RENASANT CORP
Form 10-Q
November 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
Or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number: 001-13253

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

Mississippi	64-0676974
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
209 Troy Street, Tupelo, Mississippi	38804-4827
(Address of principal executive offices)	(Zip Code)

(662) 680-1001
(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 ý No o

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

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

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
Emerging growth company	o		

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. o

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

As of October 31, 2018, 58,714,751 shares of the registrant's common stock, $5.00 par value per share, were outstanding.

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For the Quarterly Period Ended September 30, 2018
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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

Renasant Corporation and Subsidiaries
Consolidated Balance Sheets

(In Thousands, Except Share Data)

	(Unaudited) September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 170,438	$ 187,838
Interest-bearing balances with banks	199,158	93,615
Cash and cash equivalents	369,596	281,453
Securities available for sale, at fair value	1,177,606	671,488
Loans held for sale ($252,025 and $108,316 carried at fair value at September 30, 2018 and December 31, 2017, respectively)	463,287	108,316
Loans, net of unearned income:		
Non purchased loans and leases	6,210,238	5,588,556
Purchased loans	2,912,669	2,031,766
Total loans, net of unearned income	9,122,907	7,620,322
Allowance for loan losses	(48,610)	(46,211)
Loans, net	9,074,297	7,574,111
Premises and equipment, net	206,831	183,254
Other real estate owned:		
Non purchased	4,665	4,410
Purchased	7,932	11,524
Total other real estate owned, net	12,597	15,934
Goodwill	927,261	611,046
Other intangible assets, net	46,854	24,510
Bank-owned life insurance	219,264	175,863
Mortgage servicing rights	46,413	39,339
Other assets	202,933	144,667
Total assets	$ 12,746,939	$ 9,829,981
Liabilities and shareholders’ equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 2,359,859	$ 1,840,424
Interest-bearing	7,812,089	6,080,651
Total deposits	10,171,948	7,921,075
Short-term borrowings	175,559	89,814
Long-term debt	263,957	207,546
Other liabilities	124,764	96,563
Total liabilities	10,736,228	8,314,998
Shareholders’ equity		
Preferred stock, $.01 par value – 5,000,000 shares authorized; no shares issued and outstanding	—	—

Common stock, $5.00 par value – 150,000,000 shares authorized; 59,296,725 shares issued; 58,743,814 and 49,321,231 shares outstanding, respectively	296,484	249,951
Treasury stock, at cost	(17,225)	(19,906)
Additional paid-in capital	1,287,063	898,095
Retained earnings	468,612	397,354
Accumulated other comprehensive loss, net of taxes	(24,223)	(10,511)
Total shareholders’ equity	2,010,711	1,514,983
Total liabilities and shareholders’ equity	$ 12,746,939	$ 9,829,981

See Notes to Consolidated Financial Statements.

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Renasant Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)
(In Thousands, Except Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income				
Loans	$108,577	$92,536	$301,351	$247,076
Securities				
Taxable	6,632	5,061	16,326	14,040
Tax-exempt	1,592	2,400	4,926	7,284
Other	994	698	2,146	1,763
Total interest income	117,795	100,695	324,749	270,163
Interest expense				
Deposits	13,556	6,834	32,534	17,297
Borrowings	4,800	3,844	11,147	9,231
Total interest expense	18,356	10,678	43,681	26,528
Net interest income	99,439	90,017	281,068	243,635
Provision for loan losses	2,250	2,150	5,810	5,400
Net interest income after provision for loan losses	97,189	87,867	275,258	238,235
Noninterest income				
Service charges on deposit accounts	8,847	8,676	25,591	24,565
Fees and commissions	5,944	5,618	17,546	16,287
Insurance commissions	2,461	2,365	6,576	6,406
Wealth management revenue	3,386	2,963	10,094	8,884
Mortgage banking income	14,350	10,616	38,149	33,544
Net gain on sales of securities	(16)	57	(16)	57
BOLI income	1,186	1,136	3,326	3,234
Other	1,895	1,982	6,321	6,722
Total noninterest income	38,053	33,413	107,587	99,699
Noninterest expense				
Salaries and employee benefits	55,187	48,530	155,981	135,753
Data processing	4,614	4,179	13,458	12,248
Net occupancy and equipment	10,668	9,470	30,295	27,603
Other real estate owned	278	603	1,167	1,916
Professional fees	2,056	1,552	6,370	5,501
Advertising and public relations	2,242	1,802	7,092	5,824
Intangible amortization	1,765	1,766	5,010	4,822
Communications	2,190	1,927	6,036	5,698
Extinguishment of debt	—	—	—	205
Merger and conversion related expenses	11,221	6,266	12,621	9,655
Other	4,525	4,565	13,686	15,585
Total noninterest expense	94,746	80,660	251,716	224,810
Income before income taxes	40,496	40,620	131,129	113,124
Income taxes	8,532	14,199	28,629	37,447
Net income	$31,964	$26,421	$102,500	$75,677
Basic earnings per share	$0.61	$0.54	$2.03	$1.64
Diluted earnings per share	$0.61	$0.53	$2.03	$1.64
Cash dividends per common share	$0.20	$0.18	$0.59	$0.54

See Notes to Consolidated Financial Statements.

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Renasant Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Unaudited)
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$31,964	$26,421	$102,500	$75,677
Other comprehensive (loss) income, net of tax:				
Securities available for sale:				
Unrealized holding (losses) gains on securities	(4,882)	(729)	(15,791)	4,747
Reclassification adjustment for losses (gains) realized in net income	11	(35)	11	(35)
Unrealized holding gains on securities transferred from held to maturity to available for sale	—	8,108	—	8,108
Amortization of unrealized holding gains on securities transferred to the held to maturity category	—	(4)	—	(173)
Total securities	(4,871)	7,340	(15,780)	12,647
Derivative instruments:				
Unrealized holding gains on derivative instruments	639	100	1,884	104
Total derivative instruments	639	100	1,884	104
Defined benefit pension and post-retirement benefit plans:				
Amortization of net actuarial loss recognized in net periodic pension cost	61	62	184	187
Total defined benefit pension and post-retirement benefit plans	61	62	184	187
Other comprehensive (loss) income, net of tax	(4,171)	7,502	(13,712)	12,938
Comprehensive income	$27,793	$33,923	$88,788	$88,615

See Notes to Consolidated Financial Statements.

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Renasant Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(In Thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net income	$102,500	$75,677
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	5,810	5,400
Depreciation, amortization and accretion	3,689	3,541
Deferred income tax expense	7,335	1,669
Funding of mortgage loans held for sale	(1,318,484)	(1,256,233)
Proceeds from sales of mortgage loans held for sale	1,253,680	1,245,301
Gains on sales of mortgage loans held for sale	(30,805)	(15,719)
Losses (gains) on sales of securities	16	(57)
Penalty on prepayment of debt	—	205
(Gains) losses on sales of premises and equipment	(188)	553
Stock-based compensation expense	5,556	3,771
Increase in other assets	(57)	(2,059)
Decrease in other liabilities	(27,084)	(9,652)
Net cash provided by operating activities	1,968	52,397
Investing activities		
Purchases of securities available for sale	(576,579)	(191,679)
Proceeds from sales of securities available for sale	2,387	43,494
Proceeds from call/maturities of securities available for sale	113,511	132,044
Proceeds from sales of securities held to maturity	—	4,876
Proceeds from call/maturities of securities held to maturity	—	15,882
Net increase in loans	(156,082)	(272,618)
Purchases of premises and equipment	(15,599)	(11,925)
Proceeds from sales of premises and equipment	912	1,255
Proceeds from sales of other assets	5,286	11,485
Net cash received in acquisition of businesses	153,502	41,685
Net cash used in investing activities	(472,662)	(225,501)
Financing activities		
Net increase in noninterest-bearing deposits	90,240	6,464
Net increase in interest-bearing deposits	448,675	112,854
Net increase in short-term borrowings	51,606	274,554
Repayment of long-term debt	(643)	(169,961)
Cash paid for dividends	(31,242)	(25,004)
Net stock-based compensation transactions	201	173
Net cash provided by financing activities	558,837	199,080
Net increase in cash and cash equivalents	88,143	25,976
Cash and cash equivalents at beginning of period	281,453	306,224
Cash and cash equivalents at end of period	$369,596	$332,200
Supplemental disclosures		
Cash paid for interest	$43,317	$26,974
Cash paid for income taxes	$21,305	$29,491
Noncash transactions:		

Transfers of loans to other real estate owned	$2,657	$5,418
Financed sales of other real estate owned	$495	$257
Transfers of loans held for sale to loans held for investment	$1,510	$—
Common stock issued in acquisition of businesses	$434,519	$213,590

See Notes to Consolidated Financial Statements.

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Renasant Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Summary of Significant Accounting Policies

(In Thousands)
Nature of Operations: Renasant Corporation (referred to herein as the “Company”) owns and operates Renasant Bank (“Renasant Bank” or the “Bank”) and Renasant Insurance, Inc. (“Renasant Insurance”). The Company offers a diversified range of financial, wealth management and insurance services to its retail and commercial customers through its subsidiaries and full service offices located throughout north and central Mississippi, Tennessee, Georgia, Alabama and north Florida.
Basis of Presentation: The accompanying unaudited consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified to conform to the current year presentation. For further information regarding the Company’s significant accounting policies, refer to the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission on February 28, 2018.
Business Combinations: The Company completed its acquisitions of Metropolitan BancGroup, Inc. (“Metropolitan”) and Brand Group Holdings, Inc. (“Brand”) on July 1, 2017 and September 1, 2018, respectively. The acquired institutions’ financial condition and results of operations are included in the Company’s financial condition and results of operations as of the applicable acquisition date. Due to the timing of the respective system conversions and the integration of operations into the Company's existing operations, historical reporting for acquired operations is impracticable, and, therefore disclosure of the amounts of revenue and expenses of the acquired institutions since the acquisition dates is impracticable.
In connection with the acquisition of Brand, the Company acquired a portfolio of non-mortgage consumer loans, which is included in the line item “Loans held for sale” on the Company’s Consolidated Balance Sheet as of September 30, 2018. The Company is currently evaluating its long-term plans with respect to this portfolio. In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 850, “Business Combinations”, these loans were measured at fair value as of the acquisition date. Subsequent to the acquisition date, these loans are carried at the lower of amortized cost or fair value.
Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates, and such differences may be material.

Impact of Recently-Issued Accounting Standards and Pronouncements:
In February 2016, FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). ASU 2016-02 amends the accounting model and disclosure requirements for leases. The current accounting model for leases distinguishes between capital leases, which are recognized on the balance sheet, and operating leases, which are not. Under the new standard, the lease classifications are defined as finance leases, which are similar to capital leases under current GAAP, and operating leases. Further, a lessee will recognize a lease liability and a right-of-use asset for all leases with a term greater than 12 months on its balance sheet regardless of the lease’s classification, which may significantly increase reported assets and liabilities. The accounting model and disclosure requirements for lessors remains substantially unchanged from current GAAP. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact ASU 2016-02 will have on its financial position and results of operations, and its financial statement disclosures, and the expected results include the

recognition of leased assets and related lease liabilities on the balance sheet, along with leasehold amortization and interest expense recognized in the statements of income.
In June 2016, FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This update will significantly change the way entities recognize impairment on many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. FASB describes this impairment recognition model as the current expected credit loss ("CECL") model and believes the CECL model will result in more timely recognition of credit losses since it incorporates expected credit losses versus incurred credit losses. The scope of FASB's CECL model includes loans, held-to-maturity debt instruments, lease receivables, loan commitments

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and financial guarantees that are not accounted for at fair value. For public companies, this update is effective for interim and annual periods beginning after December 15, 2019. The Company has formed an implementation committee comprised of both accounting and credit employees to guide Renasant Bank through the implementation of ASU 2016-13. Currently, this committee is working with a consulting firm to develop the Company's CECL model, which includes reviewing the different model requirements and ensuring historical data integrity across all reporting systems.

In January 2017, FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350)" ("ASU 2017-04"). ASU 2017-04 will amend and simplify current goodwill impairment testing by eliminating certain testing under the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the quantitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. ASU 2017-04 will be effective for interim and annual periods beginning after December 15, 2019 and is not expected to have a material impact on the Company's financial statements.

In March 2017, FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities" ("ASU 2017-08"). ASU 2017-08 requires the amortization period for certain callable debt securities held at a premium to be the earliest call date. ASU 2017-08 will be effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect that ASU 2017-08 will have on its financial position and results of operations and its financial statement disclosures.

In August 2017, FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"). ASU 2017-12 is intended to simplify hedge accounting by eliminating the requirement to separately measure and report hedge effectiveness. ASU 2017-12 also seeks to expand the application of hedge accounting by modifying current requirements to include hedge accounting on partial-term hedges, the hedging of prepayable financial instruments and other strategies. ASU 2017-12 will be effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect that ASU 2017-12 will have on its financial position and results of operations and its financial statement disclosures.

In August 2018, FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 is intended to improve the disclosures on fair value measurements by eliminating, amending and adding certain disclosure requirements. These changes are intended to reduce costs for preparers while providing more useful information for financial statement users. ASU 2018-13 will be effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the effect that ASU 2018-13 will have on its financial position and results of operations and its financial statement disclosures.

Note 2 – Mergers and Acquisitions
(Dollar Amounts In Thousands, Except Share Data)
Acquisition of Brand Group Holdings, Inc.

Effective September 1, 2018, the Company completed its acquisition by merger of Brand, the parent company of The Brand Banking Company ("Brand Bank"), in a transaction valued at approximately $474,453. The Company issued 9,306,477 shares of common stock and paid approximately $21,879 to Brand shareholders, excluding cash paid for factional shares, and paid approximately $17,157, net of tax benefit, to Brand stock option holders for 100% of the voting equity interest in Brand. At closing, Brand merged with and into the Company, with the Company the surviving corporation in the merger; immediately thereafter, Brand Bank merged with and into Renasant Bank, with Renasant Bank the surviving banking corporation in the merger. On September 1, 2018, Brand operated thirteen banking locations throughout the greater Atlanta market.

The Company recorded approximately $343,569 in intangible assets which consist of goodwill of $316,215 and a core deposit intangible of $27,354. Goodwill resulted from a combination of revenue enhancements from expansion in existing markets and efficiencies resulting from operational synergies. The fair value of the core deposit intangible is being amortized over the estimated useful life, currently expected to be approximately 10 years. The goodwill is not deductible for income tax purposes.

The following table summarizes the allocation of purchase price to assets and liabilities acquired in connection with the Company’s acquisition of Brand based on their fair values on September 1, 2018.

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Purchase Price:		
Shares issued to common shareholders	9,306,477	
Purchase price per share	$46.69	
Value of stock paid		$434,519
Cash consideration paid		21,879
Cash paid for fractional shares		4
Cash settlement for stock options, net of tax benefit		17,157
Deal charges		894
Total Purchase Price		$474,453
Net Assets Acquired:		
Stockholders' equity at acquisition date	$138,896	
Increase (decrease) to net assets as a result of fair value adjustments to assets acquired and liabilities assumed:		
Securities	(1,354)	
Loans, including loans held for sale	(16,287)	
Premises and equipment	1,621	
Intangible assets	27,354	
Other assets	(35)	
Deposits	(1,367)	
Borrowings	(3,236)	
Other liabilities	13,675	
Deferred income taxes	(1,029)	
Total Net Assets Acquired		158,238
Goodwill resulting from merger(1)		$316,215

(1) The goodwill resulting from the merger has been assigned to the Community Banks operating segment.

The following table summarizes the estimated fair value on September 1, 2018 of assets acquired and liabilities assumed on that date in connection with the merger with Brand. These estimates are subject to change pending the finalization of all valuations.

Cash and cash equivalents	$193,436
Securities	70,123
Loans, including loans held for sale	1,593,894
Premises and equipment	20,782
Intangible assets	343,569
Other assets	113,324
Total assets	$2,335,128
Deposits	$1,714,177
Borrowings	90,912
Other liabilities	55,586
Total liabilities	$1,860,675

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As part of the merger agreement, Brand agreed to divest the operations of its subsidiary Brand Mortgage Group, LLC ("BMG"), which transaction was not completed until October 31, 2018. As a result, the balance sheet and results of operations of BMG, which the Company considers to be immaterial to the overall results of the Company, are included in the Company's results for the third quarter of 2018 since the acquisition date and will be included in the Company's balance sheet and consolidated results of operations through October 31, 2018. The following table summarizes the significant assets acquired and liabilities assumed from BMG:

(in thousands)	September 1, 2018
Loans held for sale	$ 48,100
Borrowings	34,139

The following table summarizes the results of operations for BMG included in the Company's Consolidated Statements of Income for the three and nine months ended September 30, 2018:

(in thousands)	
Interest income	$ 186
Interest expense	143
Net interest income	43
Noninterest income	1,696
Noninterest expense	2,029
Net income before taxes	$ (290)

Acquisition of Metropolitan BancGroup, Inc.

Effective July 1, 2017, the Company completed its acquisition of Metropolitan, the parent company of Metropolitan Bank, in a transaction valued at approximately $219,461. The Company issued 4,883,182 shares of common stock and paid approximately $4,764 to Metropolitan stock option holders for 100% of the voting equity interest in Metropolitan. At closing, Metropolitan merged with and into the Company, with the Company the surviving corporation in the merger; immediately thereafter, Metropolitan Bank merged with and into Renasant Bank, with Renasant Bank the surviving banking corporation in the merger. On July 1, 2017, Metropolitan operated eight banking locations in Nashville and Memphis, Tennessee and the Jackson, Mississippi Metropolitan Statistical Area.

The Company recorded approximately $147,478 in intangible assets which consist of goodwill of $140,512 and a core deposit intangible of $6,966. Goodwill resulted from a combination of revenue enhancements from expansion in existing markets and efficiencies resulting from operational synergies. The fair value of the core deposit intangible is being amortized on an accelerated basis over the estimated useful life, currently expected to be approximately 10 years. The goodwill is not deductible for income tax purposes.

The following table summarizes the allocation of purchase price to assets and liabilities acquired in connection with the Company's acquisition of Metropolitan based on their fair values on July 1, 2017.

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Purchase Price:		
Shares issued to common shareholders	4,883,182	
Purchase price per share	$43.74	
Value of stock paid		$213,590
Cash paid for fractional shares		5
Cash settlement for stock options		4,764
Deal charges, net of taxes		1,102
Total Purchase Price		$219,461
Net Assets Acquired:		
Stockholders' equity at acquisition date	$89,253	
Increase (decrease) to net assets as a result of fair value adjustments to assets acquired and liabilities assumed:		
Securities	(731)	
Mortgage loans held for sale	30	
Loans, net of Metropolitan's allowance for loan losses	(13,071)	
Premises and equipment	(4,629)	
Intangible assets, net of Metropolitan's existing intangibles	2,340	
Other real estate owned	(1,251)	
Other assets	2,731	
Deposits	(3,603)	
Borrowings	(1,294)	
Other liabilities	3,930	
Deferred income taxes	5,244	
Total Net Assets Acquired		$78,949
Goodwill resulting from merger(1)		$140,512

(1) The goodwill resulting from the merger has been assigned to the Community Banks operating segment.

The following table summarizes the fair value on July 1, 2017 of assets acquired and liabilities assumed on that date in connection with the merger with Metropolitan.

Cash and cash equivalents	$47,556
Securities	108,697
Loans, including mortgage loans held for sale	967,804
Premises and equipment	8,576
Other real estate owned	1,203
Intangible assets	147,478
Other assets	69,567
Total assets	$1,350,881
Deposits	$942,084
Borrowings	174,522
Other liabilities	20,685
Total liabilities	$1,137,291

Supplemental Pro Forma Combined Condensed Results of Operations

The following unaudited pro forma combined condensed consolidated financial information presents the results of operations for the nine months ended September 30, 2018 and 2017 of the Company as though the Brand and Metropolitan mergers had been completed as of January 1, 2017. The unaudited pro forma information combines the historical results of Brand and Metropolitan with the Company's historical consolidated results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the periods presented. The pro forma information is not necessarily indicative of what would have occurred

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had the acquisitions taken place on January 1, 2017. The pro forma information does not include the effect of any cost-saving or revenue-enhancing strategies. Merger expenses are reflected in the period in which they were incurred.

	(Unaudited) Nine Months Ended September 30,	
	2018	2017
Net interest income - pro forma	$341,946	$336,250
Noninterest income - pro forma	$117,476	$139,328
Noninterest expense - pro forma	$359,386	$327,566
Net income - pro forma	$72,719	$93,570
Earnings per share - pro forma:		
Basic	$1.24	$1.60
Diluted	$1.24	$1.59

Note 3 – Securities
(In Thousands, Except Number of Securities)

The amortized cost and fair value of securities available for sale were as follows as of the dates presented:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
Obligations of other U.S. Government agencies and corporations	$3,541	$ 13	$(48)	$3,506
Obligations of states and political subdivisions	208,885	2,627	(1,193)	210,319
Residential mortgage backed securities:				
Government agency mortgage backed securities	573,236	240	(12,889)	560,587
Government agency collateralized mortgage obligations	316,642	13	(9,427)	307,228
Commercial mortgage backed securities:				
Government agency mortgage backed securities	22,094	203	(562)	21,735
Government agency collateralized mortgage obligations	29,332	—	(370)	28,962
Trust preferred securities	12,351	—	(2,047)	10,304
Other debt securities	35,308	104	(447)	34,965
	$1,201,389	$ 3,200	$(26,983)	$1,177,606

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
Obligations of other U.S. Government agencies and corporations	$3,554	$ 40	$(30)	$3,564
Obligations of states and political subdivisions	228,589	6,161	(269)	234,481
Residential mortgage backed securities:				
Government agency mortgage backed securities	196,121	888	(3,059)	193,950
Government agency collateralized mortgage obligations	180,258	133	(3,752)	176,639
Commercial mortgage backed securities:				
Government agency mortgage backed securities	31,015	389	(234)	31,170
Government agency collateralized mortgage obligations	5,019	1	(14)	5,006
Trust preferred securities	12,442	—	(3,054)	9,388
Other debt securities	17,106	260	(76)	17,290
	$674,104	$ 7,872	$(10,488)	$671,488

During the third quarter of 2018, the Company sold municipal securities and residential mortgage backed securities with a carrying value of $2,403 at the time of sale for net proceeds of $2,387. There were no other sales of securities during the nine months ended September 30, 2018. During the third quarter of 2017, the Company sold one of its pooled trust preferred securities (XXIV) with a carrying value of $9,346 at the time of sale for net proceeds of $9,403 resulting in a gain of $57 on the sale. During the first nine months of 2017, the Company also sold certain securities acquired in connection with its acquisition of Metropolitan. These included $14,750 in mortgage backed securities, $16,395 in collateralized mortgage obligations and $4,876 in obligations of states and political subdivisions. These securities were sold at carrying value and did not result in a gain or loss. Finally, during the first nine months of 2017, the Company sold residential mortgage backed securities with a carrying value of $2,946 at the time of the sale for net proceeds of $2,946 resulting in no gain or loss on the sale.

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Gross realized gains and losses on sales of securities available for sale for the three and nine months ended September 30, 2018 and 2017, respectively, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross gains on sales of securities available for sale	$11	$ 57	$11	$ 57
Gross losses on sales of securities available for sale	(27)	—	(27)	—
(Losses) Gains on sales of securities available for sale, net	$(16)	$ 57	$(16)	$ 57

At September 30, 2018 and December 31, 2017, securities with a carrying value of $576,135 and $217,867, respectively, were pledged to secure government, public and trust deposits. Securities with a carrying value of $18,349 and $25,888 were pledged as collateral for short-term borrowings and derivative instruments at September 30, 2018 and December 31, 2017, respectively.
The amortized cost and fair value of securities at September 30, 2018 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	$41,421	$41,815
Due after one year through five years	48,858	49,351
Due after five years through ten years	81,381	81,580
Due after ten years	61,925	60,153
Residential mortgage backed securities:		
Government agency mortgage backed securities	573,236	560,587
Government agency collateralized mortgage obligations	316,642	307,228
Commercial mortgage backed securities:		
Government agency mortgage backed securities	22,094	21,735
Government agency collateralized mortgage obligations	29,332	28,962
Other debt securities	26,500	26,195
	$1,201,389	$1,177,606

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The following table presents the age of gross unrealized losses and fair value by investment category as of the dates presented:

	Less than 12 Months			12 Months or More			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Available for Sale:									
September 30, 2018									
Obligations of other U.S. Government agencies and corporations	1	$490	$(10)	2	$1,982	$(38)	3	$2,472	$(48)
Obligations of states and political subdivisions	79	52,161	(758)	12	7,432	(435)	91	59,593	(1,193)
Residential mortgage backed securities:									
Government agency mortgage backed securities	119	440,200	(7,536)	52	94,329	(5,353)	171	534,529	(12,889)
Government agency collateralized mortgage obligations	51	186,677	(3,468)	40	108,568	(5,959)	91	295,245	(9,427)
Commercial mortgage backed securities:									
Government agency mortgage backed securities	8	11,396	(188)	2	5,072	(374)	10	16,468	(562)
Government agency collateralized mortgage obligations	5	28,996	(370)	0	—	—	5	28,996	(370)
Trust preferred securities	0	—	—	2	10,304	(2,047)	2	10,304	(2,047)
Other debt securities	14	13,823	(208)	3	6,020	(239)	17	19,843	(447)
Total	277	$733,743	$(12,538)	113	$233,707	$(14,445)	390	$967,450	$(26,983)
December 31, 2017									
Obligations of other U.S. Government agencies and corporations	1	$497	$(3)	2	$1,999	$(27)	3	$2,496	$(30)
Obligations of states and political subdivisions	23	11,860	(59)	12	7,728	(210)	35	19,588	(269)
Residential mortgage backed securities:									
Government agency mortgage backed securities	29	64,595	(659)	44	89,414	(2,400)	73	154,009	(3,059)
Government agency collateralized mortgage obligations	33	102,509	(1,470)	29	62,406	(2,282)	62	164,915	(3,752)
Commercial mortgage backed securities:									
	2	5,629	(17)	3	5,872	(217)	5	11,501	(234)

Government agency mortgage backed securities									
Government agency collateralized mortgage obligations	1	4,986	(14)	0	—	—	1	4,986	(14)
Trust preferred securities	0	—	—	2	9,388	(3,054)	2	9,388	(3,054)
Other debt securities	2	756	(12)	2	6,308	(64)	4	7,064	(76)
Total	91	$190,832	$(2,234)	94	$183,115	$(8,254)	185	$373,947	$(10,488)

The Company evaluates its investment portfolio for other-than-temporary-impairment ("OTTI") on a quarterly basis. Impairment is assessed at the individual security level. The Company considers an investment security impaired if the fair value of the security is less than its cost or amortized cost basis. Impairment is considered to be other-than-temporary if the Company intends to sell the investment security or if the Company does not expect to recover the entire amortized cost basis of the security before the Company is required to sell the security or before the security's maturity.

The Company does not intend to sell any securities in an unrealized loss position that it holds, and it is not more likely than not that the Company will be required to sell any such security prior to the recovery of its amortized cost basis, which may be at maturity. Furthermore, even though a number of these securities have been in a continuous unrealized loss position for a period

greater than twelve months, the Company is collecting principal and interest payments from the respective issuers as scheduled. As such, the Company did not record any OTTI for the nine months ended September 30, 2018 or 2017.
The Company holds investments in pooled trust preferred securities that had an amortized cost basis of $12,351 and $12,442 and a fair value of $10,304 and $9,388 at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018, the investments in pooled trust preferred securities consisted of two securities representing interests in various tranches of trusts collateralized by debt issued by over 160 financial institutions. Management's determination of the fair value of each of its holdings in pooled trust preferred securities is based on the current credit ratings, the known deferrals and defaults by the underlying issuing financial institutions and the degree to which future deferrals and defaults would be required to occur before the cash flow for the Company's tranches is negatively impacted. In addition, management continually monitors key credit quality and capital ratios of the issuing institutions. This determination is further supported by quarterly valuations, which are performed by third parties, of each security obtained by the Company. The Company does not intend to sell the investments before recovery of the investments' amortized cost, and it is not more likely than not that the Company will be required to sell the investments before recovery of the investments' amortized cost, which may be at maturity. At September 30, 2018, management did not, and does not currently, believe such securities will be settled at a price less than the amortized cost of the investment, but the Company previously concluded that it was probable that there had been an adverse change in estimated cash flows for both trust preferred securities and recognized credit related impairment losses on these securities in 2011. No additional impairment was recognized during the nine months ended September 30, 2018.
The following table provides information regarding the Company's investments in pooled trust preferred securities at September 30, 2018:

Name	Single/ Pooled	Class/ Tranche	Amortized Cost	Fair Value	Unrealized Loss	Lowest Credit Rating	Issuers Currently in Deferral or Default
XXIII	Pooled	B-2	$ 8,283	$ 6,689	$ (1,594)	BB	16 %
XXVI	Pooled	B-2	4,068	3,615	(453)	B	19 %
			$ 12,351	$ 10,304	$ (2,047)		

The following table provides a summary of the cumulative credit related losses recognized in earnings for which a portion of OTTI has been recognized in other comprehensive income:

	2018	2017
Balance at January 1	$ (261)	$ (3,337)
Additions related to credit losses for which OTTI was not previously recognized	—	—
Increases in credit loss for which OTTI was previously recognized	—	—
Reductions for securities sold during the period	—	3,076
Balance at September 30	$ (261)	$ (261)

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Note 4 – Non Purchased Loans
(In Thousands, Except Number of Loans)

For purposes of this Note 4, all references to "loans" mean non purchased loans.

The following is a summary of non purchased loans and leases as of the dates presented:

	September 30, 2018	December 31, 2017
Commercial, financial, agricultural	$ 817,799	$ 763,823
Lease financing	57,576	57,354
Real estate – construction	624,892	547,658
Real estate – 1-4 family mortgage	2,000,770	1,729,534
Real estate – commercial mortgage	2,609,510	2,390,076
Installment loans to individuals	102,995	103,452
Gross loans	6,213,542	5,591,897
Unearned income	(3,304)	(3,341)
Loans, net of unearned income	$ 6,210,238	$ 5,588,556

Past Due and Nonaccrual Loans
Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, the recognition of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer and other retail loans are typically charged-off no later than the time the loan is 120 days past due. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. All interest accrued for the current year, but not collected, for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The following table provides an aging of past due and nonaccrual loans, segregated by class, as of the dates presented:

	Accruing Loans				Nonaccruing Loans				
	30-89 Days Past Due	90 Days or More Past Due	Current Loans	Total Loans	30-89 Days Past Due	90 Days or More Past Due	Current Loans	Total Loans	Total Loans
September 30, 2018									
Commercial, financial, agricultural	$1,606	$ 319	$814,246	$816,171	$—	$1,423	$205	$1,628	$817,799
Lease financing	320	—	57,256	57,576	—	—	—	—	57,576
Real estate – construction	1,069	—	623,823	624,892	—	—	—	—	624,892
Real estate – 1-4 family mortgage	7,928	2,965	1,986,079	1,996,972	207	2,678	913	3,798	2,000,770
Real estate – commercial mortgage	3,080	480	2,601,728	2,605,288	324	2,328	1,570	4,222	2,609,510
Installment loans to individuals	860	42	102,045	102,947	6	38	4	48	102,995
Unearned income	—	—	(3,304)	(3,304)	—	—	—	—	(3,304)
Total	$14,863	$ 3,806	$6,181,873	$6,200,542	$537	$6,467	$2,692	$9,696	$6,210,238
December 31, 2017									
Commercial, financial, agricultural	$2,722	$ 22	$759,143	$761,887	$205	$1,033	$698	$1,936	$763,823
Lease financing	47	—	57,148	57,195	—	159	—	159	57,354
Real estate – construction	50	—	547,608	547,658	—	—	—	—	547,658
Real estate – 1-4 family mortgage	11,810	2,194	1,712,982	1,726,986	—	1,818	730	2,548	1,729,534
Real estate – commercial mortgage	1,921	727	2,381,871	2,384,519	—	2,877	2,680	5,557	2,390,076
Installment loans to individuals	429	72	102,901	103,402	1	28	21	50	103,452
Unearned income	—	—	(3,341)	(3,341)	—	—	—	—	(3,341)
Total	$16,979	$ 3,015	$5,558,312	$5,578,306	$206	$5,915	$4,129	$10,250	$5,588,556

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for commercial, consumer and construction loans of $500 or more by, as applicable, the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are evaluated collectively for impairment. When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, the loan is placed on nonaccrual status and all cash receipts are applied to principal. Once the recorded balance has been reduced to zero, future cash receipts are applied to interest income, to the extent any interest has been foregone, and then they are recorded as recoveries of any amounts previously charged-off. For impaired loans, a specific reserve is established to adjust the carrying value of the loan to its estimated net realizable value.

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Loans accounted for under FASB ASC 310-20, "Nonrefundable Fees and Other Cost" ("ASC 310-20"), and which are impaired loans recognized in conformity with ASC 310, "Receivables" ("ASC 310"), segregated by class, were as follows as of the dates presented:

	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Recorded Investment With No Allowance	Total Recorded Investment	Related Allowance
September 30, 2018					
Commercial, financial, agricultural	$ 2,426	$ 1,952	$ —	$ 1,952	$ 377
Lease financing	—	—	—	—	—
Real estate – construction	9,725	7,560	2,165	9,725	65
Real estate – 1-4 family mortgage	8,841	8,115	—	8,115	58
Real estate – commercial mortgage	8,781	4,954	1,277	6,231	611
Installment loans to individuals	119	112	—	112	1
Total	$ 29,892	$ 22,693	$ 3,442	$ 26,135	$ 1,112
December 31, 2017					
Commercial, financial, agricultural	$ 3,043	$ 2,365	$ —	$ 2,365	$ 138
Lease financing	159	159	—	159	2
Real estate – construction	578	578	—	578	4
Real estate – 1-4 family mortgage	10,018	8,169	703	8,872	561
Real estate – commercial mortgage	12,463	9,652	—	9,652	1,861
Installment loans to individuals	121	117	—	117	1
Totals	$ 26,382	$ 21,040	$ 703	$ 21,743	$ 2,567

The following table presents the average recorded investment and interest income recognized on loans accounted for under ASC 310-20 and which are impaired loans for the periods presented:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial, agricultural	$1,979	$ 11	$1,960	$ 8
Lease financing	—	—	—	—
Real estate – construction	9,725	42	897	33
Real estate – 1-4 family mortgage	8,136	51	8,897	71
Real estate – commercial mortgage	6,258	37	7,575	46
Installment loans to individuals	118	1	140	1
Total	$26,216	$ 142	$19,469	$ 159

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	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial, agricultural	$2,204	$ 31	$2,140	$ 8
Lease financing	—	—	—	—
Real estate – construction	9,621	109	861	36
Real estate – 1-4 family mortgage	8,388	174	8,944	165
Real estate – commercial mortgage	6,354	117	7,844	134
Installment loans to individuals	121	2	148	2
Total	$26,688	$ 433	$19,937	$ 345

Restructured Loans

Restructured loans are those for which concessions have been granted to the borrower due to a deterioration of the borrower's financial condition and which are performing in accordance with the new terms. Such concessions may include reduction in interest rates or deferral of interest or principal payments. In evaluating whether to restructure a loan, management analyzes the long-term financial condition of the borrower, including guarantor and collateral support, to determine whether the proposed concessions will increase the likelihood of repayment of principal and interest.

The tables below illustrate the impact of modifications classified as restructured loans which were made during the periods presented and held on the Consolidated Balance Sheets at the respective period end. There were no newly restructured loans during the three months ended September 30, 2018.

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Three months ended September 30, 2017			
Real estate – 1-4 family mortgage	4	$ 307	$ 307
Real estate – commercial mortgage	1	230	175
Total	5	$ 537	$ 482

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Nine months ended September 30, 2018			
Real estate – 1-4 family mortgage	4	$ 625	$ 625
Real estate – commercial mortgage	1	83	78
Total	5	$ 708	$ 703
Nine months ended September 30, 2017			
Real estate – 1-4 family mortgage	9	$ 611	$ 601

Real estate – commercial mortgage	3	683	318
Installment loans to individuals	1	4	3
Total	13	$ 1,298	$ 922

With respect to loans that were restructured during the nine months ended September 30, 2018, none have subsequently defaulted as of the date of this report. With respect to loans that were restructured during the nine months ended September 30, 2017, $230 subsequently defaulted within twelve months of the restructuring.

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Restructured loans not performing in accordance with their restructured terms that are either contractually 90 days or more past due or placed on nonaccrual status are reported as nonperforming loans. There were two restructured loans in the amount of $228 contractually 90 days past due or more and still accruing at September 30, 2018 and three restructured loans in the amount of $597 contractually 90 days past due or more and still accruing at September 30, 2017. The outstanding balance of restructured loans on nonaccrual status was $3,147 and $4,651 at September 30, 2018 and September 30, 2017, respectively.

Changes in the Company’s restructured loans are set forth in the table below:

	Number of Loans	Recorded Investment
Totals at January 1, 2018	54	$ 5,588
Additional loans with concessions	5	709
Reclassified as performing	2	154
Reductions due to:		
Reclassified as nonperforming	(7)	(598)
Paid in full	(8)	(1,448)
Principal paydowns	—	(165)
Totals at September 30, 2018	46	$ 4,240

The allocated allowance for loan losses attributable to restructured loans was $33 and $98 at September 30, 2018 and September 30, 2017, respectively. The Company had $19 in remaining availability under commitments to lend additional funds on these restructured loans at September 30, 2018. There was no remaining availability under commitments to lend additional funds on these restructured loans at September 30, 2017.

Credit Quality

For commercial and commercial real estate loans, internal risk-rating grades are assigned by lending, credit administration or loan review personnel, based on an analysis of the financial and collateral strength and other credit attributes underlying each loan. Management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the portfolio balances of these loans. Loan grades range between 1 and 9, with 1 being loans with the least credit risk. Loans within the “Pass” grade (historically, those with a risk rating between 1 and 4) generally have a lower risk of loss and therefore a lower risk factor applied to the loan balances. Management has established more granular risk rating categories to better identify heightened credit risk as loans migrate downward in the risk rating system. The “Pass” grade is now reserved for loans with a risk rating between 1 and 4A, and the “Watch” grade (those with a risk rating of 4B and 4E) is utilized on a temporary basis for “Pass” grade loans where a significant adverse risk-modifying action is anticipated in the near term. Loans that migrate toward the “Substandard” grade (those with a risk rating between 5 and 9) generally have a higher risk of loss and therefore a higher risk factor applied to the related loan balances. The following table presents the Company’s loan portfolio by risk-rating grades as of the dates presented:

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	Pass	Watch	Substandard	Total
September 30, 2018				
Commercial, financial, agricultural	$596,176	$12,885	$ 4,729	$613,790
Real estate – construction	548,080	764	9,695	558,539
Real estate – 1-4 family mortgage	298,125	1,093	5,803	305,021
Real estate – commercial mortgage	2,200,150	52,845	22,073	2,275,068
Installment loans to individuals	570	—	—	570
Total	$3,643,101	$67,587	$ 42,300	$3,752,988
December 31, 2017				
Commercial, financial, agricultural	$554,943	$11,496	$ 4,402	$570,841
Real estate – construction	483,498	662	81	484,241
Real estate – 1-4 family mortgage	254,643	505	8,697	263,845
Real estate – commercial mortgage	1,983,750	50,428	24,241	2,058,419
Installment loans to individuals	921	—	—	921
Total	$3,277,755	$63,091	$ 37,421	$3,378,267

For portfolio balances of consumer, small balance consumer mortgage loans, such as 1-4 family mortgage loans, and certain other loans originated for other than commercial purposes, allowance factors are determined based on historical loss ratios by portfolio for the preceding eight quarters and may be adjusted by other qualitative criteria. The following table presents the performing status of the Company’s loan portfolio not subject to risk rating as of the dates presented:

	Performing	Non-Performing	Total
September 30, 2018			
Commercial, financial, agricultural	$202,633	$ 1,376	$204,009
Lease financing	54,272	—	54,272
Real estate – construction	66,353	—	66,353
Real estate – 1-4 family mortgage	1,690,667	5,082	1,695,749
Real estate – commercial mortgage	333,452	990	334,442
Installment loans to individuals	102,335	90	102,425
Total	$2,449,712	$ 7,538	$2,457,250
December 31, 2017			
Commercial, financial, agricultural	$191,473	$ 1,509	$192,982
Lease financing	53,854	159	54,013
Real estate – construction	63,417	—	63,417
Real estate – 1-4 family mortgage	1,462,347	3,342	1,465,689
Real estate – commercial mortgage	330,441	1,216	331,657
Installment loans to individuals	102,409	122	102,531
Total	$2,203,941	$ 6,348	$2,210,289

Note 5 – Purchased Loans
(In Thousands, Except Number of Loans)

For purposes of this Note 5, all references to “loans” mean purchased loans.

The following is a summary of purchased loans as of the dates presented:

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	September 30, 2018	December 31, 2017
Commercial, financial, agricultural	$ 495,545	$ 275,570
Real estate – construction	112,093	85,731
Real estate – 1-4 family mortgage	761,913	614,187
Real estate – commercial mortgage	1,503,075	1,037,454
Installment loans to individuals	40,043	18,824
Gross loans	2,912,669	2,031,766
Unearned income	—	—
Loans, net of unearned income	$ 2,912,669	$ 2,031,766

Past Due and Nonaccrual Loans
The Company's policies with respect to placing loans on nonaccrual status or charging off loans, and its accounting for interest on any such loans, are described above in Note 4, "Non Purchased Loans."
The following table provides an aging of past due and nonaccrual loans, segregated by class, as of the dates presented:

	Accruing Loans				Nonaccruing Loans				
	30-89 Days Past Due	90 Days or More Past Due	Current Loans	Total Loans	30-89 Days Past Due	90 Days or More Past Due	Current Loans	Total Loans	Total Loans
September 30, 2018									
Commercial, financial, agricultural	$5,508	$ 487	$489,237	$495,232	$—	$239	$74	$313	$495,545
Real estate – construction	2,676	—	109,153	111,829	—	264	—	264	112,093
Real estate – 1-4 family mortgage	6,737	3,648	748,488	758,873	353	1,357	1,330	3,040	761,913
Real estate – commercial mortgage	5,140	3,767	1,493,220	1,502,127	412	329	207	948	1,503,075
Installment loans to individuals	772	58	38,969	39,799	54	—	190	244	40,043
Total	$20,833	$ 7,960	$2,879,067	$2,907,860	$819	$2,189	$1,801	$4,809	$2,912,669
December 31, 2017									
Commercial, financial, agricultural	$1,119	$ 532	$273,488	$275,139	$—	$199	$232	$431	$275,570
Real estate – construction	415	—	85,316	85,731	—	—	—	—	85,731
Real estate – 1-4 family mortgage	6,070	2,280	602,464	610,814	385	879	2,109	3,373	614,187
Real estate – commercial mortgage	2,947	2,910	1,031,141	1,036,998	191	99	166	456	1,037,454
Installment loans to individuals	208	9	18,443	18,660	59	—	105	164	18,824
Total	$10,759	$ 5,731	$2,010,852	$2,027,342	$635	$1,177	$2,612	$4,424	$2,031,766

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Impaired Loans
The Company’s policies with respect to the determination of whether a loan is impaired and the treatment of such loans are described above in Note 4, “Non Purchased Loans.”
Loans accounted for under ASC 310-20, and which are impaired loans recognized in conformity with ASC 310, segregated by class, were as follows as of the dates presented:

	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Recorded Investment With No Allowance	Total Recorded Investment	Related Allowance
September 30, 2018					
Commercial, financial, agricultural	$ 391	$ 327	$ 2	$ 329	$ 44
Real estate – construction	520	520	—	520	5
Real estate – 1-4 family mortgage	4,924	834	3,495	4,329	12
Real estate – commercial mortgage	1,521	1,337	152	1,489	104
Installment loans to individuals	245	244	—	244	4
Total	$ 7,601	$ 3,262	$ 3,649	$ 6,911	$ 169
December 31, 2017					
Commercial, financial, agricultural	$ 757	$ 625	$ 74	$ 699	$ 52
Real estate – construction	1,207	—	1,199	1,199	—
Real estate – 1-4 family mortgage	6,173	1,385	4,225	5,610	45
Real estate – commercial mortgage	901	728	165	893	6
Installment loans to individuals	165	154	9	163	4
Totals	$ 9,203	$ 2,892	$ 5,672	$ 8,564	$ 107

The following table presents the average recorded investment and interest income recognized on loans accounted for under ASC 310-20 and which are impaired loans for the periods presented:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial, agricultural	$331	$ 3	$413	$ 6
Real estate – construction	520	1	829	62
Real estate – 1-4 family mortgage	4,817	33	5,174	41
Real estate – commercial mortgage	1,511	12	899	8
Installment loans to individuals	244	—	167	—
Total	$7,423	$ 49	$7,482	$ 117

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial, agricultural	$334	$ 8	$332	$ 9

Real estate – construction	520	2	741	62
Real estate – 1-4 family mortgage	4,907	107	5,221	103
Real estate – commercial mortgage	1,545	43	915	25
Installment loans to individuals	244	—	169	—
Total	$7,550	$ 160	$7,378	$ 199

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Loans accounted for under ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”), and which are impaired loans recognized in conformity with ASC 310, segregated by class, were as follows as of the dates presented:

	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Recorded Investment With No Allowance	Total Recorded Investment	Related Allowance
September 30, 2018					
Commercial, financial, agricultural	$ 43,724	$ 4,680	$ 27,959	$ 32,639	$ 360
Real estate – 1-4 family mortgage	62,126	13,469	35,724	49,193	505
Real estate – commercial mortgage	171,754	63,323	81,930	145,253	1,961
Installment loans to individuals	9,009	701	4,277	4,978	2
Total	$ 286,613	$ 82,173	$ 149,890	$ 232,063	$ 2,828
December 31, 2017					
Commercial, financial, agricultural	$ 24,179	$ 5,768	$ 9,547	$ 15,315	$ 312
Real estate – 1-4 family mortgage	65,049	15,910	38,059	53,969	572
Real estate – commercial mortgage	186,720	65,108	91,230	156,338	892
Installment loans to individuals	1,761	698	940	1,638	1
Totals	$ 277,709	$ 87,484	$ 139,776	$ 227,260	$ 1,777

The following table presents the average recorded investment and interest income recognized on loans accounted for under ASC 310-30 and which are impaired loans for the periods presented:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial, agricultural	$ 11,705	$ 162	$ 14,201	$ 507
Real estate – 1-4 family mortgage	51,957	621	67,802	808
Real estate – commercial mortgage	141,780	1,705	174,394	2,578
Installment loans to individuals	1,608	18	1,812	18
Total	$ 207,050	$ 2,506	$ 258,209	$ 3,911

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial, agricultural	$ 12,117	$ 579	$ 13,530	$ 988
Real estate – 1-4 family mortgage	53,093	1,941	68,933	2,301
Real estate – commercial mortgage	144,530	5,610	177,039	6,886
Installment loans to individuals	1,616	54	1,865	55
Total	$ 211,356	$ 8,184	$ 261,367	$ 10,230

Restructured Loans

An explanation of what constitutes a “restructured loan,” and management’s analysis in determining whether to restructure a loan, are described above in Note 4, “Non Purchased Loans.”
The tables below illustrate the impact of modifications classified as restructured loans which were made during the periods presented and held on the Consolidated Balance Sheets at the respective period end. There were no newly restructured loans during the three months ended September 30, 2018.

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	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Three months ended September 30, 2017			
Real estate – 1-4 family mortgage	18	$ 1,624	$ 1,189
Real estate – commercial mortgage	1	393	244
Total	19	$ 2,017	$ 1,433

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Nine months ended September 30, 2018			
Commercial, financial, agricultural	1	$ 48	$ 44
Real estate – 1-4 family mortgage	1	$ 18	$ 17
Real estate – commercial mortgage	1	8	7
Total	3	$ 74	$ 68
Nine months ended September 30, 2017			
Real estate – 1-4 family mortgage	28	$ 3,789	$ 3,062
Real estate – commercial mortgage	3	2,851	2,025
Total	31	$ 6,640	$ 5,087

With respect to loans that were restructured during the nine months ended September 30, 2018, none have subsequently defaulted as of the date of this report. With respect to loans that were restructured during the nine months ended September 30, 2017, $372 subsequently defaulted within twelve months of the restructuring.

There were three restructured loans in the amount of $503 contractually 90 days past due or more and still accruing at September 30, 2018 and two restructured loans in the amount of $146 contractually 90 days past due or more and still accruing at September 30, 2017. The outstanding balance of restructured loans on nonaccrual status was $493 and $504 at September 30, 2018 and September 30, 2017, respectively.

Changes in the Company’s restructured loans are set forth in the table below:

	Number of Loans	Recorded Investment
Totals at January 1, 2018	68	$ 8,965
Additional loans with concessions	3	220
Reclassified as performing restructured loan	3	175
Reductions due to:		
Reclassified to nonperforming loans	(5)	(688)
Paid in full	(4)	(411)

Principal paydowns	—	(570)
Totals at September 30, 2018	65	$ 7,691

The allocated allowance for loan losses attributable to restructured loans was $62 and $97 at September 30, 2018 and September 30, 2017, respectively. The Company had $2 and $7 in remaining availability under commitments to lend additional funds on these restructured loans at September 30, 2018 and September 30, 2017, respectively.
Credit Quality

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A discussion of the Company’s policies regarding internal risk-rating of loans is discussed above in Note 4, “Non Purchased Loans.” The following table presents the Company’s loan portfolio by risk-rating grades as of the dates presented:

	Pass	Watch	Substandard	Total
September 30, 2018				
Commercial, financial, agricultural	$409,790	$38,947	$ 2,487	$451,224
Real estate – construction	77,950	—	264	78,214
Real estate – 1-4 family mortgage	134,136	7,591	5,993	147,720
Real estate – commercial mortgage	1,232,028	38,418	9,538	1,279,984
Installment loans to individuals	1,720	—	2	1,722
Total	$1,855,624	$84,956	$ 18,284	$1,958,864
December 31, 2017				
Commercial, financial, agricultural	$241,195	$4,974	$ 2,824	$248,993
Real estate – construction	81,220	—	—	81,220
Real estate – 1-4 family mortgage	91,369	2,498	6,172	100,039
Real estate – commercial mortgage	827,372	17,123	9,003	853,498
Installment loans to individuals	678	—	3	681
Total	$1,241,834	$24,595	$ 18,002	$1,284,431

The following table presents the performing status of the Company’s loan portfolio not subject to risk rating as of the dates presented:

	Performing	Non-Performing	Total
September 30, 2018			
Commercial, financial, agricultural	$ 11,613	$ 69	$11,682
Real estate – construction	33,879	—	33,879
Real estate – 1-4 family mortgage	562,989	2,011	565,000
Real estate – commercial mortgage	77,722	116	77,838
Installment loans to individuals	33,081	262	33,343
Total	$ 719,284	$ 2,458	$721,742
December 31, 2017			
Commercial, financial, agricultural	$ 11,216	$ 46	$11,262
Real estate – construction	4,511	—	4,511
Real estate – 1-4 family mortgage	459,038	1,141	460,179
Real estate – commercial mortgage	27,495	123	27,618
Installment loans to individuals	16,344	161	16,505
Total	$ 518,604	$ 1,471	$520,075

Loans Purchased with Deteriorated Credit Quality
Loans purchased in business combinations that exhibited, at the date of acquisition, evidence of deterioration of the credit quality since origination, such that it was probable that all contractually required payments would not be collected, were as follows as of the dates presented:

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	Total Purchased Credit Deteriorated Loans
September 30, 2018	
Commercial, financial, agricultural	$ 32,639
Real estate – 1-4 family mortgage	49,193
Real estate – commercial mortgage	145,253
Installment loans to individuals	4,978
Total	$ 232,063
December 31, 2017	
Commercial, financial, agricultural	$ 15,315
Real estate – 1-4 family mortgage	53,969
Real estate – commercial mortgage	156,338
Installment loans to individuals	1,638
Total	$ 227,260

The following table presents the fair value of loans that exhibited evidence of deteriorated credit quality at the time of acquisition at September 30, 2018:

	Total Purchased Credit Deteriorated Loans
Contractually-required principal and interest	$ 330,403
Nonaccretable difference[(1)]	(62,705)
Cash flows expected to be collected	267,698
Accretable yield[(2)]	(35,635)
Fair value	$ 232,063

(1) Represents contractual principal and interest cash flows of $52,680 and $10,025, respectively, not expected to be collected.
(2) Represents contractual principal and interest cash flows of $1,444 and $34,191, respectively, expected to be collected.

Changes in the accretable yield of loans purchased with deteriorated credit quality were as follows as of September 30, 2018:

	Total Purchased Credit Deteriorated Loans
Balance at January 1, 2018	$ (32,207)
Additions due to acquisition	(9,353)
Reclassification from nonaccretable difference	(5,952)

Accretion	11,285
Charge-offs	592
Balance at September 30, 2018	$ (35,635)

The following table presents the fair value of loans purchased from Brand as of the September 1, 2018 acquisition date.

At acquisition date:	September 1, 2018
Contractually-required principal and interest	$1,625,137
Nonaccretable difference	(120,033)
Cash flows expected to be collected	1,505,104
Accretable yield	(169,631)
Fair value	$1,335,473

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The following table presents the fair value of loans purchased from Metropolitan as of the July 1, 2017 acquisition date.

At acquisition date:	July 1, 2017
Contractually-required principal and interest	$1,198,741
Nonaccretable difference	(79,165)
Cash flows expected to be collected	1,119,576
Accretable yield	(154,543)
Fair value	$965,033

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Note 6 – Allowance for Loan Losses
(In Thousands)
The following is a summary of total non purchased and purchased loans as of the dates presented:

	September 30, 2018	December 31, 2017
Commercial, financial, agricultural	$ 1,313,344	$ 1,039,393
Lease financing	57,576	57,354
Real estate – construction	736,985	633,389
Real estate – 1-4 family mortgage	2,762,683	2,343,721
Real estate – commercial mortgage	4,112,585	3,427,530
Installment loans to individuals	143,038	122,276
Gross loans	9,126,211	7,623,663
Unearned income	(3,304)	(3,341)
Loans, net of unearned income	9,122,907	7,620,322
Allowance for loan losses	(48,610)	(46,211)
Net loans	$ 9,074,297	$ 7,574,111

Allowance for Loan Losses
The allowance for loan losses is maintained at a level believed adequate by management based on its ongoing analysis of the loan portfolio to absorb probable credit losses inherent in the entire loan portfolio, including collective impairment as recognized under ASC 450, “Contingencies”. Collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under ASC 310. The balance of these loans and their related allowance is included in management’s estimation and analysis of the allowance for loan losses. Management and the internal loan review staff evaluate the adequacy of the allowance for loan losses quarterly. The allowance for loan losses is evaluated based on a continuing assessment of problem loans, the types of loans, historical loss experience, new lending products, emerging credit trends, changes in the size and character of loan categories and other factors, including its risk rating system, regulatory guidance and economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is established through a provision for loan losses charged to earnings resulting from measurements of inherent credit risk in the loan portfolio and estimates of probable losses or impairments of individual loans. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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The following table provides a roll forward of the allowance for loan losses and a breakdown of the ending balance of the allowance based on the Company's impairment methodology for the periods presented:

	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other(1)	Total
Three Months Ended September 30, 2018						
Allowance for loan losses:						
Beginning balance	$ 7,146	$ 4,702	$ 11,657	$ 22,450	$ 1,400	$47,355
Charge-offs	(511)	—	(211)	(216)	(402)	(1,340)
Recoveries	24	3	119	152	47	345
Net (charge-offs) recoveries	(487)	3	(92)	(64)	(355)	(995)
Provision for loan losses charged to operations	1,448	8	(1,497)	2,041	250	2,250
Ending balance	$ 8,107	$ 4,713	$ 10,068	$ 24,427	$ 1,295	$48,610

	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other(1)	Total
Nine Months Ended September 30, 2018						
Allowance for loan losses:						
Beginning balance	$ 5,542	$ 3,428	$ 12,009	$ 23,384	$ 1,848	$46,211
Charge-offs	(1,627)	—	(1,861)	(875)	(623)	(4,986)
Recoveries	373	10	335	756	101	1,575
Net (charge-offs) recoveries	(1,254)	10	(1,526)	(119)	(522)	(3,411)
Provision for loan losses charged to operations	3,819	1,275	(415)	1,162	(31)	5,810
Ending balance	$ 8,107	$ 4,713	$ 10,068	$ 24,427	$ 1,295	$48,610
Period-End Amount Allocated to:						
Individually evaluated for impairment	$ 421	$ 70	$ 70	$ 715	$ 4	$1,280
Collectively evaluated for impairment	7,326	4,643	9,493	21,751	1,289	44,502
Purchased with deteriorated credit quality	360	—	505	1,961	2	2,828
Ending balance	$ 8,107	$ 4,713	$ 10,068	$ 24,427	$ 1,295	$48,610

	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other(1)	Total
Three Months Ended September 30, 2017						
Allowance for loan losses:						
Beginning balance	$ 5,092	$ 2,580	$ 12,104	$ 22,600	$ 1,773	$44,149
Charge-offs	(974)	—	(575)	(543)	(124)	(2,216)
Recoveries	137	67	145	72	27	448
Net (charge-offs) recoveries	(837)	67	(430)	(471)	(97)	(1,768)
Provision for loan losses charged to operations	938	161	439	481	131	2,150

Ending balance	$ 5,193	$ 2,808	$ 12,113	$ 22,610	$ 1,807	$44,531

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	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other(1)	Total
Nine Months Ended September 30, 2017						
Allowance for loan losses:						
Beginning balance	$ 5,486	$ 2,380	$ 14,294	$ 19,059	$ 1,518	$42,737
Charge-offs	(2,110)	—	(1,401)	(1,204)	(513)	(5,228)
Recoveries	258	101	291	884	88	1,622
Net (charge-offs) recoveries	(1,852)	101	(1,110)	(320)	(425)	(3,606)
Provision for loan losses charged to operations	1,559	327	(1,071)	3,871	714	5,400
Ending balance	$ 5,193	$ 2,808	$ 12,113	$ 22,610	$ 1,807	$44,531
Period-End Amount Allocated to:						
Individually evaluated for impairment	$ 96	$ 9	$ 855	$ 1,963	$ 5	$2,928
Collectively evaluated for impairment	4,772	2,799	10,644	19,662	1,801	39,678
Purchased with deteriorated credit quality	325	—	614	985	1	1,925
Ending balance	$ 5,193	$ 2,808	$ 12,113	$ 22,610	$ 1,807	$44,531

(1) Includes lease financing receivables.

The following table provides the recorded investment in loans, net of unearned income, based on the Company’s impairment methodology as of the dates presented:

	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other(1)	Total
September 30, 2018						
Individually evaluated for impairment	$2,282	$ 10,245	$12,445	$7,720	$356	$33,048
Collectively evaluated for impairment	1,278,423	726,740	2,701,045	3,959,612	191,976	8,857,796
Purchased with deteriorated credit quality	32,639	—	49,193	145,253	4,978	232,063
Ending balance	$1,313,344	$ 736,985	$2,762,683	$4,112,585	$ 197,310	$9,122,907
December 31, 2017						
Individually evaluated for impairment	$3,064	$ 1,777	$14,482	$10,545	$439	$30,307
Collectively evaluated for impairment	1,021,014	631,612	2,275,270	3,260,648	174,211	7,362,755
Purchased with deteriorated credit quality	15,315	—	53,969	156,337	1,639	227,260
Ending balance	$1,039,393	$ 633,389	$2,343,721	$3,427,530	$ 176,289	$7,620,322

(1) Includes lease financing receivables.

Note 7 – Other Real Estate Owned
(In Thousands)

The following table provides details of the Company’s other real estate owned (“OREO”) purchased and non purchased, net of
valuation allowances and direct write-downs, as of the dates presented:

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	Purchased OREO	Non Purchased OREO	Total OREO
September 30, 2018			
Residential real estate	$ 501	$ 1,485	$1,986
Commercial real estate	2,978	1,656	4,634
Residential land development	706	575	1,281
Commercial land development	3,747	949	4,696
Total	$ 7,932	$ 4,665	$12,597
December 31, 2017			
Residential real estate	$ 1,683	$ 758	$2,441
Commercial real estate	4,314	1,624	5,938
Residential land development	1,100	781	1,881
Commercial land development	4,427	1,247	5,674
Total	$ 11,524	$ 4,410	$15,934

Changes in the Company's purchased and non purchased OREO were as follows:

	Purchased OREO	Non Purchased OREO	Total OREO
Balance at January 1, 2018	$11,524	$ 4,410	$15,934
Transfers of loans	620	2,037	2,657
Impairments	(727)	(403)	(1,130)
Dispositions	(3,483)	(1,333)	(4,816)
Other	(2)	(46)	(48)
Balance at September 30, 2018	$7,932	$ 4,665	$12,597

Components of the line item "Other real estate owned" in the Consolidated Statements of Income were as follows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Repairs and maintenance	$74	$206	$242	$602
Property taxes and insurance	38	87	187	495
Impairments	380	697	1,129	1,454
Net gains on OREO sales	(213)	(350)	(356)	(488)
Rental income	(1)	(37)	(35)	(147)
Total	$278	$603	$1,167	$1,916

Note 8 – Goodwill and Other Intangible Assets

(In Thousands)
The carrying amounts of goodwill by operating segments for the nine months ended September 30, 2018 were as follows:

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	Community Banks	Insurance	Total
Balance at January 1, 2018	$ 608,279	$ 2,767	$611,046
Addition to goodwill from acquisition	316,215	—	316,215
Adjustment to previously recorded goodwill	—	—	—
Balance at September 30, 2018	$ 924,494	$ 2,767	$927,261

The addition of goodwill during 2018 represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed in the Brand acquisition. The Company is finalizing the fair values of certain assets, including loans, property and equipment, taxes and certain other assets, related to the acquisition; as such, the recorded balance of goodwill is subject to change.

The following table provides a summary of finite-lived intangible assets as of the dates presented:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
September 30, 2018			
Core deposit intangibles	$ 82,312	$ (36,497)	$ 45,815
Customer relationship intangible	1,970	(931)	1,039
Total finite-lived intangible assets	$ 84,282	$ (37,428)	$ 46,854
December 31, 2017			
Core deposit intangibles	$ 54,958	$ (31,586)	$ 23,372
Customer relationship intangible	1,970	(832)	1,138
Total finite-lived intangible assets	$ 56,928	$ (32,418)	$ 24,510

Current year amortization expense for finite-lived intangible assets is presented in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Amortization expense for:				
Core deposit intangibles	$1,732	$1,733	$4,911	$4,723
Customer relationship intangible	33	33	99	99
Total intangible amortization	$1,765	$1,766	$5,010	$4,822

The estimated amortization expense of finite-lived intangible assets for the year ending December 31, 2018 and the succeeding four years is summarized as follows:

	Core Deposit Intangibles	Customer Relationship Intangible	Total
2018	$ 7,041	$ 131	$7,172
2019	7,947	131	8,078
2020	6,921	131	7,052
2021	5,843	131	5,974

2022	4,923	131	5,054

Note 9 – Mortgage Servicing Rights
(In Thousands)
The Company retains the right to service certain mortgage loans that it sells to secondary market investors. These mortgage servicing rights (“MSRs”) are recognized as a separate asset on the date the corresponding mortgage loan is sold. MSRs are amortized in proportion to and over the period of estimated net servicing income. These servicing rights are carried at the lower of amortized cost or fair value. Fair value is determined using an income approach with various assumptions including expected cash flows,

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prepayment speeds, market discount rates, servicing costs, and other factors. Impairment losses on MSRs are recognized to the extent by which the unamortized cost exceeds fair value. There were no impairment losses recognized during the nine months ended September 30, 2018 and 2017.

Changes in the Company's MSRs were as follows:

Balance at January 1, 2018	$39,339
Capitalization	10,745
Amortization	(3,671)
Balance at September 30, 2018	$46,413

Data and key economic assumptions related to the Company's MSRs are as follows as of the dates presented:

	September 30, 2018	December 31, 2017	September 30, 2017
Unpaid principal balance	$4,533,400	$4,012,519	$3,703,064
Weighted-average prepayment speed (CPR)	7.46 %	8.04 %	8.89 %
Estimated impact of a 10% increase	$(5,872)	$(1,592)	$(1,501)
Estimated impact of a 20% increase	(3,732)	(3,095)	(2,910)
Discount rate	9.43 %	9.69 %	9.68 %
Estimated impact of a 10% increase	$(2,758)	$(2,027)	$(1,711)
Estimated impact of a 20% increase	(5,291)	(3,896)	(3,292)
Weighted-average coupon interest rate	4.00 %	3.89 %	3.89 %
Weighted-average servicing fee (basis points)	27.02	26.36	26.22
Weighted-average remaining maturity (in years)	8.32	7.98	14.94

The Company recorded servicing fees of $2,154 and $1,461 for the three months ended September 30, 2018 and 2017, respectively, which are included in "Mortgage banking income" in the Consolidated Statements of Income. The Company recorded servicing fees of $6,648 and $4,128 for the nine months ended September 30, 2018 and 2017, respectively.

Note 10 - Employee Benefit and Deferred Compensation Plans

(In Thousands, Except Share Data)

Pension and Post-retirement Medical Plans

The Company sponsors a noncontributory defined benefit pension plan, under which participation and future benefit accruals ceased as of December 31, 1996.

The Company also provides retiree health benefits for certain employees who were employed by the Company and enrolled in the Company's health plan as of December 31, 2004. To receive benefits, an eligible employee must retire from service with the Company and its affiliates between age 55 and 65 and be credited with at least 15 years of service or with 70 points, determined as the sum of age and service at retirement. The Company periodically determines the portion of the premium to be paid by each eligible retiree and the portion to be paid by the Company. Coverage ceases when an employee attains age 65 and is eligible for Medicare. The Company also provides life insurance coverage for each retiree in the face amount of $5 until age 70. Retirees can purchase additional insurance or continue coverage beyond age 70 at their sole expense.

The plan expense for the legacy Renasant defined benefit pension plan (“Pension Benefits - Renasant”) and post-retirement health and life plans (“Other Benefits”) for the periods presented was as follows:

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	Pension Benefits Renasant Three Months Ended September 30,		Other Benefits Three Months Ended September 30,	
	2018	2017	2018	2017
Service cost	$ —	$ —	$ 2	$ 2
Interest cost	261	292	7	11
Expected return on plan assets	(520)	(485)	—	—
Recognized actuarial loss	82	101	—	2
Net periodic benefit (return) cost	$ (177)	$ (92)	$ 9	$ 15

	Pension Benefits Renasant Nine Months Ended September 30,		Other Benefits Nine Months Ended September 30,	
	2018	2017	2018	2017
Service cost	$—	$—	$ 6	$ 6
Interest cost	783	876	23	32
Expected return on plan assets	(1,558)	(1,456)	—	—
Recognized actuarial loss	246	301	—	5
Net periodic benefit (return) cost	$(529)	$(279)	$ 29	$ 43

Incentive Compensation Plans
In March 2011, the Company adopted a long-term equity incentive plan, which provides for the grant of stock options and the award of restricted stock. The plan replaced the long-term incentive plan adopted in 2001, which expired in October 2011. The Company issues shares of treasury stock to satisfy stock options exercised or restricted stock granted under the plan. Options granted under the plan allow participants to acquire shares of the Company's common stock at a fixed exercise price and expire ten years after the grant date. Options vest and become exercisable in installments over a three-year period measured from the grant date. Options that have not vested are forfeited and cancelled upon the termination of a participant's employment. There were no stock options granted during the nine months ended September 30, 2018 or 2017.

The following table summarizes the changes in stock options as of and for the nine months ended September 30, 2018:

	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	89,750	$ 15.67
Granted	—	—
Exercised	(39,000)	15.47
Forfeited	(5,000)	15.32

Options outstanding at end of period	45,750	$ 15.89

The Company awards performance-based restricted stock to executives and other officers and time-based restricted stock to directors, executives and other officers and employees under the long-term equity incentive plan. The performance-based restricted stock vests upon completion of a designated service period or the attainment of specified performance goals. Target performance levels are derived from the Company's budget, with threshold performance set at approximately 5% below target and superior performance set at approximately 5% above target. Performance-based restricted stock is granted at the target level; the number of shares ultimately awarded is determined at the end of the applicable performance period and may be increased or decreased depending upon the Company meeting or exceeding (or failing to meet or exceed) the financial performance measures defined by the Board of Directors. Time-based restricted stock vests at the end of the service period defined in the respective grant. The fair value of each restricted stock grant is the closing price of the Company's common stock on the day immediately preceding the grant date. The following table summarizes the changes in restricted stock as of and for the nine months ended September 30, 2018:

	Performance-Based Restricted Stock	Weighted Average Grant-Date Fair Value	Time-Based Restricted Stock	Weighted Average Grant-Date Fair Value
Nonvested at beginning of period	—	$ —	218,075	$ 39.08
Awarded	95,183	40.89	184,340	43.10
Vested	—	—	(75,646)	36.97
Cancelled	(3,014)	40.89	(16,046)	41.94
Nonvested at end of period	92,169	$ 40.89	310,723	$ 41.83

During the nine months ended September 30, 2018, the Company reissued 108,509 shares from treasury in connection with the exercise of stock options and awards of restricted stock. The Company recorded total stock-based compensation expense of $1,844 and $1,359 for the three months ended September 30, 2018 and 2017, respectively, and $5,556 and $3,771 for the nine months ended September 30, 2018 and 2017, respectively.

Note 11 – Derivative Instruments
(In Thousands)
The Company utilizes derivative financial instruments, including interest rate contracts such as swaps, caps and/or floors, as part of its ongoing efforts to mitigate its interest rate risk exposure and to facilitate the needs of its customers. The Company also from time to time enters into derivative instruments that are not designated as hedging instruments to help its commercial customers manage their exposure to interest rate fluctuations. To mitigate the interest rate risk associated with these customer contracts, the Company enters into an offsetting derivative contract position. The Company manages its credit risk, or potential risk of default by its commercial customers, through credit limit approval and monitoring procedures. At September 30, 2018, the Company had notional amounts of $204,100 on interest rate contracts with corporate customers and $204,100 in offsetting interest rate contracts with other financial institutions to mitigate the Company’s rate exposure on its corporate customers’ contracts and certain fixed-rate loans.

In June 2014, the Company entered into two forward interest rate swap contracts on floating rate liabilities at the Bank level with notional amounts of $15,000 each. The interest rate swap contracts are each accounted for as a cash flow hedge with the objective of protecting against any interest rate volatility on future FHLB borrowings for a four-year and five-year period beginning June 1, 2018 and December 3, 2018 and ending June 2022 and June 2023, respectively. Under these contracts, Renasant Bank will pay a fixed interest rate and will receive a variable interest rate based on the three-month LIBOR plus a pre-determined spread, with quarterly net settlements.
In March and April 2012, the Company entered into two interest rate swap agreements effective March 30, 2014 and March 17, 2014, respectively. Under these swap agreements, the Company receives a variable rate of interest based on the three-month LIBOR plus a pre-determined spread and pays a fixed rate of interest. The agreements, which both terminate in March 2022, are accounted for as cash flow hedges to reduce the variability in cash flows resulting from changes in interest rates on $32,000 of the Company’s junior subordinated debentures.
In April 2018, the Company entered into an interest rate swap agreement effective June 15, 2018. Under this swap agreement, the Company receives a variable rate of interest based on the three-month LIBOR plus a pre-determined spread and pays a fixed rate of interest. The agreement, which terminates in June 2028, is accounted for as a cash flow hedge to reduce the variability in cash flows resulting from changes in interest rates on $30,000 of the Company’s junior subordinated debentures.

The Company enters into interest rate lock commitments with its customers to mitigate the interest rate risk associated with the commitments to fund fixed-rate and adjustable-rate residential mortgage loans. The notional amount of commitments to fund fixed-rate and adjustable-rate mortgage loans was $236,932 and $131,000 at September 30, 2018 and December 31, 2017, respectively. The Company also enters into forward commitments to sell residential mortgage loans to secondary market investors. The notional amount of commitments to sell residential mortgage loans to secondary market investors was $381,089 and $199,000 at September 30, 2018 and December 31, 2017, respectively.

The following table provides details on the Company's derivative financial instruments as of the dates presented:

	Balance Sheet Location	Fair Value September 30, 2018	December 31, 2017
Derivative assets:			
Designated as hedging instruments			
Interest rate swap	Other Assets	$772	$ —
Totals		$772	$ —
Not designated as hedging instruments:			
Interest rate contracts	Other Assets	$4,370	$ 3,171
Interest rate lock commitments	Other Assets	4,309	2,756
Forward commitments	Other Assets	1,665	50
Totals		$10,344	$ 5,977
Derivative liabilities:			
Designated as hedging instruments:			
Interest rate swaps	Other Liabilities	$781	$ 2,536
Totals		$781	$ 2,536
Not designated as hedging instruments:			
Interest rate contracts	Other Liabilities	$4,370	$ 3,171
Interest rate lock commitments	Other Liabilities	83	4
Forward commitments	Other Liabilities	79	328
Totals		$4,532	$ 3,503

Gains (losses) included in the Consolidated Statements of Income related to the Company's derivative financial instruments were as follows as of the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Derivatives not designated as hedging instruments:				
Interest rate contracts:				
Included in interest income on loans	$ 1,042	$ 1,652	$3,066	$3,021
Interest rate lock commitments:				
Included in mortgage banking income	(1,737)	(441)	209	874
Forward commitments				
Included in mortgage banking income	2,839	(486)	1,915	(4,099)
Total	$ 2,144	$ 725	$5,190	$(204)

For the Company's derivatives designated as cash flow hedges, changes in fair value of the cash flow hedges are, to the extent that the hedging relationship is effective, recorded as other comprehensive income and are subsequently recognized in earnings at the same time that the hedged item is recognized in earnings. The ineffective portions of the changes in fair value of the hedging instruments are immediately recognized in earnings. The assessment of the effectiveness of the hedging relationship is evaluated under the hypothetical derivative method. There were no ineffective portions for the nine months ended September 30, 2018 or 2017. The impact on other comprehensive income for the nine months ended September 30, 2018 and 2017, respectively, can be seen at Note 15, "Other

Comprehensive Income (Loss)."

Offsetting

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Certain financial instruments, including derivatives, may be eligible for offset in the consolidated balance sheet when the "right of offset" exists or when the instruments are subject to an enforceable master netting agreement, which includes the right of the non-defaulting party or non-affected party to offset recognized amounts, including collateral posted with the counterparty, to determine a net receivable or net payable upon early termination of the agreement. Certain of the Company's derivative instruments are subject to master netting agreements; however, the Company has not elected to offset such financial instruments in the Consolidated Balance Sheets. The following table presents the Company's gross derivative positions as recognized in the Consolidated Balance Sheets as well as the net derivative positions, including collateral pledged to the extent the application of such collateral did not reduce the net derivative liability position below zero, had the Company elected to offset those instruments subject to an enforceable master netting agreement:

	Offsetting Derivative Assets		Offsetting Derivative Liabilities	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Gross amounts recognized	$6,168	$ 717	$1,334	$ 5,303
Gross amounts offset in the Consolidated Balance Sheets	—	—	—	—
Net amounts presented in the Consolidated Balance Sheets	6,168	717	1,334	5,303
Gross amounts not offset in the Consolidated Balance Sheets				
Financial instruments	553	717	553	717
Financial collateral pledged	—	—	781	4,357
Net amounts	$5,615	$ —	$—	$ 229

Note 12 – Income Taxes

(In Thousands)

The following table is a summary of the Company's temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities and their approximate tax effects as of the dates presented.

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	September 30,		December 31,
	2018	2017	2017
Deferred tax assets			
Allowance for loan losses	$14,030	$20,421	$ 13,966
Loans	20,044	25,585	15,062
Deferred compensation	9,441	10,857	7,093
Securities	—	2,573	3,659
Net unrealized losses on securities - OCI	8,340	1,942	—
Impairment of assets	1,774	2,383	1,748
Federal and State net operating loss carryforwards	21,478	3,338	2,419
Intangibles	—	—	—
Other	5,729	7,319	4,722
Total deferred tax assets	80,836	74,418	48,669
Deferred tax liabilities			
Investment in partnerships	1,673	946	757
Intangibles	—	428	—
Fixed assets	3,645	1,429	3,163
Mortgage servicing rights	11,224	3,360	10,139
Junior subordinated debt	1,562	3,620	2,394
Other	1,747	1,770	1,859
Total deferred tax liabilities	19,851	11,553	18,312
Net deferred tax assets	$60,985	$62,865	$ 30,357

The Tax Cuts and Jobs Act (the “Tax Act”), enacted on December 22, 2017, among other things, permanently lowered the statutory federal corporate tax rate from 35% to 21%, effective for tax years including or beginning January 1, 2018. As a result, the Company calculated taxes during 2018 based on a 21% federal corporate tax rate, whereas taxes were calculated in previous periods based on a 35% federal corporate tax rate. Under the guidance of ASC 740, “Income Taxes” (“ASC 740”), the Company revalued its net deferred tax assets on the date of enactment based on the reduction in the overall future tax benefit expected to be realized at the lower tax rate implemented by the new legislation. After reviewing the Company’s inventory of deferred tax assets and liabilities on the date of enactment and giving consideration to the future impact of the lower corporate tax rates and other provisions of the new legislation, the Company’s revaluation of its net deferred tax assets was $14,486, which was included as a reduction in “Income taxes” in the Consolidated Statements of Income for the year ended December 31, 2017. Although in the normal course of business the Company is required to make estimates and assumptions for certain tax items which cannot be fully determined at period end, the Company did not identify items for which the income tax effects of the Tax Act had not been completed as of December 31, 2017 and, therefore, considered its accounting for the tax effects of the Tax Act on its deferred tax assets and liabilities to have been completed as of December 31, 2017.
The Company acquired both federal and state net operating losses as part of the acquisition of Brand. The federal net operating losses are approximately $82,450. While the state net operating losses are still being evaluated, they are estimated to be approximately $65,347. The Company expects to utilize its federal and state net operating losses, including net operating losses acquired in previous acquisitions, before expiration. Because the benefits are expected to be fully realized, the Company recorded no valuation allowance against the net operating losses for the nine months ended September 30, 2018 or 2017 or the year ended December 31, 2017.

Note 13 – Investments in Qualified Affordable Housing Projects
(In Thousands)

The Company has investments in qualified affordable housing projects ("QAHPs") that provide low income housing tax credits and operating loss benefits over an extended period. At September 30, 2018 and December 31, 2017, the Company's carrying value of QAHPs was $6,431 and $7,637, respectively. The Company has no remaining funding obligations related to the QAHPs. The investments in QAHPs are being accounted for using the effective yield method. The investments in QAHPs are included in "Other assets" on the Consolidated Balance Sheets.

Components of the Company's investments in QAHPs were included in the line item "Income taxes" in the Consolidated Statements of Income for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Tax credit amortization	$394	$472	$1,198	$995
Tax credits and other benefits	(572)	(671)	(1,717)	(1,519)
Total	$(178)	$(199)	$(519)	$(524)

Note 14 – Fair Value Measurements
(In Thousands)
Fair Value Measurements and the Fair Level Hierarchy
ASC 820, "Fair Value Measurements and Disclosures," provides guidance for using fair value to measure assets and liabilities and also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to a valuation based on quoted prices in active markets for identical assets and liabilities (Level 1), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable in the market (Level 2), and the lowest priority to a valuation based on assumptions that are not observable in the market (Level 3).
Recurring Fair Value Measurements
The Company carries certain assets and liabilities at fair value on a recurring basis in accordance with applicable standards. The Company's recurring fair value measurements are based on the requirement to carry such assets and liabilities at fair value or the Company's election to carry certain eligible assets and liabilities at fair value. Assets and liabilities that are required to be carried at fair value on a recurring basis include securities available for sale and derivative instruments. The Company has elected to carry mortgage loans held for sale at fair value on a recurring basis as permitted under the guidance in ASC 825, "Financial Instruments" ("ASC 825").
The following methods and assumptions are used by the Company to estimate the fair values of the Company's financial assets and liabilities that are measured on a recurring basis:
Securities available for sale: Securities available for sale consist primarily of debt securities, such as obligations of U.S. Government agencies and corporations, obligations of states and political subdivisions, mortgage-backed securities, trust preferred securities, and other debt securities. Where quoted market prices in active markets are available, securities are classified within Level 1 of the fair value hierarchy. If quoted prices from active markets are not available, fair values are based on quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active, or model-based valuation techniques where all significant assumptions are observable in the market. Such instruments are classified within Level 2 of the fair value hierarchy. When assumptions used in model-based valuation techniques are not observable in the market, the assumptions used by management reflect estimates of assumptions used by other market participants in determining fair value. When there is limited transparency around the inputs to the valuation, the instruments are classified within Level 3 of the fair value hierarchy.
Derivative instruments: The Company uses derivatives to manage various financial risks. Most of the Company's derivative contracts are extensively traded in over-the-counter markets and are valued using discounted cash flow models which incorporate observable market based inputs including current market interest rates, credit spreads, and other factors. Such instruments are categorized within Level 2 of the fair value hierarchy and include interest rate swaps and other interest rate contracts such as interest rate caps and/or floors. The Company's interest rate lock commitments are valued using current market prices for mortgage-backed securities with similar characteristics,

adjusted for certain factors including servicing and risk. The value of the Company’s forward commitments is based on current prices for securities backed by similar types of loans. Because these assumptions are observable in active markets, the Company’s interest rate lock commitments and forward commitments are categorized within Level 2 of the fair value hierarchy.

Mortgage loans held for sale in loans held for sale: Mortgage loans held for sale are primarily agency loans which trade in active secondary markets. The fair value of these instruments is derived from current market pricing for similar loans, adjusted for

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differences in loan characteristics, including servicing and risk. Because the valuation is based on external pricing of similar instruments, mortgage loans held for sale are classified within Level 2 of the fair value hierarchy.
The following table presents assets and liabilities that are measured at fair value on a recurring basis as of the dates presented:

	Level 1	Level 2	Level 3	Totals
September 30, 2018				
Financial assets:				
Securities available for sale:				
Obligations of other U.S. Government agencies and corporations	$ —	$3,506	$—	$3,506
Obligations of states and political subdivisions	—	210,319	—	210,319
Residential mortgage-backed securities:				
Government agency mortgage backed securities	—	560,587	—	560,587
Government agency collateralized mortgage obligations	—	307,228	—	307,228
Commercial mortgage-backed securities:				
Government agency mortgage backed securities	—	21,735	—	21,735
Government agency collateralized mortgage obligations	—	28,962	—	28,962
Trust preferred securities	—	—	10,304	10,304
Other debt securities	—	34,965	—	34,965
Total securities available for sale	—	1,167,302	10,304	1,177,606
Derivative instruments:				
Interest rate swaps	—	772	—	772
Interest rate contracts	—	4,370	—	4,370
Interest rate lock commitments	—	4,309	—	4,309
Forward commitments	—	1,665	—	1,665
Total derivative instruments	—	11,116	—	11,116
Mortgage loans held for sale in loans held for sale	—	252,025	—	252,025
Total financial assets	$ —	$1,430,443	$10,304	$1,440,747
Financial liabilities:				
Derivative instruments:				
Interest rate swaps	$ —	$781	$—	$781
Interest rate contracts	—	4,370	—	4,370
Interest rate lock commitments	—	83	—	83
Forward commitments	—	79	—	79
Total derivative instruments	—	5,313	—	5,313
Total financial liabilities	$ —	$5,313	$—	$5,313

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	Level 1	Level 2	Level 3	Totals
December 31, 2017				
Financial assets:				
Securities available for sale:				
Obligations of other U.S. Government agencies and corporations	$ —	$3,564	$—	$3,564
Obligations of states and political subdivisions	—	234,481	—	234,481
Residential mortgage-backed securities:				
Government agency mortgage backed securities	—	193,950	—	193,950
Government agency collateralized mortgage obligations	—	176,639	—	176,639
Commercial mortgage-backed securities:				
Government agency mortgage backed securities	—	31,170	—	31,170
Government agency collateralized mortgage obligations	—	5,006	—	5,006
Trust preferred securities	—	—	9,388	9,388
Other debt securities	—	17,290	—	17,290
Total securities available for sale	—	662,100	9,388	671,488
Derivative instruments:				
Interest rate contracts	—	3,171	—	3,171
Interest rate lock commitments	—	2,756	—	2,756
Forward commitments	—	50	—	50
Total derivative instruments	—	5,977	—	5,977
Mortgage loans held for sale	—	108,316	—	108,316
Total financial assets	$ —	$776,393	$9,388	$785,781
Financial liabilities:				
Derivative instruments:				
Interest rate swaps	$ —	$2,536	$—	$2,536
Interest rate contracts	—	3,171	—	3,171
Interest rate lock commitments	—	4	—	4
Forward commitments	—	328	—	328
Total derivative instruments	—	6,039	—	6,039
Total financial liabilities	$ —	$6,039	$—	$6,039

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company’s ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy. Transfers between levels of the hierarchy are deemed to have occurred at the end of period. There were no such transfers between levels of the fair value hierarchy during the nine months ended September 30, 2018.
The following tables provide a reconciliation for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 inputs, as of the dates presented:

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Three Months Ended September 30, 2018	Trust preferred securities
Balance at July 1, 2018	$ 10,401
Accretion included in net income	8
Unrealized gains included in other comprehensive income	(45)
Purchases	—
Sales	—
Issues	—
Settlements	(60)
Transfers into Level 3	—
Transfers out of Level 3	—
Balance at September 30, 2018	$ 10,304

Three Months Ended September 30, 2017	Trust preferred securities
Balance at July 1, 2017	$ 16,992
Accretion included in net income	28
Unrealized gains included in other comprehensive income	1,307
Purchases	—
Sales	(9,346)
Issues	—
Settlements	(21)
Transfers into Level 3	—
Transfers out of Level 3	—
Balance at September 30, 2017	$ 8,960

Nine Months Ended September 30, 2018	Trust preferred securities
Balance at January 1, 2018	$ 9,388
Accretion included in net income	25
Unrealized gains included in other comprehensive income	1,007
Purchases	—
Sales	—
Issues	—
Settlements	(116)
Transfers into Level 3	—
Transfers out of Level 3	—
Balance at September 30, 2018	$ 10,304

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Nine Months Ended September 30, 2017	Trust preferred securities
Balance at January 1, 2017	$ 18,389
Accretion included in net income	74
Unrealized losses included in other comprehensive income	1,866
Reclassification adjustment	—
Purchases	—
Sales	(9,346)
Issues	—
Settlements	(2,023)
Transfers into Level 3	—
Transfers out of Level 3	—
Balance at September 30, 2017	$ 8,960

For each of the three and nine months ended September 30, 2018 and 2017, there were no gains or losses included in earnings that were attributable to the change in unrealized gains or losses related to assets or liabilities held at the end of each respective period that were measured on a recurring basis using significant unobservable inputs.
The following table presents information as of September 30, 2018 about significant unobservable inputs (Level 3) used in the valuation of assets and liabilities measured at fair value on a recurring basis:

Financial instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
Trust preferred securities	$10,304	Discounted cash flows	Default rate	0-100%

Nonrecurring Fair Value Measurements
Certain assets and liabilities may be recorded at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically are a result of the application of the lower of cost or market accounting or a write-down occurring during the period. The following table provides the fair value measurement for assets measured at fair value on a nonrecurring basis that were still held on the Consolidated Balance Sheets as of the dates presented and the level within the fair value hierarchy each is classified:

September 30, 2018	Level 1	Level 2	Level 3	Totals
Impaired loans	$ —	$ —	$14,207	$14,207
OREO	—	—	4,162	4,162
Total	$ —	$ —	$18,369	$18,369

December 31, 2017	Level 1	Level 2	Level 3	Totals
Impaired loans	$ —	$ —	$9,251	$9,251
OREO	—	—	7,392	7,392
Total	$ —	$ —	$16,643	$16,643

The following methods and assumptions are used by the Company to estimate the fair values of the Company’s financial assets measured on a nonrecurring basis:

Impaired loans: Loans considered impaired are reserved for at the time the loan is identified as impaired taking into account the fair value of the collateral less estimated selling costs. Collateral may be real estate and/or business assets including but not limited to equipment, inventory and accounts receivable. The fair value of real estate is determined based on appraisals by qualified licensed appraisers. The fair value of the business assets is generally based on amounts reported on the business's financial statements. Appraised and reported values may be adjusted based on changes in market conditions from the time of valuation and management's knowledge of the client and the client's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified as Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified. Impaired loans that were measured or re-measured at fair value had a carrying value of $14,341 and $9,608 at September 30, 2018 and December 31, 2017, respectively, and a specific reserve for these loans of $134 and $357 was included in the allowance for loan losses as of such dates.

Other real estate owned: OREO is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is recorded at the fair value of the real estate less estimated costs to sell. Subsequently, it may be necessary to record nonrecurring fair value adjustments for declines in fair value. Fair value, when recorded, is determined based on appraisals by qualified licensed appraisers and adjusted for management's estimates of costs to sell. Accordingly, values for OREO are classified as Level 3.

The following table presents OREO measured at fair value on a nonrecurring basis that was still held in the Consolidated Balance Sheets as of the dates presented:

	September 30, 2018	December 31, 2017
Carrying amount prior to remeasurement	$ 4,989	$ 8,732
Impairment recognized in results of operations	(827)	(1,340)
Fair value	$ 4,162	$ 7,392

The following table presents information as of September 30, 2018 about significant unobservable inputs (Level 3) used in the valuation of assets and liabilities measured at fair value on a nonrecurring basis:

Financial instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
Impaired loans	$14,207	Appraised value of collateral less estimated costs to sell	Estimated costs to sell	4-10%
OREO	4,162	Appraised value of property less estimated costs to sell	Estimated costs to sell	4-10%

Fair Value Option

The Company elected to measure all mortgage loans originated for sale on or after July 1, 2012 at fair value under the fair value option as permitted under ASC 825. Electing to measure these assets at fair value reduces certain timing differences and better matches the changes in fair value of the loans with changes in the fair value of derivative instruments used to economically hedge them.

Net gains of $1,723 and $5,093 resulting from fair value changes of these mortgage loans were recorded in income during the nine months ended September 30, 2018 and 2017, respectively. The amount does not reflect changes in fair values of related derivative instruments used to hedge exposure to market-related risks associated with these mortgage loans. The change in fair value of both mortgage loans held for sale and the related derivative instruments are recorded in "Mortgage banking income" in the Consolidated Statements of Income.

The Company's valuation of mortgage loans held for sale incorporates an assumption for credit risk; however, given the short-term period that the Company holds these loans, valuation adjustments attributable to instrument-specific credit risk is nominal. Interest income on mortgage loans held for sale measured at fair value is accrued as it is earned based on contractual rates and is reflected in loan interest income on the Consolidated Statements of Income.

The following table summarizes the differences between the fair value and the principal balance for mortgage loans held for sale measured at fair value as of September 30, 2018:

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	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
Mortgage loans held for sale measured at fair value	$ 252,025	$ 246,806	$ 5,219
Past due loans of 90 days or more	—	—	