SEACOAST BANKING CORP OF FLORIDA
Form 10-Q
November 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to __________________.

Commission File No. 0-13660

Seacoast Banking Corporation of Florida
(Exact Name of Registrant as Specified in its Charter)

Florida	59-2260678
(State or Other Jurisdiction of Incorporation or Organization	(I.R.S. Employer Identification No.)
815 COLORADO AVENUE, STUART FL	34994
(Address of Principal Executive Offices)	(Zip Code)

(772) 287-4000
(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 ¨

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 and post such files).
Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x	Accelerated Filer ¨	Non-Accelerated Filer ¨	Small Reporting Company ¨

Emerging Growth
Company ¨

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

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

Common Stock, $0.10 Par Value – 47,269,692 shares as of September 30, 2018

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SEACOAST BANKING CORPORATION OF FLORIDA

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

(In thousands, except share data)	September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 101,920	$ 104,039
Interest bearing deposits with other banks	3,174	5,465
Total cash and cash equivalents	105,094	109,504
Time deposits with other banks	9,813	12,553
Debt securities:		
Available for sale (at fair value)	923,206	949,460
Held to maturity (fair value: $353,919 at September 30, 2018 and $414,470 at December 31, 2017)	367,387	416,863
Total debt securities	1,290,593	1,366,323
Loans held for sale (at fair value)	16,172	24,306
Loans	4,059,323	3,817,377
Less: Allowance for loan losses	(33,865)	(27,122)
Loans, net of allowance for loan losses	4,025,458	3,790,255
Bank premises and equipment, net	63,531	66,883
Other real estate owned	4,715	7,640
Goodwill	148,555	147,578
Other intangible assets, net	16,508	19,099
Bank owned life insurance	122,561	123,981
Net deferred tax assets	25,822	25,417
Other assets	102,112	116,590
TOTAL ASSETS	$ 5,930,934	$ 5,810,129
LIABILITIES		
Deposits	$ 4,643,510	$ 4,592,720
Securities sold under agreements to repurchase	189,035	216,094
Federal Home Loan Bank (FHLB) borrowings	261,000	211,000
Subordinated debt	70,734	70,521
Other liabilities	33,824	30,130
TOTAL LIABILITIES	5,198,103	5,120,465
SHAREHOLDERS' EQUITY		
Common stock, par value $0.10 per share, authorized 120,000,000 shares, issued 47,402,935 and outstanding 47,269,692 shares at September 30, 2018, and authorized 60,000,000, issued 47,032,259 and outstanding 46,917,735 shares at December 31, 2017	4,727	4,693
Other shareholders' equity	728,104	684,971
TOTAL SHAREHOLDERS' EQUITY	732,831	689,664

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,930,934	$ 5,810,129

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except share data)	2018	2017	2018	2017
Interest and fees on loans	$48,713	$ 40,403	$140,489	$110,503
Interest and dividends on securities	9,807	9,012	29,016	25,971
Interest on interest bearing deposits and other investments	634	664	1,835	1,778
TOTAL INTEREST INCOME	59,154	50,079	171,340	138,252
Interest on deposits	2,097	930	5,623	2,408
Interest on time certificates	2,975	1,266	7,783	2,646
Interest on borrowed money	2,520	2,134	6,403	5,128
TOTAL INTEREST EXPENSE	7,592	4,330	19,809	10,182
NET INTEREST INCOME	51,562	45,749	151,531	128,070
Provision for loan losses	5,774	680	9,388	3,385
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	45,788	45,069	142,143	124,685
Noninterest income				
Other income	12,339	11,481	37,506	31,853
Securities losses, net	(48)	(47)	(198)	(26)
TOTAL NONINTEREST INCOME (Note H)	12,291	11,434	37,308	31,827
TOTAL NONINTEREST EXPENSES (Note H)	37,399	34,361	112,809	110,732
INCOME BEFORE INCOME TAXES	20,680	22,142	66,642	45,780
Provision for income taxes	4,358	7,926	15,329	15,962
NET INCOME	$16,322	$ 14,216	$51,313	$29,818
SHARE DATA				
Net income per share - diluted	0.34	0.32	1.07	0.70
Net income per share - basic	0.35	0.33	1.09	0.72
Cash dividends declared	—	—	—	—
Average shares outstanding - diluted	48,029,330	43,792,108	47,903,093	42,298,136
Average shares outstanding - basic	47,205,383	43,151,248	47,108,302	41,626,356

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2018	2017	2018	2017
NET INCOME	$16,322	$14,216	$51,313	$29,818
Other comprehensive income (loss):				
Unrealized (losses) gains on securities available for sale	(3,548)	1,149	(20,564)	9,920
Amortization of unrealized losses on securities transferred to held to maturity, net	108	122	442	365
Reclassification adjustment for gains included in net income	—	47	—	26
Income tax effect on other comprehensive (loss) income	919	(503)	5,358	(3,964)
Total other comprehensive (loss) income	(2,521)	815	(14,764)	6,347
COMPREHENSIVE INCOME	$13,801	$15,031	$36,549	$36,165

See notes to condensed consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

	Nine Months Ended September 30,	
(In thousands)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$51,313	$29,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,691	3,961
Amortization of premiums and discounts on securities, net	2,567	2,864
Other amortization and accretion, net	185	(346)
Stock based compensation	5,603	3,787
Origination of loans designated for sale	(225,929)	(164,878)
Sale of loans designated for sale	239,316	161,587
Provision for loan losses	9,388	3,385
Deferred income taxes	5,675	15,077
Losses on sale of securities	—	26
Gains on sale of loans	(7,752)	(5,160)
Gains on sale and write-downs of other real estate owned	(12)	(657)
Losses on disposition of fixed assets	216	1,973
Changes in operating assets and liabilities, net of effects from acquired companies:		
Net decrease (increase) in other assets	17,281	(419)
Net increase (decrease) in other liabilities	3,644	(2,575)
Net cash provided by operating activities	106,186	48,443
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities and repayments of debt securities available for sale	107,728	176,978
Maturities and repayments of debt securities held to maturity	48,945	64,984
Proceeds from sale of debt securities available for sale	—	7,525
Purchases of debt securities available for sale	(104,650)	(223,805)
Purchases of debt securities held to maturity	—	(67,563)
Maturities of time deposits with other banks	2,740	2,682
Net new loans and principal repayments	(225,570)	(277,142)
Purchase of loans held for investment	(19,541)	(55,352)
Proceeds from the sale of portfolio loans	—	74,211
Proceeds from the sale of other real estate owned	9,260	5,123
Proceeds from sale of FHLB and Federal Reserve Bank Stock	28,751	29,984
Purchase of FHLB and Federal Reserve Bank Stock	(33,681)	(32,398)
Purchase of VISA Class B stock	—	(6,180)
Redemption of bank owned life insurance	4,232	—
Purchase of bank owned life insurance	—	(30,000)
Net cash from bank acquisition	—	30,225
Additions to bank premises and equipment	(3,557)	(4,247)
Net cash used in investing activities	(185,343)	(304,975)

See notes to condensed consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

	Nine Months Ended September 30,	
(In thousands)	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$50,790	$304,005
Net decrease in federal funds purchased and repurchase agreements	(27,059)	(62,049)
Net increase (decrease) in FHLB borrowings	50,000	(26,000)
Issuance of common stock, net of related expense	—	55,641
Stock based employee benefit plans	1,016	569
Dividends paid	—	—
Net cash provided by financing activities	74,747	272,166
Net increase (decrease) in cash and cash equivalents	(4,410)	15,634
Cash and cash equivalents at beginning of period	109,504	109,644
Cash and cash equivalents at end of period	$105,094	$125,278
Supplemental disclosure of non cash investing activities:		
Transfers from loans to other real estate owned	4,271	448
Transfers from bank premises to other real estate owned	2,052	1,212
Transfers from loans held for investment to loans held for sale	—	5,664

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Seacoast Banking Corporation of Florida and Subsidiaries

Note A – Basis of Presentation

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Seacoast Banking Corporation of Florida and its subsidiaries (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles 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 period amounts have been reclassified to conform to the current period presentation.

Operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Certain prior period amounts have been reclassified to conform to the current period presentation.

Adoption of new accounting pronouncements

On January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-9, “Revenue from Contracts with Customers,” and all the related amendments (collectively, “ASC 606”) using the modified retrospective approach applied to all contracts in place at that date. Adoption had no material impact on the Company’s consolidated financial statements including no change to the amount or timing of revenue recognized for contracts within the scope of the new standard. Activity in the scope of the new standard includes:

- Service Charges on Deposits: Seacoast National Bank ("Seacoast Bank") offers a variety of deposit-related services to its customers through several delivery channels including branch offices, ATMs, telephone, mobile, and internet banking. Transaction-based fees are recognized when services, each of which represents a performance obligation, are satisfied. Service fees may be assessed monthly, quarterly, or annually; however, the account agreements to which these fees relate can be cancelled at any time by Seacoast and/or the customer. Therefore, the contract term is considered a single day (a day-to-day contract).

- Trust Fees: The Company earns trust fees from fiduciary services provided to trust customers which include custody of assets, recordkeeping, collection and distribution of funds. Fees are earned over time and accrued monthly as the Company provides services, and are generally assessed based on the market value of the trust assets under management at a particular date or over a particular period.

- Brokerage Commissions and Fees: The Company earns commissions and fees from investment brokerage services provided to its customers through an arrangement with a third-party service provider. Commissions received from the third-party service provider are recorded monthly and are based upon customer activity. Fees are earned over time and accrued monthly as services are provided. The Company acts as an agent in this arrangement and therefore presents the brokerage commissions and fees net of related costs.

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Interchange Income: Fees earned on card transactions depend upon the volume of activity, as well as the fees permitted by the payment network. Such fees are recognized by the Company upon fulfilling its performance obligation to approve the card transaction.

On January 1, 2018, we adopted ASU 2016-1, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” Upon adoption, we reclassified $0.1 million of accumulated unrealized loss pertaining to an equity investment previously classified as available for sale from Accumulated Other Comprehensive Income to Retained Earnings.

Use of Estimates The preparation of these condensed consolidated financial statements required the use of certain estimates by management in determining the Company’s assets, liabilities, revenues and expenses. Specific areas, among others, requiring the application of management’s estimates include determination of the allowance for loan losses, the valuation of investment securities available for sale, fair value of impaired loans, contingent liabilities, fair value of other real estate owned, and the valuation of deferred tax assets. Actual results could differ from those estimates.

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Note B – Recently Issued Accounting Standards, Not Yet Adopted

The following provides a brief description of accounting standards that have been issued but are not yet adopted that could have a material effect on the Company's financial statements:

ASU 2016-02, Leases (Topic 842)

Description	In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases at the commencement date: 1. A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis. 2. A right-of-use specified asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. In July 2018, the FASB issued ASU 2018-11, which provides an additional optional transition method. The additional transition method allows entities to initially apply the new lease standard at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity’s reporting for the comparative periods presented in the financial statements in which the entity adopts the new lease standard would continue to be in accordance with current GAAP (Topic 840), including disclosures.
Date of Adoption	This amendment is effective for public business entities for reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted.
Effect on the Consolidated Financial Statements	The Company is in the process of evaluating its existing leases, which are primarily operating leases of branch properties and equipment, to determine the amounts to be recognized as right-of-use assets and lease liabilities. The Company will adopt the new standard effective January 1, 2019. The effect of adoption on the Company’s consolidated statements of income is not expected to be material.

ASU 2016-13, Financial Instruments –Credit Losses (Topic 326)

Description	In June 2016, the FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposures including loan commitments, standby letters of credit, financial guarantees and other similar instruments.
Date of Adoption	This amendment is effective for public business entities for reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is

	permitted only as of annual reporting periods after December 15, 2018, including interim reporting periods within that period.
Effect on the Consolidated Financial Statements	The Company’s transition oversight committee is in the process of evaluating and implementing changes to credit loss estimation models and related processes. Updates to business processes and the documentation of accounting policy decisions are ongoing. The Company may recognize an increase in the allowance for loan losses upon adoption, recorded as a one-time effect cumulative adjustment to retained earnings. However, the magnitude of the impact on the Company's consolidated financial statements has not yet been determined. The Company will adopt this accounting standard effective January 1, 2020.

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ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill

Description	In January 2017, the FASB amended the existing guidance to simplify the goodwill impairment measurement test by eliminating Step 2. The amendment requires the Company to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the fair value. Additionally, an entity should consider the tax effects from any tax deductible goodwill on the carrying amount when measuring the impairment loss.
Date of Adoption	This amendment is effective for public business entities for reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted on annual goodwill impairment tests performed after January 1, 2017.
Effect on the Consolidated Financial Statements	The impact to the Company's consolidated financial statements from the adoption of this pronouncement is not expected to be material.

ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased callable Debt Securities

Description	In March 2017, the FASB issued guidance which requires entities to amortize premiums on certain purchased callable debt securities to their earliest call date. The accounting for purchased callable debt securities held at a discount did not change. Amortizing the premium to the earliest call date generally aligns interest income recognition with the economics of instruments. This guidance requires a modified retrospective approach under which a cumulative adjustment will be made to retained earnings as of the beginning of the period in which it is adopted.
Date of Adoption	The amendments are effective for public business entities for annual periods beginning after December 15, 2018, including interim periods within those periods.
Effect on the Consolidated Financial Statements	The impact to the Company's consolidated financial statements from the adoption of this pronouncement is not expected to be material.

ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Description	In August 2017, the FASB provided guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments also simplify the application of the hedge accounting guidance.
Date of Adoption	The amendments are effective for public business entities for annual periods beginning after December 15, 2018, including interim periods within those periods.
Effect on the Consolidated Financial Statements	The impact to the Company's consolidated financial statements from the adoption of this pronouncement is not expected to be material.

ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement

Description	On August 28, 2018, the FASB issued ASU 2018-13, which changes the disclosure requirements on fair value measurements in Topic 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements. The ASU modifies or removes certain existing disclosures, and adds certain new disclosures.

Date of Adoption	The amendments are effective for public business entities for annual periods beginning after December 15, 2019, including interim periods within those periods. Early adoption is permitted for any eliminated or modified disclosure upon issuance of the ASU.
Effect on the Consolidated Financial Statements	The impact to the Company's consolidated financial statements from the adoption of this pronouncement is not expected to be material.

Note C – Earnings per Share

For the three and nine months ended September 30, 2018, options to purchase 481,000 and 412,000 shares, respectively, were antidilutive and not included in the computation of diluted earnings per share, compared to 274,000 and 191,000, respectively, for the three and nine months ended September 30, 2017. The dilutive impact of restricted stock and stock options is calculated under the treasury method.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Basic earnings per share				
Net income	$16,322	$ 14,216	$51,313	$ 29,818
Average common stock outstanding	47,205,383	43,151,248	47,108,302	41,626,356
Net income per share	$0.35	$ 0.33	$1.09	$ 0.72
Diluted earnings per share				
Net income	$16,322	$ 14,216	$51,313	$ 29,818
Average common stock outstanding	47,205,383	43,151,248	47,108,302	41,626,356
Add: Dilutive effect of employee restricted stock and stock options	823,947	640,860	794,791	671,780
Average diluted stock outstanding	48,029,330	43,792,108	47,903,093	42,298,136
Net income per share	$0.34	$ 0.32	$1.07	$ 0.70

On February 21, 2017, the Company completed a public offering of 2,702,500 shares of common stock, generating net proceeds to the Company of $55.7 million. In addition, CapGen Capital Group III LP ("CapGen"), in conjunction with the Company's offering, sold 6,210,000 shares of the Company's common stock, with no net proceeds to the Company.

Note D – Securities

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale and held to maturity at September 30, 2018 and December 31, 2017[1] are summarized as follows:

	September 30, 2018			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available for sale				
U.S. Treasury securities and obligations of U.S. Government Entities	$7,486	$ 114	$(57)	$7,543
Mortgage-backed securities and collateralized mortgage obligations of U.S. Government Sponsored Entities	597,689	153	(24,660)	573,182
Private mortgage-backed securities and collateralized mortgage obligations	75,485	925	(318)	76,092
Collateralized loan obligations	223,419	137	(566)	222,990
Obligations of state and political subdivisions	43,951	261	(813)	43,399
Totals	$948,030	$ 1,590	$(26,414)	$923,206
Debt securities held to maturity				
Mortgage-backed securities and collateralized mortgage obligations of U.S. Government Sponsored Entities	$313,667	$ —	$(13,557)	$300,110
Private mortgage-backed securities and collateralized mortgage obligations	21,720	181	(131)	21,770
Collateralized loan obligations	32,000	58	(19)	32,039
Totals	$367,387	$ 239	$(13,707)	$353,919

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(In thousands)	December 31, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available for sale				
U.S. Treasury securities and obligations of U.S. Government Entities	$9,475	$ 274	$ (5)	$9,744
Mortgage-backed securities and collateralized mortgage obligations of U.S. Government Sponsored Entities	560,396	1,163	(8,034)	553,525
Private mortgage-backed securities and collateralized mortgage obligations	75,152	1,154	(285)	76,021
Collateralized loan obligations	263,579	798	(68)	264,309
Obligations of state and political subdivisions	45,118	813	(70)	45,861
Totals	$953,720	$ 4,202	$ (8,462)	$949,460
Debt securities held to maturity				
Mortgage-backed securities and collateralized mortgage obligations of U.S. Government Sponsored Entities	$353,541	$ 802	$ (4,159)	$350,184
Private mortgage-backed securities and collateralized mortgage obligations	22,799	714	(53)	23,460
Collateralized loan obligations	40,523	303	—	40,826
Totals	$416,863	$ 1,819	$ (4,212)	$414,470

(1) December 31, 2017 balances in the tables above reflect certain reclassifications between categories.

There were no sales of securities during the three and nine month periods ended September 30, 2018. Proceeds from sales of securities during the three month period ended September 30, 2017 were $3.7 million, with gross gains of $15,000 and gross losses of $62,000. Proceeds from sales of securities during the nine month period ended September 30, 2017 were $7.5 million with gross gains of $36,000 and gross losses of $62,000. Included in “Securities (losses)/gains, net” for the three and nine month periods ended September 30, 2018, is $0.1 million and $0.2 million,respectively, representing the decline in the value of an investment in shares of a mutual fund that invests primarily in CRA-qualified debt securities.

At September 30, 2018, debt securities with a fair value of $162.4 million were pledged as collateral for United States Treasury deposits, other public deposits and trust deposits. Debt securities with a fair value of $189.0 million were pledged as collateral for repurchase agreements.

The amortized cost and fair value of debt securities available for sale and held to maturity at September 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because prepayments of the underlying collateral for these securities may occur, due to the right to call or repay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

(In thousands)	Held to Maturity Amortized Cost	Fair Value	Available for Sale Amortized Cost	Fair Value
Due in less than one year	$—	$—	$13,832	$13,781
Due after one year through five years	—	—	79,637	79,582
Due after five years through ten years	32,000	32,039	177,911	177,196
Due after ten years	—	—	3,476	3,373
	32,000	32,039	274,856	273,932

Mortgage-backed securities and collateralized mortgage obligations of U.S. Government Sponsored Entities	313,667	300,110	597,689	573,182
Private mortgage-backed securities and collateralized mortgage obligations	21,720	21,770	75,485	76,092
Totals	$367,387	$353,919	$948,030	$923,206

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The estimated fair value of a security is determined based on market quotations when available or, if not available, by using quoted market prices for similar securities, pricing models or discounted cash flows analyses, using observable market data where available. The tables below indicate the fair value of debt securities with unrealized losses and the period of time for which these losses were outstanding at September 30, 2018 and December 31, 2017, respectively.

	September 30, 2018					
	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government Entities	$7,543	$(57)	$—	$—	$7,543	$(57)
Mortgage-backed securities and collateralized mortgage obligations of U.S. Government Sponsored Entities	456,356	(15,703)	416,936	(22,514)	873,292	(38,217)
Private mortgage-backed securities and collateralized mortgage obligations	84,026	(251)	13,836	(197)	97,862	(448)
Collateralized loan obligations	255,030	(585)	—	—	255,030	(585)
Obligations of state and political subdivisions	40,136	(672)	3,262	(142)	43,398	(814)
Totals	$843,091	$(17,268)	$434,034	$(22,853)	$1,277,125	$(40,121)

	December 31, 2017					
	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government Entities	$1,107	$(5)	$—	$—	$1,107	$(5)
Mortgage-backed securities and collateralized mortgage obligations of U.S. Government Sponsored Entities	304,723	(2,047)	413,725	(10,146)	718,448	(12,193)
Private mortgage-backed securities and collateralized mortgage obligations	—	—	20,744	(338)	20,744	(338)
Collateralized loan obligations	14,933	(68)	—	—	14,933	(68)
Obligations of state and political subdivisions	5,414	(14)	5,864	(56)	11,278	(70)
Totals	$326,177	$(2,134)	$440,333	$(10,540)	$766,510	$(12,674)

The two tables above include debt securities held to maturity that were transferred from available for sale into held to maturity during 2014. Those securities had unrealized losses of $3.1 million at the date of transfer, and at September 30, 2018, the unamortized balance was $0.8 million. The fair value of those securities in an unrealized loss position for less than twelve months at September 30, 2018 and December 31, 2017 was $53.6 million and $22.9 million, respectively, with unrealized losses of $1.5 million and $0.2 million, respectively. The fair value of those securities in an unrealized loss position for 12 months or more at September 30, 2018 and December 31, 2017 was $14.7 million and $15.3 million, respectively, with unrealized losses of $0.9 million and $0.4 million, respectively.

At September 30, 2018, the Company had $38.2 million of unrealized losses on mortgage-backed securities and collateralized mortgage obligations of government sponsored entities having a fair value of $873.3 million that were attributable to a combination of factors, including relative changes in interest rates since the time of purchase. The contractual cash flows for these debt securities are guaranteed by U.S. government-sponsored entities. Based on our assessment of these mitigating factors, management believes that the unrealized losses on these holdings are a function of changes in investment spreads and interest movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities.

At September 30, 2018, $0.4 million of the unrealized losses pertained to private label debt securities secured by seasoned collateral with a fair value of $97.9 million. Management attributes the loss to a combination of factors, including relative changes in interest rates since the time of purchase. The collateral underlying these mortgage investments are 30- and 15-year fixed and adjustable rate mortgage loans with low loan to values, improving subordination, and historically have had minimal foreclosures and losses.

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Based on its assessment of these factors, management believes that the unrealized losses on these holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities.

At September 30, 2018, the Company had unrealized losses of $0.6 million on collateralized loan obligations with a fair value of $255.0 million. Management expects to recover the entire amortized cost basis of these securities.

At September 30, 2018, the Company had unrealized losses of $0.8 million on obligations of state and political subdivisions with a fair value of $43.4 million. Management expects to recover the entire amortized cost basis of these securities.

As of September 30, 2018, the Company does not intend to sell debt securities that are in an unrealized loss position and it is not more likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis. Therefore, management does not consider any investment to be other-than-temporarily impaired at September 30, 2018.

Included in other assets is Federal Home Loan Bank and Federal Reserve Bank stock which has a par value as of September 30, 2018 and December 31, 2017 of $37.5 million and $32.5 million, respectively. At September 30, 2018, the Company had not identified events or changes in circumstances which may have a significant adverse effect on the fair value of these investments. Also included in other assets is a $6.1 million investment in a mutual fund carried at fair value.

The Company holds 11,330 shares of Visa Class B stock which, following resolution of pending litigation, will be converted to Visa Class A shares. Under the current conversion ratio that became effective June 28, 2018, the Company expects to receive 1.6298 shares of Class A stock for each share of Class B stock, for a total of 18,465 shares of Visa Class A stock. Our ownership of these shares is related to prior ownership in Visa's network while Visa operated as a cooperative. The shares are recorded on our financial records at zero basis.

Note E – Loans

Information pertaining to portfolio loans, purchased credit impaired ("PCI") loans, and purchased unimpaired loans ("PUL") is as follows:

	September 30, 2018			
(In thousands)	Portfolio Loans	PCI Loans	PULs	Total
Construction and land development	$289,449	$129	$86,679	$376,257
Commercial real estate	1,357,721	10,838	358,140	1,726,699
Residential real estate	994,575	1,356	156,709	1,152,640
Commercial and financial	554,627	728	55,600	610,955
Consumer	187,199	—	5,573	192,772
Totals (1)	$3,383,571	$13,051	$662,701	$4,059,323

	December 31, 2017			
(In thousands)	Portfolio Loans	PCI Loans	PULs	Total
Construction and land development	$215,315	$1,121	$126,689	$343,125
Commercial real estate	1,170,618	9,776	459,598	1,639,992

Residential real estate	845,420	5,626	187,764	1,038,810
Commercial and financial	512,430	894	92,690	606,014
Consumer	178,826	—	10,610	189,436
Totals (1)	$2,922,609	$17,417	$877,351	$3,817,377

(1) Net loan balances as of September 30, 2018 and December 31, 2017 include deferred costs of $15.9 million and $12.9 million for each period, respectively.

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The following tables present the contractual delinquency of the recorded investment by class of loans as of:

	September 30, 2018					
(In thousands)	Current	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing Greater Than 90 Days	Nonaccrual	Total Financing Receivables
Portfolio Loans						
Construction and land development	$289,234	$—	$—	$—	$ 215	$289,449
Commercial real estate	1,345,174	3,173	—	—	9,374	1,357,721
Residential real estate	984,874	1,202	104	—	8,395	994,575
Commercial and financial	548,861	2,050	2,521	359	836	554,627
Consumer	185,902	1,119	—	—	178	187,199
Totals	3,354,045	7,544	2,625	359	18,998	3,383,571
Purchased Unimpaired Loans						
Construction and land development	86,679	—	—	—	—	86,679
Commercial real estate	355,541	1,181	—	696	722	358,140
Residential real estate	151,125	1,705	124	—	3,755	156,709
Commercial and financial	50,427	4,011	733	—	429	55,600
Consumer	5,568	5	—	—	—	5,573
Totals	649,340	6,902	857	696	4,906	662,701
Purchased Credit Impaired Loans						
Construction and land development	129	—	—	—	—	129
Commercial real estate	9,427	—	—	—	1,411	10,838
Residential real estate	552	—	—	—	804	1,356
Commercial and financial	707	—	—	—	21	728
Consumer	—	—	—	—	—	—
Totals	10,815	—	—	—	2,236	13,051
Totals	$4,014,200	$14,446	$3,482	$1,055	$26,140	$4,059,323

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(In thousands)	December 31, 2017 Current	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing Greater Than 90 Days	Nonaccrual	Total Financing Receivables
Portfolio Loans						
Construction and land development	$215,077	$ —	$ —	$ —	$ 238	$215,315
Commercial real estate	1,165,738	2,605	585	—	1,690	1,170,618
Residential real estate	836,117	812	75	—	8,416	845,420
Commercial and financial	507,501	2,776	26	—	2,127	512,430
Consumer	178,676	52	—	—	98	178,826
Totals	2,903,109	6,245	686	—	12,569	2,922,609
Purchased Unimpaired Loans						
Construction and land development	126,655	34	—	—	—	126,689
Commercial real estate	457,899	979	—	—	720	459,598
Residential real estate	186,549	128	87	—	1,000	187,764
Commercial and financial	92,315	54	—	—	321	92,690
Consumer	10,610	—	—	—	—	10,610
Totals	874,028	1,195	87	—	2,041	877,351
Purchased Credit Impaired Loans						
Construction and land development	1,121	—	—	—	—	1,121
Commercial real estate	9,352	—	—	—	424	9,776
Residential real estate	544	642	—	—	4,440	5,626
Commercial and financial	844	—	—	—	50	894
Consumer	—	—	—	—	—	—
Totals	11,861	642	—	—	4,914	17,417
Totals	$3,788,998	$ 8,082	$ 773	$ —	$ 19,524	$3,817,377

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard," and "Doubtful" and these loans are monitored on an ongoing basis. Loans that do not currently expose the Company to sufficient risk to warrant classification in the Substandard or Doubtful categories, but possess weaknesses that deserve management's close attention are deemed to be Special Mention. Substandard loans include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Substandard may require a specific allowance. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The principal on loans classified as Doubtful is generally charged off. Risk ratings are updated any time the situation warrants.

Loans that are not problem or potential problem loans are considered to be pass-rated loans and risk grades are recalculated at least annually by the loan relationship manager. The following tables present the risk category of loans by class of loans based on the most recent analysis performed as of September 30, 2018 and December 31, 2017:

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	September 30, 2018				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	$364,903	$6,036	$ 5,318	$ —	$376,257
Commercial real estate	1,673,457	24,328	28,914	—	1,726,699
Residential real estate	1,126,238	2,985	23,417	—	1,152,640
Commercial and financial	602,973	1,895	6,030	57	610,955
Consumer	189,223	2,900	649	—	192,772
Totals	$3,956,794	$38,144	$ 64,328	$ 57	$4,059,323

	December 31, 2017				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	$328,127	$10,414	$ 4,584	$ —	$343,125
Commercial real estate	1,586,932	29,273	23,787	—	1,639,992
Residential real estate	1,023,925	4,621	10,203	61	1,038,810
Commercial and financial	593,689	3,237	8,838	250	606,014
Consumer	189,354	—	82	—	189,436
Totals	$3,722,027	$47,545	$ 47,494	$ 311	$3,817,377

PCI Loans

PCI loans are accounted for pursuant to ASC Topic 310-30. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan in situations where there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The difference between the contractually required payments and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the non-accretable difference.

The table below summarizes the changes in accretable yield on PCI loans for the periods ended:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2018	2017	2018	2017
Beginning balance	$3,189	$3,265	$3,699	$3,807
Additions	—	—	—	—
Deletions	—	—	(43)	(10)
Accretion	(284)	(357)	(989)	(1,173)
Reclassification from non-accretable difference	—	407	238	691
Ending balance	$2,905	$3,315	$2,905	$3,315

Troubled Debt Restructured Loans

The Company's Troubled Debt Restructuring ("TDR") concessions granted to certain borrowers generally do not include forgiveness of principal balances, but may include interest rate reductions, an extension of the amortization period and/or converting the loan to interest only for a limited period of time. Loan modifications are not reported in calendar years after modification if the loans were modified at an interest rate equal to the yields of new loan originations with comparable risk and the loans are performing based on the terms of the restructuring agreements. Most loans prior to modification were classified as impaired and the allowance for loan losses is determined in accordance with Company policy.

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The following table presents loans that were modified during the nine months ended:

(In thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve Recorded	Valuation Allowance Recorded
September 30, 2018					
Commercial and financial	1	$ 98	$ —	$ —	$ —
Totals	1	$ 98	$ —	$ —	$ —
September 30, 2017					
Construction and land development	1	$ 52	$ 46	$ 6	$ 6
Residential real estate	1	15	15	—	—
Totals	2	$ 67	$ 61	$ 6	$ 6

During the three months ended September 30, 2018, there were no payment defaults on loans modified to a TDR within the previous twelve months. During the nine months ended September 30, 2018, there was one payment default on a loan of $0.1 million that had been modified to a TDR within the previous twelve months, compared to none during the three months ended September 30, 2017 and one during the nine months ended September 30, 2017. The Company considers a loan to have defaulted when it becomes 90 days or more delinquent under the modified terms, has been transferred to nonaccrual status, or has been transferred to other real estate owned. A defaulted TDR is generally placed on nonaccrual and a specific allowance for loan loss is assigned in accordance with the Company's policy.

Impaired Loans

Loans are considered impaired if they are 90 days or more past due, in nonaccrual status, or are TDRs. As of September 30, 2018 and December 31, 2017, the Company's recorded investment in impaired loans, excluding PCI loans, the unpaid principal balance and related valuation allowance was as follows:

	September 30, 2018		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Valuation Allowance
Impaired Loans with No Related Allowance Recorded:			
Construction and land development	$202	$479	$ —
Commercial real estate	2,896	4,161	—
Residential real estate	13,698	18,313	—
Commercial and financial	—	—	—
Consumer	54	92	—
Impaired Loans with an Allowance Recorded:			
Construction and land development	210	224	23
Commercial real estate	12,898	13,025	3,591
Residential real estate	6,106	6,252	869
Commercial and financial	1,629	1,608	1,483
Consumer	392	399	172
Total Impaired Loans			
Construction and land development	412	703	23
Commercial real estate	15,794	17,186	3,591

Residential real estate	19,804	24,565	869
Commercial and financial	1,629	1,608	1,483
Consumer	446	491	172
Totals	$38,085	$44,553	$ 6,138

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	December 31, 2017		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Valuation Allowance
Impaired Loans with No Related Allowance Recorded:			
Construction and land development	$223	$510	$ —
Commercial real estate	3,475	4,873	—
Residential real estate	10,272	15,063	—
Commercial and financial	19	29	—
Consumer	105	180	—
Impaired Loans with an Allowance Recorded:			
Construction and land development	251	264	23
Commercial real estate	4,780	4,780	195
Residential real estate	8,448	8,651	1,091
Commercial and financial	2,436	883	1,050
Consumer	282	286	43
Total Impaired Loans			
Construction and land development	474	774	23
Commercial real estate	8,255	9,653	195
Residential real estate	18,720	23,714	1,091
Commercial and financial	2,455	912	1,050
Consumer	387	466	43
Totals	$30,291	$35,519	$ 2,402

Impaired loans also include TDRs where concessions have been granted to borrowers who have experienced financial difficulty. At September 30, 2018 and at December 31, 2017, accruing TDRs totaled $13.8 million and $15.6 million, respectively.

Average impaired loans for the three months ended September 30, 2018 and 2017 were $38.1 million and $30.3 million, respectively. Average impaired loans for the nine months ended September 30, 2018 and 2017 were $34.5 million and $31.2 million, respectively. The impaired loans were measured for impairment based on the value of underlying collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. The valuation allowance is included in the allowance for loan losses.

Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is doubtful, at which time payments received are recorded as reductions in principal. For the three months ended September 30, 2018 and 2017, the Company recorded interest income on impaired loans of $0.5 million and $0.4 million, respectively. For the nine months ended September 30, 2018, and 2017, the Company recorded interest income on impaired loans of $1.4 million and $1.1 million, respectively.

For impaired loans whose impairment is measured based on the present value of expected future cash flows, interest income represents the change in present value attributable to the passage of time, and totaled $36,000 and $169,000, respectively, for the three months ended September 30, 2018 and 2017 and $157,000 and $282,000, respectively, for the nine months ended September 30, 2018 and 2017.

Note F – Allowance for Loan Losses

Activity in the allowance for loan losses for the three month and nine month periods ended September 30, 2018 and 2017 is summarized as follows: