,888)	) (176,890)
Income before income taxes	\$19,715	\$56,202	\$21,316	\$97,233	\$14,957	\$112,190
<b>Six Months Ended June 30, 2017</b>						
Net interest income	\$136,628	\$162,007	\$23,778	\$322,413	\$38,667	\$361,080
Provision for loan losses	(20,464)	)624	1	(19,839)	) (2,047)	) (21,886)
Non-interest income	56,780	90,998	76,558	224,336	657	224,993
Investment securities gains, net	—	—	—	—	879	879
Non-interest expense	(135,791)	) (142,499)	) (59,813)	) (338,103)	) (18,164)	) (356,267)
Income before income taxes	\$37,153	\$111,130	\$40,524	\$188,807	\$19,992	\$208,799

The information presented above was derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting procedures and methods, which have been developed to reflect the underlying economics of the businesses. The methodologies are applied in connection with funds transfer pricing and assignment of overhead costs among segments. Funds transfer pricing was used in the determination of net interest income by assigning a standard cost (credit) for funds used (provided) by assets and liabilities based on their maturity, prepayment and/or repricing characteristics.

The segment activity, as shown above, includes both direct and allocated items. Amounts in the “Other/Elimination” column include activity not related to the segments, such as that relating to administrative functions, the investment securities portfolio, and the effect of certain expense allocations to the segments. The provision for loan losses in this category contains the difference between net loan charge-offs assigned directly to the segments and the recorded provision for loan loss expense. Included in this category’s net interest income are earnings of the investment portfolio, which are not allocated to a segment.



The performance measurement of the operating segments is based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The information is also not necessarily indicative of the segments' financial condition and results of operations if they were independent entities.

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## 10. Derivative Instruments

The notional amounts of the Company's derivative instruments are shown in the table below. These contractual amounts, along with other terms of the derivative, are used to determine amounts to be exchanged between counterparties and are not a measure of loss exposure. At June 30, 2018, the Company's derivative instruments are accounted for as free-standing derivatives, and changes in their fair value are recorded in current earnings.

	June 30,	December 31,
(In thousands)	2018	2017
Interest rate swaps	\$ 1,891,877	\$ 1,741,412
Interest rate caps	31,483	31,776
Credit risk participation agreements	152,402	133,488
Foreign exchange contracts	8,737	11,826
Mortgage loan commitments	21,653	17,110
Mortgage loan forward sale contracts	2,848	2,566
Forward TBA contracts	25,000	25,000
Total notional amount	\$ 2,134,000	\$ 1,963,178

The largest group of notional amounts relate to interest rate swap contracts sold to commercial customers who wish to modify their interest rate sensitivity. These swaps are offset by matching contracts purchased by the Company from other financial dealer institutions. Contracts with dealers that require central clearing are novated to a regulated clearinghouse who becomes the Company's legal counterparty. Because of the matching terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings.

Many of the Company's interest rate swap contracts with large financial institutions contain contingent features relating to debt ratings or capitalization levels. Under these provisions, if the Company's debt rating falls below investment grade or if the Company ceases to be "well-capitalized" under risk-based capital guidelines, certain counterparties can require immediate and ongoing collateralization on interest rate swaps in net liability positions or instant settlement of the contracts. The Company maintains debt ratings and capital well above these minimum requirements.

The Company also contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps through risk participation agreements. The Company's risks and responsibilities as guarantor are further discussed in Note 5 on Guarantees. In addition, the Company enters into foreign exchange contracts, which are mainly comprised of contracts to purchase or deliver foreign currencies for customers at specific future dates.

Under its program to sell residential mortgage loans in the secondary market, the Company designates certain newly-originated residential mortgage loans as held for sale. Derivative instruments arising from this activity include mortgage loan commitments and forward loan sale commitments. Changes in the fair values of the loan commitments and funded loans prior to sale that are due to changes in interest rates are economically hedged with forward contracts to sell residential mortgage-backed securities in the to-be-announced (TBA) market. These forward TBA contracts are also considered to be derivatives and are settled in cash at the security settlement date.

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The fair values of the Company's derivative instruments, whose notional amounts are listed above, are shown in the table below. Information about the valuation methods used to determine fair value is provided in Note 15 on Fair Value Measurements in the 2017 Annual Report on Form 10-K.

The Company's policy is to present its derivative assets and derivative liabilities on a gross basis in its consolidated balance sheets, and these are reported in other assets and other liabilities. However, in January 2017, a clearinghouse rule change required that variation margin on centrally cleared derivatives, formerly treated as collateral, be treated as settlements of derivative exposure. As a result, the fair values of the respective derivative contracts must be reduced by variation margin payments and reported as a single, net amount. Accordingly, at June 30, 2018 in the table below, the positive fair values of cleared swaps were reduced by \$15.9 million and the negative fair values of cleared swaps were reduced by \$1.5 million. At December 31, 2017, the positive fair values of cleared swaps were reduced by \$4.5 million and the negative fair values of cleared swaps were reduced by \$4.3 million.

	Asset Derivatives		Liability Derivatives	
	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017
(In thousands)	Fair Value		Fair Value	
Derivative instruments:				
Interest rate swaps	\$5,265	\$7,674	\$(19,616)	\$(7,857)
Interest rate caps	20	16	(20)	(16)
Credit risk participation agreements	21	46	(67)	(123)
Foreign exchange contracts	194	21	(31)	(40)
Mortgage loan commitments	730	580	—	—
Mortgage loan forward sale contracts	8	8	(1)	(7)
Forward TBA contracts	1	4	(111)	(31)
Total	\$6,239	\$8,349	\$(19,846)	\$(8,074)

The effects of derivative instruments on the consolidated statements of income are shown in the table below.

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives			
		For the Three Months Ended June 30		For the Six Months Ended June 30	
(In thousands)		2018	2017	2018	2017
Derivative instruments:					
Interest rate swaps	Other non-interest income	\$1,727	\$456	\$2,232	\$599
Credit risk participation agreements	Other non-interest income	16	1	180	11
Foreign exchange contracts	Other non-interest income	173	(55)	182	(75)
Mortgage loan commitments	Loan fees and sales	148	(32)	149	522
Mortgage loan forward sale contracts	Loan fees and sales	6	(4)	6	62
Forward TBA contracts	Loan fees and sales	(9)	(160)	533	(258)
Total		\$2,061	\$206	\$3,282	\$861

The following table shows the extent to which assets and liabilities relating to derivative instruments have been offset in the consolidated balance sheets. It also provides information about these instruments which are subject to an enforceable master netting arrangement, irrespective of whether they are offset, and the extent to which the instruments could potentially be offset. Also shown is collateral received or pledged in the form of other financial instruments, which is generally cash or marketable securities. The collateral amounts in this table are limited to the outstanding balances of the related asset or liability (after netting is applied); thus amounts of excess collateral are not shown. Most of the derivatives in the following table were transacted under master netting arrangements that contain a conditional right of offset, such as close-out netting, upon default.

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Collateral exchanged between the Company and dealer bank counterparties is generally subject to thresholds and transfer minimums, and usually consists of marketable securities. By contract, these may be sold or re-pledged by the secured party until recalled at a subsequent valuation date by the pledging party. For those swap transactions requiring central clearing, the Company posts cash or securities to its clearing agent. Collateral positions are valued daily, and adjustments to amounts received and pledged by the Company are made as appropriate to maintain proper collateralization for these transactions. Swap derivative transactions with customers are generally secured by rights to non-financial collateral, such as real and personal property, which is not shown in the table below.

(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments Available for Offset	Collateral Received/Pledged	Net Amount
June 30, 2018						
Assets:						
Derivatives subject to master netting agreements	\$ 5,338	\$	-\$ 5,338	\$(491)	\$( 2,114	) \$ 2,733
Derivatives not subject to master netting agreements	901	—	901			
Total derivatives	6,239	—	6,239			
Liabilities:						
Derivatives subject to master netting agreements	\$ 19,777	\$	-\$ 19,777	\$(491)	\$( 354	) \$ 18,932
Derivatives not subject to master netting agreements	69	—	69			
Total derivatives	19,846	—	19,846			
December 31, 2017						
Assets:						
Derivatives subject to master netting agreements	\$ 7,726	\$	-\$ 7,726	\$(233)	\$( 824	) \$ 6,669
Derivatives not subject to master netting agreements	623	—	623			
Total derivatives	8,349	—	8,349			
Liabilities:						
Derivatives subject to master netting agreements	\$ 7,935	\$	-\$ 7,935	\$(233)	\$( 1,570	) \$ 6,132
Derivatives not subject to master netting agreements	139	—	139			
Total derivatives	8,074	—	8,074			

#### 11. Resale and Repurchase Agreements

The following table shows the extent to which assets and liabilities relating to securities purchased under agreements to resell (resale agreements) and securities sold under agreements to repurchase (repurchase agreements) have been offset in the consolidated balance sheets, in addition to the extent to which they could potentially be offset. Also shown is collateral received or pledged, which consists of marketable securities. The collateral amounts in the table are limited to the outstanding balances of the related asset or liability (after netting is applied); thus amounts of excess collateral are not shown. The agreements in the following table were transacted under master netting arrangements that contain a conditional right of offset, such as close-out netting, upon default.

Resale and repurchase agreements are agreements to purchase/sell securities subject to an obligation to resell/repurchase the same or similar securities. They are accounted for as collateralized financing transactions, not as sales and purchases of the securities portfolio. The securities collateral accepted or pledged in resale and repurchase agreements with other financial institutions also may be sold or re-pledged by the secured party, but is usually delivered to and held by third party trustees. The Company generally retains custody of securities pledged for repurchase agreements with customers.

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The Company is party to several agreements commonly known as collateral swaps. These agreements involve the exchange of collateral under simultaneous repurchase and resale agreements with the same financial institution counterparty. These repurchase and resale agreements have the same principal amounts, inception dates, and maturity dates and have been offset against each other in the consolidated balance sheets, as permitted under the netting provisions of ASC 210-20-45. The collateral swaps totaled \$550.0 million at June 30, 2018 and \$650.0 million at December 31, 2017. At June 30, 2018, the Company had posted collateral of \$557.0 million in marketable securities, consisting of agency mortgage-backed bonds and treasuries, and had accepted \$556.0 million in investment grade asset-backed, commercial mortgage-backed, and corporate bonds.

(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet	
				Financial Instruments Available for Received/Offset	Net Amount
June 30, 2018					
Total resale agreements, subject to master netting arrangements	\$ 1,250,000	\$(550,000)	\$ 700,000	\$ \$(698,414)	) \$ 1,586
Total repurchase agreements, subject to master netting arrangements	1,585,074	(550,000)	1,035,074	—(1,035,074)	) —
December 31, 2017					
Total resale agreements, subject to master netting arrangements	\$ 1,350,000	\$(650,000)	\$ 700,000	\$ \$(700,000)	) \$ —
Total repurchase agreements, subject to master netting arrangements	1,954,768	(650,000)	1,304,768	—(1,304,768)	) —

The table below shows the remaining contractual maturities of repurchase agreements outstanding at June 30, 2018 and December 31, 2017, in addition to the various types of marketable securities that have been pledged as collateral for these borrowings.

(In thousands)	Remaining Contractual Maturity of the Agreements			
	Overnight and continuous	Up to 90 days	Greater than 90 days	Total
June 30, 2018				
Repurchase agreements, secured by:				
U.S. government and federal agency obligations	\$253,662	\$—	\$350,000	\$603,662
Government-sponsored enterprise obligations	63,916	—	—	63,916
Agency mortgage-backed securities	518,375	22,850	202,750	743,975
Non-agency mortgage-backed securities	10,591	—	—	10,591
Asset-backed securities	56,335	75,000	—	131,335
Other debt securities	31,595	—	—	31,595
Total repurchase agreements, gross amount recognized	\$934,474	\$97,850	\$552,750	\$1,585,074
December 31, 2017				
Repurchase agreements, secured by:				
U.S. government and federal agency obligations	\$271,820	\$1,731	\$450,000	\$723,551

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Government-sponsored enterprise obligations	149,111	—	—	149,111
Agency mortgage-backed securities	737,975	9,750	200,000	947,725
Asset-backed securities	89,601	30,000	—	119,601
Other debt securities	14,780	—	—	14,780
Total repurchase agreements, gross amount recognized	\$ 1,263,287	\$ 41,481	\$ 650,000	\$ 1,954,768

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## 12. Stock-Based Compensation

The Company issues stock-based compensation in the form of nonvested restricted stock and stock appreciation rights (SARs). Most of the awards are issued during the first quarter of each year. The stock-based compensation expense that has been charged against income was \$3.1 million in both the three months ended June 30, 2018 and 2017, and \$6.4 million and \$6.2 million in the six months ended June 30, 2018 and 2017, respectively.

Nonvested stock awards generally vest in 4 to 7 years and contain restrictions as to transferability, sale, pledging, or assigning, among others, prior to the end of the vesting period. Dividend and voting rights are conferred upon grant. A summary of the status of the Company's nonvested share awards as of June 30, 2018, and changes during the six month period then ended, is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2018	1,254,518	\$38.67
Granted	225,764	59.23
Vested	(344,830)	32.27
Forfeited	(15,049)	45.88
Nonvested at June 30, 2018	1,120,403	\$44.69

SARs are granted with exercise prices equal to the market price of the Company's stock at the date of grant. SARs vest ratably over 4 years of continuous service and have 10-year contractual terms. All SARs must be settled in stock under provisions of the plan. In determining compensation cost, the Black-Scholes option-pricing model is used to estimate the fair value of SARs on date of grant. The current year per share average fair value and the model assumptions are shown in the table below.

Weighted per share average fair value at grant date \$12.44

Assumptions:

Dividend yield	1.6	%
Volatility	20.6	%
Risk-free interest rate	2.7	%
Expected term	6.6	years

A summary of SAR activity during the first six months of 2018 is presented below.

(Dollars in thousands, except per share data)	Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2018	1,179,286	\$37.13		
Granted	168,716	58.42		
Forfeited	(8,856)	46.86		
Expired	(276)	43.52		
Exercised	(226,488)	29.82		
Outstanding at June 30, 2018	1,112,382	\$41.77	7.1 years	\$ 25,584

## 13. Revenue from Contracts with Customers

The Company adopted ASU 2014-09, "Revenue from Contracts with Customers", and its related amendments on January 1, 2018. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For the six months ended June 30, 2018, approximately 62% of the Company's total revenue was comprised of net interest income, which is not within the scope of this guidance. Of the remaining revenue, those items that were subject to this guidance mainly included fees for bank card, trust, deposit account services and consumer brokerage services.

The Company has concluded that the new guidance did not require any significant change to its revenue recognition processes. However, application of the new guidance resulted in a reclassification of certain bank card related network and rewards costs, previously classified as non-interest expense, to a reduction to non-interest income in the Company's consolidated statements of

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income. The reclassification had no effect on prior period net income or net income per share. The Company adopted ASU 2014-09 on a full retrospective basis, in which each prior reporting period has been presented in accordance with the new guidance.

The table below shows the effect of this reclassification on bank card fee income and non-interest expense for the three and six months ended June 30, 2017.

(In thousands)	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	As Previously Reported	Adoption of ASU 2014-09	As Adjusted	As Previously Reported	Adoption of ASU 2014-09	As Adjusted
	Non-interest income:					
Bank card transaction fees	\$44,999	\$(7,704)	\$37,295	\$88,203	\$(15,157)	\$73,046
Total non-interest income	123,084	(7,704)	115,380	240,150	(15,157)	224,993
Non-interest expense:						
Data processing and software	\$23,356	\$(3,321)	\$20,035	\$46,453	\$(6,513)	\$39,940
Other	19,761	(4,383)	15,378	39,725	(8,644)	31,081
Total non-interest expense	184,594	(7,704)	176,890	371,424	(15,157)	356,267

The following table disaggregates non-interest income subject to ASU 2014-09 by major product line.

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	Bank card transaction fees	\$43,215	\$37,295	\$84,668
Trust fees	37,036	33,120	73,098	65,134
Deposit account charges and other fees	23,893	22,861	46,875	44,803
Consumer brokerage services	3,971	3,726	7,739	7,375
Other non-interest income	6,852	8,570	14,163	16,167
Total non-interest income from contracts with customers	114,967	105,572	226,543	206,525
Other non-interest income <sup>(a)</sup>	9,883	9,808	17,997	18,468
Total non-interest income	\$124,850	\$115,380	\$244,540	\$224,993

(a) This revenue is not within the scope of ASU 2014-09, and includes fees relating to capital market activities, loan fees and sales, derivative instruments, standby letters of credit and various other transactions.

The following table presents the opening and closing receivable balances for the six month periods ended June 30, 2018 and 2017 for the Company's significant revenue categories subject to ASU 2014-09.

(In thousands)	June 30, December 31, June 30, December 31,			
	2018	2017	2017	2016
Bank card transaction fees	\$11,104	\$13,315	\$10,878	\$14,686
Trust fees	2,893	2,802	3,227	2,681
Deposit account charges and other fees	5,773	5,597	5,471	5,735
Consumer brokerage services	924	380	345	309

For these revenue categories, none of the transaction price has been allocated to performance obligations that are unsatisfied as of the end of a reporting period.

A description of these revenue categories follows.



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## Bank Card Transaction Fees

The following table presents the components of bank card fee income.

(In thousands)	Three Months		Six Months Ended	
	Ended June 30		June 30	
	2018	2017	2018	2017
<b>Debit card:</b>				
Fee income	\$ 10,582	\$ 10,325	\$ 20,344	\$ 19,966
Expense for network charges	(375 )	(1,921 )	(746 )	(3,571 )
Net debit card fees	10,207	8,404	19,598	16,395
<b>Credit card:</b>				
Fee income	6,800	6,483	12,845	12,223
Expense for network charges and rewards	(3,304 )	(2,923 )	(6,248 )	(5,669 )
Net credit card fees	3,496	3,560	6,597	6,554
<b>Corporate card:</b>				
Fee income	49,141	43,261	97,017	85,680
Expense for network charges and rewards	(24,521 )	(23,365 )	(48,229 )	(45,820 )
Net corporate card fees	24,620	19,896	48,788	39,860
<b>Merchant:</b>				
Fee income	7,606	8,350	14,907	16,289
Fees to cardholder banks	(1,878 )	(2,080 )	(3,603 )	(4,169 )
Expense for network charges	(836 )	(835 )	(1,619 )	(1,883 )
Net merchant fees	4,892	5,435	9,685	10,237
Total bank card transaction fees	\$ 43,215	\$ 37,295	\$ 84,668	\$ 73,046

The majority of debit and credit card fees are reported in the Consumer segment, while corporate card and merchant fees are reported in the Commercial segment.

## Debit and Credit Card Fees

The Company issues debit and credit cards to its retail and commercial banking customers who use the cards to purchase goods and services from merchants through an electronic payment system. As a card issuer, the Company earns fees, including interchange income, for processing the cardholder's purchase transaction with a merchant through a settlement network. Purchases are charged directly to a customer's checking account (in the case of a debit card), or are posted to a customer's credit card account. The fees earned are established by the settlement network and are dependent on the type of transaction processed but are typically based on a per unit charge. Interchange income, the largest component of debit and credit card fees, is settled daily through the networks. The services provided to the cardholders include issuing and maintaining cards, settling purchases with merchants, and maintaining memberships in various card networks to facilitate processing. These services are considered one performance obligation as one of the services would not be performed without the others. The performance obligation is satisfied as services are rendered for each purchase transaction, and income is immediately recognized.

In order to participate in the settlement network process, the Company must pay various transaction-related costs, established by the networks, including membership fees and a per unit charge for each transaction. These expenses are recorded net of the card fees earned.

Consumer credit card products offer cardholders rewards that can be later redeemed for cash or goods or services to encourage card usage. Reward programs must meet network requirements based on the type of card issued. The

expense associated with the rewards granted are recorded net of the credit card fees earned.

Commercial card products offer cash rewards to corporate cardholders to encourage card usage in facilitating corporate payments. The Company pays cash rewards based on contractually agreed upon amounts, normally as a percent of each sales transaction. The expense associated with the cash rewards program is recorded net of the corporate card fees earned.

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## Merchant Fees

The Company offers merchant processing services to its business customers to enable them to accept credit and debit card payments. Merchant processing activities include gathering merchant sales information, authorizing sales transactions and collecting the funds from card issuers using the networks. The merchant is charged a merchant discount fee for the services based on agreed upon pricing between the merchant and the Company. Merchant fees are recorded net of outgoing interchange costs paid to the card issuing banks and net of other network costs as show in the table above.

Merchant services provided are considered one performance obligation as one of the services would not be performed without the others. The performance obligation is satisfied as services are rendered for each settlement transaction and income is immediately recognized. Income earned from merchant fees settles with the customer according to terms negotiated in individual customer contracts. The majority of customers settle with the Company at least monthly.

## Trust Fees

The following table shows the components of revenue within trust fees.

	Three Months		Six Months	
	Ended June 30		Ended June 30	
(In thousands)	2018	2017	2018	2017
Private client	\$27,987	\$24,701	\$54,855	\$48,463
Institutional	7,271	6,751	14,682	13,245
Other	1,778	1,668	3,561	3,426
Total trust fees	\$37,036	\$33,120	\$73,098	\$65,134

This revenue is reported in the Wealth segment.

The Company provides trust and asset management services to both private client and institutional trust customers including asset custody, investment advice, and reporting and administrative services. Other specialized services such as tax preparation, financial planning, representation and other related services are provided as needed. Trust fees are generally earned monthly and billed based on a rate multiplied by the fair value of the customer trust assets. The majority of customer trust accounts are billed monthly. However, some accounts are billed quarterly, and a small number of accounts are billed semi-annually or annually, in accordance with agreements in place with the customer. The Company accrues trust fees monthly based on an estimate of fees due and either directly charges the customer's account the following month or invoices the customer for fees due.

The Company maintains written product pricing information which is used to bill each trust customer based on the services provided. Providing trust services is considered to be a single performance obligation that is satisfied on a monthly basis, involving the monthly custody of customer assets, statement rendering, periodic investment advice where applicable, and other specialized services as needed. As such, performance obligations are considered to be satisfied at the conclusion of each month while trust fee income is also recorded monthly.

## Deposit Account Charges and Other Fees

The following table shows the components of revenue within deposit account charges and other fees.

	Three Months		Six Months	
	Ended June 30		Ended June 30	
(In thousands)	2018	2017	2018	2017
Corporate cash management fees	\$10,095	\$9,477	\$19,492	\$18,388
Overdraft and return item fees	7,656	7,448	15,168	14,628
Other service charges on deposit accounts	6,142	5,936	12,215	11,787
Total deposit account charges and other fees	\$23,893	\$22,861	\$46,875	\$44,803

Approximately half of this revenue is reported in the Consumer segment, while the remainder is reported in the Commercial segment.

The Company provides corporate cash management services to its business and non-profit customers to meet their various transaction processing needs. Such services include deposit and check processing, lockbox, remote deposit, reconciliation, on-line banking and other similar transaction processing services. The Company maintains unit prices for each type of service, and the customer is billed based on transaction volumes processed monthly. The customer is usually billed either monthly or quarterly,



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however, some customers may be billed semi-annually or annually. The customer may pay for the cash management services provided either by paying in cash or using the value of deposit balances (formula provided to the customer) held at the Company. The Company's performance obligation for corporate cash management services is the processing of items over a monthly term, and the obligations are satisfied at the conclusion of each month.

Overdraft fees are charged to customers when daily checks and other withdrawals to customers' accounts exceed balances on hand. Fees are based on a unit price multiplied by the number of items processed whose total amounts exceed the available account balance. The daily overdraft charge is calculated and the fee is posted to the customer's account each day. The Company's performance obligations for overdraft transactions is based on the daily transaction processed and the obligation is satisfied as each day's transaction processing is concluded.

Other deposit fees include numerous smaller fees such as monthly statement fees, foreign ATM processing fees, identification restoration fees, and stop payment fees. Such fees are mostly billed to customers directly on their monthly deposit account statements, or in the case of ATM fees, the fee is charged to the customer on the day that transactions are processed. Performance obligations for all of these various services are satisfied at the time that the service is rendered.

#### Consumer Brokerage Services

The following shows the components of revenue within consumer brokerage services.

	Three Months		Six Months	
	Ended June		Ended June	
	30		30	
(In thousands)	2018	2017	2018	2017
Commission income	\$2,269	\$2,193	\$4,361	\$4,423
Managed account services	1,702	1,533	3,378	2,952
Total consumer brokerage services	\$3,971	\$3,726	\$7,739	\$7,375

Nearly all of this revenue is reported in the Company's Wealth segment.

Consumer brokerage services revenue is comprised of commissions received upon the execution of purchases and sales of mutual fund shares and equity securities, in addition to sales of annuities and certain limited insurance products in an agency capacity. Also, fees are earned on professionally managed advisory programs through arrangements with sub-advisors. Payment from the customer is due upon settlement date for purchases and sales of securities, at the purchase date for annuities and insurance products, and upon inception of the service period for advisory programs.

Most of the contracts (except advisory contracts) encompass two types of performance obligations. The first is an obligation to provide account maintenance, record keeping and custodial services throughout the contract term. The second is the obligation to provide trade execution services for the customers' purchases and sales of products mentioned above. The first obligation is satisfied over time as the service period elapses, while the second type of obligation is satisfied upon the execution of each purchase/sale transaction. Contracts for advisory services contain a single performance obligation comprised of providing the management services and related reporting/administrative services over the contract term.

The transaction price of the contracts (except advisory contracts) is a commission charged at the time of trade execution. The commission varies across different security types, insurance products and mutual funds. It is generally determined by standardized price lists published by the Company and its mutual fund and insurance vendors. Because the transaction price relates specifically to the trade execution, it has been allocated to that performance obligation and is recorded at the time of execution. The fee for advisory services is charged to the customer in advance of the quarterly service period, based on the account balance at the beginning of the period. Revenue is recognized ratably

over the service period.

**Other Non-Interest Income from Contracts with Customers**

Other non-interest income consists mainly of various customer deposit related fees such as ATM fees and gains on sales of tax credits, foreclosed assets, and bank premises and equipment. Performance obligations for these services consist mainly of the execution of transactions for sales of various properties or providing specific deposit related transactions. Fees from these revenue sources are recognized when the performance obligation is completed, at which time cash is received by the Company.

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14. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain financial and nonfinancial assets and liabilities and to determine fair value disclosures. Various financial instruments such as available for sale debt securities, equity securities, trading debt securities, certain investments relating to private equity activities, and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets and liabilities on a nonrecurring basis, such as mortgage servicing rights and certain other investment securities. These nonrecurring fair value adjustments typically involve lower of cost or fair value accounting or write-downs of individual assets.

Fair value is 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. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. For accounting disclosure purposes, a three-level valuation hierarchy of fair value measurements has been established. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.  
Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and inputs that are observable for the assets or liabilities, either directly or indirectly (such as interest rates, yield curves, and prepayment speeds).  
Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value. These may be internally developed, using the Company's best information and assumptions that a market participant would consider.  
The valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis are described in the Fair Value Measurements note in the Company's 2017 Annual Report on Form 10-K. There have been no significant changes in these methodologies since then.

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## Instruments Measured at Fair Value on a Recurring Basis

The table below presents the June 30, 2018 and December 31, 2017 carrying values of assets and liabilities measured at fair value on a recurring basis. There were no transfers among levels during the first six months of 2018 or the year ended December 31, 2017.

(In thousands)	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2018</b>				
<b>Assets:</b>				
Residential mortgage loans held for sale	\$ 10,750	\$—	\$ 10,750	\$ —
Available for sale debt securities:				
U.S. government and federal agency obligations	911,092	911,092	—	—
Government-sponsored enterprise obligations	311,361	—	311,361	—
State and municipal obligations	1,379,164	—	1,364,091	15,073
Agency mortgage-backed securities	3,131,025	—	3,131,025	—
Non-agency mortgage-backed securities	1,010,331	—	1,010,331	—
Asset-backed securities	1,338,542	—	1,338,542	—
Other debt securities	330,861	—	330,861	—
Trading debt securities	31,156	—	31,156	—
Equity securities	2,741	2,741	—	—
Private equity investments	68,940	—	—	68,940
Derivatives *	6,239	—	5,488	751
Assets held in trust for deferred compensation plan	13,790	13,790	—	—
<b>Total assets</b>	<b>8,545,992</b>	<b>927,623</b>	<b>7,533,605</b>	<b>84,764</b>
<b>Liabilities:</b>				
Derivatives *	19,846	—	19,779	67
Liabilities held in trust for deferred compensation plan	13,790	13,790	—	—
<b>Total liabilities</b>	<b>\$ 33,636</b>	<b>\$ 13,790</b>	<b>\$ 19,779</b>	<b>\$ 67</b>
<b>December 31, 2017</b>				
<b>Assets:</b>				
Residential mortgage loans held for sale	\$ 15,327	\$—	\$ 15,327	\$ —
Available for sale debt securities:				
U.S. government and federal agency obligations	917,147	917,147	—	—
Government-sponsored enterprise obligations	406,363	—	406,363	—
State and municipal obligations	1,611,366	—	1,594,350	17,016
Agency mortgage-backed securities	3,040,913	—	3,040,913	—
Non-agency mortgage-backed securities	905,793	—	905,793	—
Asset-backed securities	1,492,800	—	1,492,800	—
Other debt securities	351,060	—	351,060	—
Trading debt securities	18,269	—	18,269	—

Equity securities	48,838	19,864	28,974	—
Private equity investments	55,752	—	—	55,752
Derivatives *	8,349	—	7,723	626
Assets held in trust for deferred compensation plan	12,843	12,843	—	—
Total assets	8,884,820	949,854	7,861,572	73,394
Liabilities:				
Derivatives *	8,074	—	7,951	123
Liabilities held in trust for deferred compensation plan	12,843	12,843	—	—
Total liabilities	\$ 20,917	\$ 12,843	\$ 7,951	\$ 123

\* The fair value of each class of derivative is shown in Note 10.

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The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(In thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			Total
	Municipal Obligations	State and Private Equity Investments	Derivatives	
For the three months ended June 30, 2018				
Balance March 31, 2018	\$ 17,158	\$ 64,951	\$ 520	\$ 82,629
Total gains or losses (realized/unrealized):				
Included in earnings	—	3,791	164	3,955
Included in other comprehensive income *	(379 )	—	—	(379 )
Investment securities sold	(1,715 )	—	—	(1,715 )
Discount accretion	9	—	—	9
Purchases of private equity investments	—	364	—	364
Sale/pay down of private equity investments	—	(166 )	—	(166 )
Balance June 30, 2018	\$ 15,073	\$ 68,940	\$ 684	\$ 84,697
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2018	\$ —	\$ 3,791	\$ 747	\$ 4,538
For the six months ended June 30, 2018				
Balance January 1, 2018	\$ 17,016	\$ 55,752	\$ 503	\$ 73,271
Total gains or losses (realized/unrealized):				
Included in earnings	—	8,096	329	8,425
Included in other comprehensive income *	(246 )	—	—	(246 )
Investment securities sold	(1,715 )	—	—	(1,715 )
Discount accretion	18	—	—	18
Purchases of private equity investments	—	5,243	—	5,243
Sale/pay down of private equity investments	—	(186 )	—	(186 )
Capitalized interest/dividends	—	35	—	35
Sale of risk participation agreement	—	—	(148 )	(148 )
Balance June 30, 2018	\$ 15,073	\$ 68,940	\$ 684	\$ 84,697
Total gains or losses for the six months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2018	\$ —	\$ 8,096	\$ 910	\$ 9,006
For the three months ended June 30, 2017				
Balance March 31, 2017	\$ 17,083	\$ 52,800	\$ 822	\$ 70,705
Total gains or losses (realized/unrealized):				
Included in earnings	—	48	(31 )	17
Included in other comprehensive income *	319	—	—	319
Investment securities called	(600 )	—	—	(600 )
Discount accretion	23	—	—	23
Purchases of private equity investments	—	2,259	—	2,259
Sale/pay down of private equity investments	—	(1,550 )	—	(1,550 )
Balance June 30, 2017	\$ 16,825	\$ 53,557	\$ 791	\$ 71,173
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2017	\$ —	\$ 48	\$ 872	\$ 920

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For the six months ended June 30, 2017

Balance January 1, 2017	\$ 16,682	\$ 50,820	\$ 258	\$ 67,760
Total gains or losses (realized/unrealized):				
Included in earnings	—	(2,830)	) 533	(2,297 )
Included in other comprehensive income *	710	—	—	710
Investment securities called	(600 )	—	—	(600 )
Discount accretion	33	—	—	33
Purchases of private equity investments	—	7,084	—	7,084
Sale/pay down of private equity investments	—	(1,550 )	—	(1,550 )
Capitalized interest/dividends	—	33	—	33
Balance June 30, 2017	\$ 16,825	\$ 53,557	\$ 791	\$ 71,173
Total gains or losses for the six months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2017	\$—	\$ (2,655 )	)\$ 882	\$(1,773 )

\* Included in "net unrealized gains (losses) on other securities" in the consolidated statements of comprehensive income.

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Gains and losses included in earnings for the Level 3 assets and liabilities in the previous table are reported in the following line items in the consolidated statements of income:

(In thousands)	Loan Fees and Sales	Other Non-Interest Income	Investment Securities Gains (Losses), Net	Total
For the three months ended June 30, 2018				
Total gains or losses included in earnings	\$ 147	\$ 17	\$ 3,791	\$ 3,955
Change in unrealized gains or losses relating to assets still held at June 30, 2018	\$ 730	\$ 17	\$ 3,791	\$ 4,538
For the six months ended June 30, 2018				
Total gains or losses included in earnings	\$ 149	\$ 180	\$ 8,096	\$ 8,425
Change in unrealized gains or losses relating to assets still held at June 30, 2018	\$ 730	\$ 180	\$ 8,096	\$ 9,006
For the three months ended June 30, 2017				
Total gains or losses included in earnings	\$(32)	\$ 1	\$ 48	\$ 17
Change in unrealized gains or losses relating to assets still held at June 30, 2017	\$ 871	\$ 1	\$ 48	\$ 920
For the six months ended June 30, 2017				
Total gains or losses included in earnings	\$ 522	\$ 11	\$(2,830)	\$(2,297)
Change in unrealized gains or losses relating to assets still held at June 30, 2017	\$ 871	\$ 11	\$(2,655)	\$(1,773)

## Level 3 Inputs

The Company's significant Level 3 measurements which employ unobservable inputs that are readily quantifiable pertain to auction rate securities (ARS) held by the Bank, investments in portfolio concerns held by the Company's private equity subsidiaries, and held for sale residential mortgage loan commitments. ARS are included in state and municipal securities and totaled \$15.1 million at June 30, 2018, while private equity investments, included in other securities, totaled \$68.9 million.

Information about these inputs is presented in the table and discussions below.

Quantitative Information about Level 3 Fair Value Measurements				
	Valuation Technique	Unobservable Input	Range	Weighted Average
Auction rate securities	Discounted cash flow	Estimated market recovery period	5 years	
		Estimated market rate	3.7% - 5.9%	
Private equity investments	Market comparable companies	EBITDA multiple	4.0 - 6.0	
Mortgage loan commitments	Discounted cash flow	Probability of funding	50.5% - 98.8%	80.4%
		Embedded servicing value	.5% - 2.4%	1.3%



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## Instruments Measured at Fair Value on a Nonrecurring Basis

For assets measured at fair value on a nonrecurring basis during the first six months of 2018 and 2017, and still held as of June 30, 2018 and 2017, the following table provides the adjustments to fair value recognized during the respective periods, the level of valuation inputs used to determine each adjustment, and the carrying value of the related individual assets or portfolios at June 30, 2018 and 2017.

(In thousands)	Fair Value	Fair Value Measurements Using		Total Gains (Losses) Recognized During the Six Months Ended June 30	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
<b>June 30, 2018</b>					
Collateral dependent impaired loans	\$ 175	\$ —	—	—\$ 175	\$ (118 )
Mortgage servicing rights	5,463	—	—	5,463	9
Foreclosed assets	47	—	—	47	(47 )
Long-lived assets	914	—	—	914	(552 )
<b>June 30, 2017</b>					
Collateral dependent impaired loans	\$ 2,044	\$ —	—	—\$ 2,044	\$ (550 )
Mortgage servicing rights	3,646	—	—	3,646	6
Foreclosed assets	75	—	—	75	(58 )
Long-lived assets	1,834	—	—	1,834	(343 )

## 15. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments held by the Company are set forth below. Fair value estimates are made at a specific point in time based on relevant market information. They do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for many of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, risk characteristics and economic conditions. These estimates are subjective, involve uncertainties, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

As mentioned in Note 3, the Company prospectively adopted ASU 2016-01 on January 1, 2018. In accordance with its requirements, the fair value of loans as of June 30, 2018 was measured using an exit price notion. The fair value of loans as of December 31, 2017 was measured using an entry price notion.

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The estimated fair values of the Company's financial instruments and the classification of their fair value measurement within the valuation hierarchy are as follows at June 30, 2018 and December 31, 2017:

(In thousands)	Carrying Amount	Estimated Fair Value at June 30, 2018		
		Level 1	Level 2	Level 3
Financial Assets				
Loans:				
Business	\$4,990,298	\$-	-\$4,890,517	\$4,890,517
Real estate - construction and land	967,151	—	962,276	962,276
Real estate - business	2,727,580	—	2,689,312	2,689,312
Real estate - personal	2,102,586	—	2,038,381	2,038,381
Consumer	2,012,644	—	1,976,911	1,976,911
Revolving home equity	374,557	—	367,886	367,886
Consumer credit card	775,214	—	720,044	720,044
Overdrafts	4,081	—	3,018	3,018
Total loans	13,954,111	—	13,648,345	13,648,345
Loans held for sale	20,352	-20,352	—	20,352
Investment securities	8,560,285	913,517	3367129,085	8,560,285
Federal funds sold	31,500	31,500	—	31,500
Securities purchased under agreements to resell	700,000	—	680,830	680,830
Interest earning deposits with banks	114,947	114,947	—	114,947
Cash and due from banks	386,339	386,339	—	386,339
Derivative instruments	6,239	-5,488	751	6,239