Section 1: 10-Q/A (10-Q/A)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2018

☐ **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: 001-31343

Associated Banc-Corp
(Exact name of registrant as specified in its charter)

Wisconsin **(State or other jurisdiction of incorporation or organization)**	**39-1098068** **(I.R.S. Employer Identification No.)**
433 Main Street **Green Bay, Wisconsin** **(Address of principal executive offices)**	**54301** **(Zip Code)**

(920) 491-7500
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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. ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of registrant’s common stock, par value $0.01 per share, at April 27, 2018 was 170,794,622.

QUARTERLY REPORT ON FORM 10-Q/A
FOR THE QUARTER ENDED MARCH 31, 2018

Explanatory Note

Associated Banc-Corp (the "Corporation") is filing this Amendment No. 1 on Form 10-Q/A (this "Amendment No. 1") to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, which was originally filed with the Securities and Exchange Commission on April 30, 2018 (the "Original Form 10-Q"), for the sole purpose of correcting the information provided in the table captioned "Table 6 Oil and Gas Loan Portfolio" ("Table 6") in Part I, Item 1 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Original Form 10-Q.

Specifically, the Quarter net charge offs for the Oil and gas portfolio shown in the Original Form 10-Q in Table 6 for the quarter ended December 31, 2017 was $25 million. This amount was, in fact, the net charge off amount for the full year ended December 31, 2017. As indicated in the corrected Table 6 presented on page 9 of this Amendment No. 1, the correct Quarter net charge offs for the Oil and gas portfolio for the quarter ended December 31, 2017 was $0.

No financial statements or disclosure about management's evaluation of disclosure controls and procedures and internal controls over financial reporting are included in this Amendment No. 1. As a result, paragraphs 3 to 5 of the certifications of the Corporation's principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 have been omitted from Exhibits 31.1 and 31.2, and the certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 have been omitted.

Except as described above, no changes have been made to the Original Form 10-Q. Except as otherwise indicated herein, this Amendment No. 1 continues to speak as of the date of the Original Form 10-Q, and the Company has not updated the disclosures contained therein to reflect any events that occurred subsequent to the date of the Original Form 10-Q. Accordingly, this Amendment No. 1 should be read in conjunction with the Original Form 10-Q and the Corporation's filings made with the SEC subsequent to the filing of the Original Form 10-Q.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements

This report contains statements that may constitute forward-looking statements within the meaning of the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, such as statements other than historical facts contained or incorporated by reference into this report. These forward-looking statements include statements with respect to the Corporation’s financial condition, results of operations, plans, objectives, future performance and business, including statements preceded by, followed by or that include the words “believes,” “expects,” or “anticipates,” references to estimates or similar expressions. Future filings by the Corporation with the Securities and Exchange Commission (“SEC”), and future statements other than historical facts contained in written material, press releases and oral statements issued by, or on behalf of the Corporation may also constitute forward-looking statements.

All forward-looking statements contained in this report or which may be contained in future statements made for or on behalf of the Corporation are based upon information available at the time the statement is made and the Corporation assumes no obligation to update any forward-looking statements, except as required by federal securities law. Forward-looking statements are subject to significant risks and uncertainties, and the Corporation’s actual results may differ materially from the expected results discussed in such forward-looking statements. Factors that might cause actual results to differ from the results discussed in forward-looking statements include, but are not limited to, the risk factors in Item 1A, Risk Factors, in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2017, and as may be described from time to time in the Corporation’s subsequent SEC filings.

Overview

The following discussion and analysis is presented to assist in the understanding and evaluation of the Corporation’s financial condition and results of operations. It is intended to complement the unaudited consolidated financial statements, footnotes, and supplemental financial data appearing elsewhere in this Quarterly Report on Form 10-Q and should be read in conjunction therewith. Management continually evaluates strategic acquisition opportunities and other various strategic alternatives that could involve the sale or acquisition of branches or other assets, or the consolidation or creation of subsidiaries.

Within the tables presented, certain columns and rows may not sum due to the use of rounded numbers for disclosure purposes.

Performance Summary

- Average loans of 22.1 billion increased $2.0 billion, or 10%, from the first three months of 2017. Average deposits of $23.7 billion increased $2.2 billion, or 10%, from the first three months of 2017. For the remainder of 2018, the Corporation expects 1% to 2% quarterly loan growth and to maintain the loan to deposit ratio under 100%.
- Net interest income of $210 million increased $30 million, or 16%, from the first three months of 2017. Net interest margin was 2.92%, compared to 2.84% for the first three months of 2017. For the remainder of 2018, the Corporation expects an improving year over year net interest margin.
- Provision for credit losses was $0, down from $9 million the first three months of 2017. For the remainder of 2018, the Corporation expects the provision for loan losses will change based on changes in risk grade or other indicators of credit quality, and loan volume.
- Noninterest income of $90 million was up $11 million, or 13% from the first three months of 2017. For 2018, the Corporation expects noninterest income of approximately $365 million to $375 million.
- Noninterest expense of $213 million, including $21 million of acquisition related costs, was up $39 million, or 23% compared to the first three months 2017. For 2018, the Corporation expects noninterest expense to be approximately $825 million, which includes the $40 million of expected acquisition related costs.

Table 1 Summary Results of Operations: Trends

	1Q18	4Q17	3Q17	2Q17	1Q17
	($ in Thousands, except per share data)				
Net income	$69,456	$50,010	$65,001	$57,983	$56,270
Net income available to common equity	67,117	47,671	62,662	55,644	53,940
Earnings per common share - basic	0.41	0.31	0.41	0.36	0.36
Earnings per common share - diluted	0.40	0.31	0.41	0.36	0.35
Effective tax rate	20.43%	44.34%	30.55%	25.58%	27.31%

Income Statement Analysis

Net Interest Income

Table 2 Net Interest Income Analysis

	Quarter ended								
	March 31, 2018			December 31, 2017			March 31, 2017		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	($ in Thousands)								
Assets									
Earning assets									
Loans (1) (2) (3)									
Commercial and business lending	$ 7,313,621	$ 74,706	4.14%	$ 7,178,384	$ 68,440	3.79%	$ 7,199,481	$ 60,680	3.42%
Commercial real estate lending	5,399,429	61,504	4.62%	4,873,889	49,744	4.05%	4,999,994	45,135	3.66%
Total commercial	12,713,050	136,210	4.34%	12,052,273	118,184	3.89%	12,199,475	105,815	3.52%
Residential mortgage	8,010,381	66,402	3.32%	7,546,288	59,979	3.18%	6,564,600	53,306	3.25%
Retail	1,355,098	17,852	5.29%	1,265,055	16,853	5.31%	1,308,650	15,450	4.74%
Total loans	22,078,529	220,464	4.03%	20,863,616	195,016	3.72%	20,072,725	174,571	3.51%
Investment securities									
Taxable	5,576,826	30,104	2.16%	4,986,279	25,614	2.05%	4,830,421	23,475	1.94%
Tax-exempt (1)	1,312,913	11,613	3.54%	1,206,078	12,909	4.28%	1,138,010	12,438	4.37%
Other short-term investments	313,864	2,177	2.80%	382,762	2,138	2.22%	298,158	1,536	2.08%
Investments and other	7,203,603	43,894	2.44%	6,575,119	40,661	2.47%	6,266,589	37,449	2.39%
Total earning assets	29,282,132	$264,358	3.64%	27,438,735	$235,677	3.42%	26,339,314	$212,020	3.24%
Other assets, net	2,884,248			2,542,484			2,441,013		
Total assets	$32,166,380			$29,981,219			$28,780,327		
Liabilities and Stockholders’ equity									
Interest-bearing liabilities									
Interest-bearing deposits									
Savings	$ 1,722,665	$ 202	0.05%	$ 1,554,639	$ 209	0.05%	$ 1,465,811	$ 188	0.05%
Interest-bearing demand	4,712,115	8,553	0.74%	4,462,725	7,462	0.66%	4,251,357	4,210	0.40%
Money market	9,415,869	17,827	0.77%	8,743,614	14,274	0.65%	9,169,141	9,388	0.42%
Time deposits	2,715,292	6,830	1.02%	2,354,828	6,198	1.04%	1,613,331	3,138	0.79%
Total interest-bearing deposits	18,565,941	33,412	0.73%	17,115,806	28,143	0.65%	16,499,640	16,924	0.42%
Federal funds purchased and securities sold under agreements to repurchase	275,578	522	0.77%	279,817	420	0.60%	495,311	515	0.42%
Other short-term funding	884,633	3,005	1.38%	600,492	1,731	1.14%	683,306	1,080	0.64%
Total short-term funding	1,160,211	3,527	1.23%	880,309	2,151	0.97%	1,178,617	1,595	0.55%
Long-term funding	3,422,947	14,722	1.74%	3,332,140	13,023	1.55%	2,761,850	7,996	1.17%
Total short and long-term funding	4,583,158	18,249	1.61%	4,212,449	15,174	1.43%	3,940,467	9,591	0.98%
Total interest-bearing liabilities	23,149,099	$ 51,661	0.90%	21,328,255	$ 43,317	0.81%	20,440,107	$ 26,515	0.52%
Noninterest-bearing demand deposits	5,084,957			5,133,977			4,966,082		
Other liabilities	395,008			302,981			250,747		
Stockholders’ equity	3,537,316			3,216,006			3,123,391		
Total liabilities and stockholders’ equity	$32,166,380			$29,981,219			$28,780,327		
Interest rate spread			2.74%			2.61%			2.72%
Net free funds			0.18%			0.18%			0.12%
Fully tax-equivalent net interest income and net interest margin		$212,697	2.92%		$192,360	2.79%		$185,505	2.84%
Fully tax-equivalent adjustment		2,826			5,355			5,231	
Net interest income		$209,871			$187,005			$180,274	
Bank Mutual net accreted purchase loan discount		$ 6,076			$ —			$ —	

(1) Beginning in 2018, the yield on tax-exempt loans and securities is computed on a fully tax-equivalent basis using a tax rate of 21% and is net of the effects of certain disallowed interest deductions. Prior to 2018, the yield on tax-exempt loans and securities was computed on a fully tax-equivalent basis using a tax rate of 35% and was net of the effects of certain disallowed interest deductions.

(2) Nonaccrual loans and loans held for sale have been included in the average balances.

(3) Interest income includes amortization of net deferred loan origination costs and net accreted purchase loan discount.

Notable Contributions to the Change in Net Interest Income

- Net interest income in the consolidated statements of income (which excludes the fully tax-equivalent adjustment) was $210 million for the first three months of 2018 compared to $180 million for the first three months of 2017. The primary reason for increased net interest income and earning assets from last year was the acquisition of Bank Mutual in February 2018. See sections Interest Rate Risk and Quantitative and Qualitative Disclosures about Market Risk, for a discussion of interest rate risk and market risk.
- Fully tax-equivalent net interest income of $213 million for the first three months of 2018 was $27 million higher than the first three months of 2017.
- Accreted income from the acquisition of the Bank Mutual loan portfolio contributed $6 million to net interest income for the first quarter of 2018. Approximately $2 million of the accreted income was from prepayments and other adjustments.
- Average earning assets of $29.3 billion for the first three months of 2018 were $2.9 billion, or 11%, higher than the first three months of 2017. Average loans increased $2.0 billion, or 10% primarily due to an increase of $1.4 billion, or 22% in residential mortgage loans.
- Average interest-bearing liabilities of $23.1 billion for the first three months of 2018 were up $2.7 billion, or 13% versus the first three months of 2017. On average, interest-bearing deposits increased $2.1 billion and long-term funding increased $661 million from the first three months of 2017.
- The net interest margin for the first three months of 2018 was 2.92%, compared to 2.84% for the first three months of 2017.
- The cost of interest-bearing liabilities was 0.90% for the first three months of 2018, which was 38 bps higher than the first three months of 2017. The increase was primarily due to a 31 bp increase in the cost of average interest-bearing deposits (to 0.73%) and a 68 bp increase in the cost of short-term funding (to 1.23%), both primarily due to increases in the Federal Reserve interest rate.
- The Federal Reserve increased the targeted federal funds rate on March 21, 2018, to a range of 1.50% to 1.75% which compares to a range of 0.75% to 1.00% at the end of the first quarter of 2017. The Federal Reserve has indicated that it expects gradual increases in the Federal Funds rate. However, the timing and magnitude of any such increases are uncertain and will depend on domestic and global economic conditions.

Provision for Credit Losses

There was no provision for credit losses (which includes the provision for loan losses and the provision for unfunded commitments) for the three months ended March 31, 2018, compared to $9 million for the three months ended March 31, 2017. Net charge offs were $9 million (representing 0.17% of average loans) for the three months ended March 31, 2018, compared to $6 million (representing 0.11% of average loans) for the three months ended March 31, 2017. The ratio of the allowance for loan losses to total loans was 1.13% for March 31, 2018 and 1.40% for March 31, 2017.

The provision for credit losses is predominantly a function of the Corporation’s reserving methodology and judgments as to other qualitative and quantitative factors used to determine the appropriate level of the allowance for loan losses and the allowance for unfunded commitments, which focuses on changes in the size and character of the loan portfolio, changes in levels of impaired and other nonaccrual loans, historical losses and delinquencies in each portfolio category, the level of loans sold or transferred to held for sale, the risk inherent in specific loans, concentrations of loans to specific borrowers or industries, existing economic conditions, the fair value of underlying collateral, and other factors which could affect potential credit losses. See additional discussion under sections, Loans, Credit Risk, Nonperforming Assets, and Allowance for Credit Losses.

Noninterest Income

Table 3 Noninterest Income

($ in Thousands)	1Q18	4Q17	3Q17	2Q17	1Q17	1Q18 Change vs 4Q17	1Q18 Change vs 1Q17
Insurance commissions and fees	$ 22,648	$ 19,186	$ 19,815	$ 20,853	$ 21,620	18%	5%
Service charges and deposit account fees	16,420	15,773	16,268	16,030	16,356	4%	—%
Card-based and loan fees	13,422	13,840	12,619	13,764	12,465	(3)%	8%
Trust and asset management fees	13,369	13,125	12,785	12,346	11,935	2%	12%
Brokerage commissions and fees	7,273	6,864	4,392	4,346	4,333	6%	68%
Total core fee-based revenue	73,132	68,788	65,879	67,339	66,709	6%	10%
Mortgage banking income	8,219	5,507	9,147	7,692	7,273	49%	13%
Mortgage servicing rights (expense)	1,849	2,337	2,563	2,665	2,694	(21)%	(31)%
Mortgage banking, net	6,370	3,169	6,585	5,027	4,579	101%	39%
Capital markets, net	5,306	7,107	4,610	4,042	3,883	(25)%	37%
Bank and corporate owned life insurance	3,187	3,156	6,580	3,899	2,615	1%	22%
Other	2,492	2,777	2,254	2,213	2,279	(10)%	9%
Subtotal	90,487	84,997	85,908	82,520	80,065	6%	13%
Asset gains(losses), net	(107)	(528)	(16)	(466)	(234)	(80)%	(54)%
Investment securities gains(losses), net	—	75	3	356	—	(100)%	N/M
Total noninterest income	$ 90,380	$ 84,544	$ 85,895	$ 82,410	$ 79,831	7%	13%
Mortgage loans originated for sale during period	$197,603	$249,222	$245,851	$119,004	$101,280	(21)%	95%
Mortgage loan settlements during period	$187,624	$268,254	$187,568	$167,550	$196,578	(30)%	(5)%
Assets under management, at market value (a)	$ 10,540	$ 10,555	$ 9,243	$ 8,997	$ 8,716	0%	21%

N/M = Not Meaningful

(a) $ in millions. Excludes assets held in brokerage firms

Notable Contributions to the Change in Noninterest Income

- Fee-based revenue was $73 million, an increase of $6 million (10%) compared to the first three months of 2017. Within fee based revenue, brokerage commissions and fees increased $3 million (68%), primarily due to the acquisition of Whitnell & Co in the fourth quarter of 2017. In addition, trust and asset management fees increased $1 million (12%), primarily due to an increase in assets under management.
- Net mortgage banking income for the first three months of 2018 was $6 million, up $2 million (39%) from the first three months of 2017, primarily due to the Corporation’s strategy to hold mortgages on balance sheet during the first quarter of 2017.

Noninterest Expense

Table 4 Noninterest Expense

($ in Thousands)	1Q18	4Q17	3Q17	2Q17	1Q17	1Q18 Change vs 4Q17	1Q18 Change vs 1Q17
Personnel(2)	$117,685	$107,031	$108,098	$107,066	$106,782	10%	10%
Occupancy	15,357	13,497	12,294	12,832	15,219	14%	1%
Technology	17,715	17,878	15,233	15,473	14,420	(1)%	23%
Equipment	5,556	5,250	5,232	5,234	5,485	6%	1%
Business development and advertising	6,693	8,195	7,764	7,152	5,835	(18)%	15%
Legal and professional	5,413	6,384	6,248	5,711	4,166	(15)%	30%
Card Issuance and loan costs	3,304	2,836	3,330	2,974	2,620	17%	26%
Foreclosure / OREO expense, net	723	1,285	906	1,182	1,505	(44)%	(52)%
FDIC assessment	8,250	7,500	7,800	8,000	8,000	10%	3%
Other intangible amortization	1,525	500	450	496	513	205%	197%
Acquisition related costs (1)	20,605	—	—	—	—	N/M	N/M
Other(2)	10,140	11,343	10,072	10,196	9,146	(11)%	11%
Total noninterest expense	$212,965	$181,699	$177,427	$176,316	$173,691	17%	23%

N/M = Not Meaningful

(1) Includes Bank Mutual acquisition-related costs only.

(2) During the first quarter of 2018, the Corporation adopted a new accounting standard related to the presentation of net periodic pension cost and net periodic postretirement benefit cost which required the disaggregation of the service cost component from the other components of net benefit cost and net periodic postretirement benefit cost. Under this new accounting standard, the other components of net benefit cost and net periodic postretirement benefit cost were reclassified from personnel expense to other noninterest expense. All prior periods have been restated to reflect this change in presentation.

Notable Contributions to the Change in Noninterest Expense

- Personnel expense (which includes salary-related expenses and fringe benefit expenses) was $118 million for the first three months of 2018, up $11 million (10%) from the first three months of 2017, primarily driven by the additional cost of Bank Mutual staff.
- All other nonpersonnel noninterest expense on a combined basis was $95 million, up $25 million compared to the first three months of 2017. The increase was primarily driven by $21 million of acquisition related costs pertaining to Bank Mutual. In addition, technology expense increased $3 million (23%) from the first three months of 2017, driven by investments in technology solutions that meet evolving customer needs and improve operational efficiency.

Income Taxes

The Corporation recognized income tax expense of $18 million for the three months ended March 31, 2018, compared to income tax expense of $21 million for the three months ended March 31, 2017. The change in income tax expense was due primarily to a decrease in federal corporate income tax rates from 35% to 21% coupled with an increase in pre-tax book income. The effective tax rate was 20.43% for the first three months of 2018, compared to an effective tax rate of 27.31% for the first three months of 2017.

Income tax expense recorded in the consolidated statements of income involves the interpretation and application of certain accounting pronouncements and federal and state tax laws and regulations, and is, therefore, considered a critical accounting policy. The Corporation is subject to examination by various taxing authorities. Examination by taxing authorities may impact the amount of tax expense and / or reserve for uncertainty in income taxes if their interpretations differ from those of management, based on their judgments about information available to them at the time of their examinations. See section Critical Accounting Policies, in the Corporation's 2017 Annual Report on Form 10-K for additional information on income taxes.

Balance Sheet Analysis

- At March 31, 2018, total assets were $33.4 billion, up $2.9 billion (9%) from December 31, 2017 and up $4.3 billion (15%) from March 31, 2017. On February 1, 2018, the Corporation added $2.8 billion of assets as a result of the Bank Mutual acquisition.

- Loans of $22.8 billion at March 31, 2018 were up $2.0 billion (10%) from December 31, 2017 and were up $2.7 billion (13%) from March 31, 2017. On February 1, 2018, the Corporation added $1.9 billion of loans as a result of the Bank Mutual acquisition. See section Loans for additional information on loans.

- At March 31, 2018, total deposits of $23.8 billion were up $1.0 billion (5%) from December 31, 2017 and were up $2.0 billion (9%) from March 31, 2017. On February 1, 2018, the Corporation assumed $1.8 billion of deposits as a result of the Bank Mutual acquisition. These inflows were partially offset by seasonal deposit outflows. See section Deposits and Customer Funding for additional information on deposits.

- Short and long-term funding of $5.4 billion increased $1.3 billion (32%) from December 31, 2017 and increased $1.5 billion (40%) from March 31, 2017. During the quarter, the Corporation reduced network transaction deposits with lower costs, fixed rate, short-term FHLB advances.

Loans

Table 5 Period End Loan Composition

	March 31, 2018(a)		December 31, 2017		September 30, 2017		June 30, 2017		March 31, 2017	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
					($ in Thousands)					
Commercial and industrial	$ 6,756,983	30%	$ 6,399,693	31%	$ 6,534,660	31%	$ 6,571,000	32%	$ 6,300,646	31%
Commercial real estate — owner occupied	900,913	4%	802,209	4%	827,064	4%	845,336	4%	878,391	4%
Commercial and business lending	7,657,896	34%	7,201,902	35%	7,361,724	35%	7,416,336	36%	7,179,037	35%
Commercial real estate — investor	4,077,671	18%	3,315,254	16%	3,345,536	16%	3,329,585	16%	3,415,355	17%
Real estate construction	1,579,778	7%	1,451,684	7%	1,552,135	8%	1,651,805	8%	1,553,205	8%
Commercial real estate lending	5,657,449	25%	4,766,938	23%	4,897,671	24%	4,981,390	24%	4,968,560	25%
Total commercial	13,315,345	58%	11,968,840	58%	12,259,395	59%	12,397,726	60%	12,147,597	60%
Residential mortgage	8,197,223	36%	7,546,534	36%	7,408,471	35%	7,115,457	34%	6,715,282	33%
Home equity	923,470	4%	883,804	4%	890,130	4%	897,111	4%	911,969	5%
Other consumer	374,453	2%	385,813	2%	373,464	2%	372,775	2%	372,835	2%
Total consumer	9,495,146	42%	8,816,151	42%	8,672,065	41%	8,385,343	40%	8,000,086	40%
Total loans	$22,810,491	100%	$20,784,991	100%	$20,931,460	100%	$20,783,069	100%	$20,147,683	100%

(a) Includes $15 million of purchased credit-impaired loans

The Corporation has long-term guidelines relative to the proportion of Commercial and Business, Commercial Real Estate, and Consumer loans within the overall loan portfolio, with each targeted to represent 30-40% of the overall loan portfolio. The targeted long-term guidelines were unchanged during 2017 and the first three months of 2018. Furthermore, certain sub-asset classes within the respective portfolios were further defined and dollar limitations were placed on these sub-portfolios. These guidelines and limits are reviewed quarterly and approved annually by the Enterprise Risk Committee of the Corporation’s Board of Directors. These guidelines and limits are designed to create balance and diversification within the loan portfolios.

Credit Risk

An active credit risk management process is used for commercial loans to ensure that sound and consistent credit decisions are made. Credit risk is controlled by detailed underwriting procedures, comprehensive loan administration, and periodic review of borrowers' outstanding loans and commitments. Borrower relationships are formally reviewed and graded on an ongoing basis for early identification of potential problems. Further analysis by customer, industry, and geographic location are performed to monitor trends, financial performance, and concentrations. See Note 7 Loans, for additional information on managing overall credit quality.

The loan portfolio is widely diversified by types of borrowers, industry groups, and market areas within our branch footprint. Significant loan concentrations are considered to exist when there are amounts loaned to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At March 31, 2018, no significant concentrations existed in the Corporation's portfolio in excess of 10% of total loans.

Commercial and business lending: The commercial and business lending classification primarily includes commercial loans to large corporations, middle market companies and small businesses and lease financing. At March 31, 2018, the largest industry group within the commercial and business lending category were manufacturing and wholesale trade, which represented 8% of total loans and 25% of the total commercial and business lending portfolio. The next largest industry group within the commercial and business lending category included the power and utilities portfolio, which represented 5% of total loans and represented 14% of the total commercial and business lending portfolio at March 31, 2018. The credit risk related to commercial loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations or on the value of underlying collateral, if any. Currently, a higher risk segment of the commercial and business lending portfolio is loans to borrowers supporting oil and gas exploration and production, which are further discussed under oil and gas lending below.

Oil and gas lending: The Corporation provides reserve based loans to oil and gas exploration and production firms. At March 31, 2018, the oil and gas portfolio was comprised of 56 credits, totaling $657 million of outstanding balances. The Corporation's oil and gas lending team is based in Houston and focuses on serving the funding needs of small and mid-sized companies in the upstream oil and gas business. The oil and gas loans are generally first lien, reserve-based, and borrowing base dependent lines of credit. A small portion of the portfolio is in a second lien position to which the Corporation also holds the first lien position. The portfolio is diversified across all major U.S. geographic basins. The portfolio is diversified by product line with approximately 60% in oil and 40% in gas at March 31, 2018. Borrowing base re-determinations for the portfolio are completed at least twice a year and are based on detailed engineering reports and discounted cash flow analysis.

The following table summarizes information about the Corporation's oil and gas loan portfolio.

Table 6 Oil and Gas Loan Portfolio

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
			($ in Millions)		
Pass	$ 548	$ 483	$ 446	$ 411	$ 405
Special mention	—	—	—	39	8
Potential problem	40	40	39	37	78
Nonaccrual	69	77	92	114	134
Total oil and gas related loans	$ 657	$ 600	$ 577	$ 601	$ 625
Quarter net charge offs	$ 4	$ —	$ 8	$ 12	$ 6
Oil and gas related allowance	$ 19	$ 27	$ 30	$ 33	$ 42
Oil and gas related allowance ratio	2.9%	4.5%	5.2%	5.4%	6.7%

During 2017, the market stabilized leading to improvements across the oil and gas portfolio. At March 31, 2018, nonaccrual oil and gas related loans totaled approximately $69 million, representing 11% of the oil and gas loan portfolio, a decrease of $8 million from December 31, 2017.

Commercial real estate - investor: Commercial real estate-investor is comprised of loans secured by various non-owner occupied or investor income producing property types. At March 31, 2018, the two largest property type exposures within the commercial real estate-investor portfolio were loans secured by multi-family properties, which represented 7% of total loans and 36% of the total commercial real estate-investor portfolio and loans secured by retail properties which represented 4% of total loans and 24% of the total commercial real estate-investor portfolio. Credit risk is managed in a similar manner to commercial and business lending by employing sound underwriting guidelines, lending primarily to borrowers in local markets and businesses, periodically evaluating the underlying collateral, and formally reviewing the borrower's financial soundness and relationship on an ongoing basis.

Real estate construction: Real estate construction loans are primarily short-term or interim loans that provide financing for the acquisition or development of commercial income properties, multi-family projects or residential development, both single family and condominium. Real estate construction loans are made to developers and project managers who are generally well known to the Corporation and have prior successful project experience. The credit risk associated with real estate construction loans is generally confined to specific geographic areas but is also influenced by general economic conditions. The Corporation controls the credit risk on these types of loans by making loans in familiar markets to developers, reviewing the merits of individual projects, controlling loan structure, and monitoring project progress and construction advances.

The Corporation's current lending standards for commercial real estate and real estate construction lending are determined by property type and specifically address many criteria, including: maximum loan amounts, maximum loan-to-value ("LTV"), requirements for pre-leasing and / or presales, minimum borrower equity, and maximum loan to cost. Currently, the maximum standard for LTV is 80%, with lower limits established for certain higher risk types, such as raw land that has a 50% LTV maximum. The Corporation's LTV guidelines are in compliance with regulatory supervisory limits. In most cases, for real estate construction loans, the loan amounts include interest reserves, which are built into the loans and sized to fund loan payments through construction and lease up and / or sell out.

Table 7 Commercial Loan Distribution and Interest Rate Sensitivity

March 31, 2018	Within 1 Year (a)	1-5 Years	After 5 Years	Total	% of Total
			($ in Thousands)		
Commercial and industrial	$ 5,998,575	$ 555,894	$ 202,514	$ 6,756,983	51%
Commercial real estate — investor	3,217,012	762,322	98,338	4,077,671	31%
Commercial real estate — owner occupied	458,193	296,889	145,832	900,913	7%
Real estate construction	1,428,741	113,082	37,954	1,579,778	12%
Total	$ 11,102,520	$1,728,186	$ 484,638	$13,315,345	100%
Fixed rate	$ 4,604,032	$ 983,927	$ 371,720	$ 5,959,679	45%
Floating or adjustable rate	6,498,490	744,259	112,917	7,355,666	55%
Total	$ 11,102,522	$1,728,186	$ 484,637	$13,315,345	100%
Percent by maturity distribution	83%	13%	4%	100%	

(a) Demand loans, past due loans, and overdrafts are reported in the "Within 1 Year" category.

The total commercial loans that were floating or adjustable rate was $7.4 billion (55%) at March 31, 2018. Including the $4.6 billion of fixed rate loans due within one year, 90% of the commercial loan portfolio noted above matures, re-prices, or resets within one year.

Residential mortgages: Residential mortgage loans are primarily first lien home mortgages with a maximum loan to collateral value without credit enhancement (e.g. private mortgage insurance) of 80%. At March 31, 2018, the residential mortgage portfolio was comprised of $2.9 billion of fixed-rate residential real estate mortgages and $5.3 billion of variable-rate residential real estate mortgages, compared to $2.6 billion of fixed-rate mortgages and $4.9 billion variable-rate mortgages at December 31, 2017. The residential mortgage portfolio is focused primarily in our three-state branch footprint, with approximately 88% of the outstanding loan balances in our branch footprint at March 31, 2018. The majority of the on balance sheet residential mortgage portfolio consists of hybrid, adjustable rate mortgage loans with initial fixed rate terms of 3, 5, 7, or 10 years.

Based upon outstanding balances at March 31, 2018, the following table presents the next contractual repricing year for the Corporation's adjustable rate mortgage portfolio.

Table 8 Adjustable Rate Mortgage Repricing [(a)]

	$ in Thousands	% to Total
2018	$ 388,772	7%
2019	584,096	11%
2020	636,717	12%
2021	741,288	14%
2022	813,785	15%
Thereafter	2,106,599	41%
Total adjustable rate mortgages	$ 5,271,257	100%

(a) Based on contractual loan terms for 3/1, 5/1, 7/1, and 10/1 adjustable rate mortgages; does not factor in early prepayments or amortization.

The Corporation also generally retains certain fixed-rate residential real estate mortgages in its loan portfolio, including retail and private banking jumbo mortgages and CRA-related mortgages. As part of management's historical practice of originating and servicing residential mortgage loans, generally the Corporation's 30 year, agency conforming, fixed-rate residential real estate mortgage loans were sold in the secondary market with servicing rights retained. Subject to management's analysis of the current interest rate environment, among other market factors, the Corporation may choose to retain 30 year mortgage loan production on its balance sheet.

The Corporation's underwriting and risk-based pricing guidelines for residential mortgage loans include minimum borrower FICO and maximum LTV of the property securing the loan. Residential mortgage products generally are underwritten using FHLMC and FNMA secondary marketing guidelines.

Home equity: Home equity consists of both home equity lines of credit and closed-end home equity loans. The Corporation's credit risk monitoring guidelines for home equity is based on an ongoing review of loan delinquency status, as well as a quarterly review of FICO score deterioration and property devaluation. The Corporation does not routinely obtain appraisals on performing loans to update LTV ratios after origination; however, the Corporation monitors the local housing markets by reviewing the various home price indices and incorporates the impact of the changing market conditions in its ongoing credit monitoring process. For junior lien home equity loans, the Corporation is unable to track the performance of the first lien loan if it does not own or service the first lien loan. However, the Corporation obtains a refreshed FICO score on a quarterly basis and monitors this as part of its assessment of the home equity portfolio.

The Corporation's underwriting and risk-based pricing guidelines for home equity lines and loans consist of a combination of both borrower FICO and the original cumulative LTV against the property securing the loan. Currently, our policy sets the maximum acceptable LTV at 90% and the minimum acceptable FICO at 670. The Corporation's current home equity line of credit offering is priced based on floating rate indices and generally allows 10 years of interest-only payments followed by a 20-year amortization of the outstanding balance. The Corporation has significantly curtailed its offerings of fixed-rate, closed end home equity loans. The loans in the Corporation's portfolio generally have an original term of 20 years with principal and interest payments required.

Based upon outstanding balances at March 31, 2018, the following table presents the periods when home equity lines of credit revolving periods are scheduled to end.

Table 9 Home Equity Line of Credit - Revolving Period End Dates

	$ in Thousands	% of Total
Less than 5 years	$ 93,578	9%
5 to 10 years	287,038	29%
Over 10 years	617,525	62%
Total home equity revolving lines of credit	$ 998,141	100%

Other consumer: Other consumer consists of student loans, short-term and other personal installment loans and credit cards. The Corporation had $181 million and $183 million of student loans at March 31, 2018, and December 31, 2017, respectively, the majority of which are government guaranteed. Credit risk for non-government guaranteed student, short-term and personal installment loans and credit cards is influenced by general economic conditions, the characteristics of individual borrowers, and the nature of the loan collateral. Risks of loss are generally on smaller average balances per loan spread over many borrowers. Once charged off, there is usually less opportunity for recovery of these smaller consumer loans. Credit risk is primarily controlled by reviewing the creditworthiness of the borrowers, monitoring payment histories, and taking appropriate collateral and guarantee positions. The student loan portfolio is in run-off and no new student loans are being originated.

Nonperforming Assets

Management is committed to a proactive nonaccrual and problem loan identification philosophy. This philosophy is implemented through the ongoing monitoring and review of all pools of risk in the loan portfolio to ensure that problem loans are identified quickly and the risk of loss is minimized. Table 10 provides detailed information regarding nonperforming assets, which include nonaccrual loans and other real estate owned, and other nonperforming assets.

Table 10 Nonperforming Assets

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
			($ in Thousands)		
Nonperforming assets					
Commercial and industrial	$ 102,667	$ 112,786	$ 122,284	$141,475	$ 164,891
Commercial real estate — owner occupied	20,636	22,740	15,598	15,800	17,925
Commercial and business lending	123,303	135,526	137,882	157,275	182,816
Commercial real estate — investor	15,574	4,729	3,543	7,206	8,273
Real estate construction	1,219	974	1,540	1,717	1,247
Commercial real estate lending	16,793	5,703	5,083	8,923	9,520
Total commercial	140,096	141,229	142,965	166,198	192,336
Residential mortgage	55,100	53,632	54,654	51,975	54,183
Home equity	13,218	13,514	12,639	13,482	13,212
Other consumer	139	171	259	233	260
Total consumer	68,456	67,317	67,552	65,690	67,655
Total nonaccrual loans	208,553	208,546	210,517	231,888	259,991
Commercial real estate owned	7,511	6,735	5,098	4,825	5,599
Residential real estate owned	5,806	5,873	3,385	2,957	1,941
Bank properties real estate owned	3,601	—	—	—	—
Other real estate owned (“OREO”)	16,919	12,608	8,483	7,782	7,540
Other nonperforming assets	7,117	7,418	7,418	7,418	7,418
Total nonperforming assets (“NPAs”)	$ 232,589	$ 228,572	$ 226,418	$247,088	$ 274,949
Accruing loans past due 90 days or more					
Commercial	$ 505	$ 418	$ 308	$ 248	$ 258
Consumer	2,888	1,449	1,303	1,287	1,462
Total accruing loans past due 90 days or more	$ 3,393	$ 1,867	$ 1,611	$ 1,535	$ 1,720
Restructured loans (accruing)					
Commercial	$ 47,460	$ 48,735	$ 51,259	$ 50,634	$ 51,274
Consumer	29,041	25,883	25,919	26,691	27,785
Total restructured loans (accruing)	$ 76,501	$ 74,618	$ 77,178	$ 77,325	$ 79,059
Nonaccrual restructured loans (included in nonaccrual loans)	$ 23,827	$ 23,486	$ 33,520	$ 51,715	$ 78,902
Ratios					
Nonaccrual loans to total loans	0.91%	1.00%	1.01%	1.12%	1.29%
NPAs to total loans plus OREO	1.02%	1.10%	1.08%	1.19%	1.36%
NPAs to total assets	0.70%	0.75%	0.75%	0.83%	0.94%
Allowance for loan losses to nonaccrual loans	123.26%	127.49%	131.37%	121.22%	108.72%

Table 11 Nonperforming Assets (continued)

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
			($ in Thousands)		
Accruing loans 30-89 days past due					
Commercial and industrial	$ 880	$ 271	$ 1,378	$ 1,255	$ 1,675
Commercial real estate — owner occupied	511	48	1,522	1,284	970
Commercial and business lending	1,391	319	2,900	2,539	2,645
Commercial real estate — investor	240	374	1,109	899	1,122
Real estate construction	490	251	700	135	431
Commercial real estate lending	730	625	1,809	1,034	1,553
Total commercial	2,121	944	4,709	3,573	4,198
Residential mortgage	15,133	9,552	8,870	9,165	7,243
Home equity	5,868	6,825	7,191	5,924	4,512
Other consumer	1,811	2,007	1,686	1,746	1,658
Total consumer	22,812	18,384	17,747	16,835	13,413
Total accruing loans 30-89 days past due	$ 24,934	$ 19,328	$ 22,456	$ 20,408	$ 17,611
Potential problem loans					
Commercial and industrial	$ 196,766	$ 113,778	$ 153,779	$142,607	$ 218,930
Commercial real estate — owner occupied	34,410	41,997	57,468	60,724	58,994
Commercial and business lending	231,176	155,775	211,247	203,331	277,924
Commercial real estate — investor	46,970	19,291	46,770	48,569	49,217
Real estate construction	1,695	—	118	8,901	10,141
Commercial real estate lending	48,665	19,291	46,888	57,470	59,358
Total commercial	279,841	175,066	258,135	260,801	337,282
Residential mortgage	2,155	1,616	650	1,576	2,155
Home equity	188	195	124	208	220
Total consumer	2,343	1,811	774	1,784	2,375
Total potential problem loans	$ 282,184	$ 176,877	$ 258,909	$262,585	$ 339,657

Nonaccrual loans: Nonaccrual loans are considered to be one indicator of potential future loan losses. See Note 7 Loans, of the notes to consolidated financial statements for additional nonaccrual loan disclosures. The ratio of nonaccrual loans to total loans at March 31, 2018 was 0.91%, as compared to 1.00% at December 31, 2017 and 1.29% at March 31, 2017. See also sections Credit Risk and Allowance for Credit Losses.

Accruing loans past due 90 days or more: Loans past due 90 days or more but still accruing interest are classified as such where the underlying loans are both well secured (the collateral value is sufficient to cover principal and accrued interest) and are in the process of collection. Accruing loans 90 days or more past due at March 31, 2018 increased $2 million from both December 31, 2017 and March 31, 2017 as a result of the acquisition of Bank Mutual.

Restructured loans: Loans are considered restructured loans if concessions have been granted to borrowers that are experiencing financial difficulty. See also Note 7 Loans, of the notes to consolidated financial statements for additional restructured loans disclosures.

Potential problem loans: The level of potential problem loans is another predominant factor in determining the relative level of risk in the loan portfolio and in determining the appropriate level of the allowance for loan losses. Potential problem loans are generally defined by management to include loans rated as substandard by management but that are not considered impaired (i.e., nonaccrual loans and accruing troubled debt restructurings); however, there are circumstances present to create doubt as to the ability of the borrower to comply with present repayment terms. The decision of management to include performing loans in potential problem loans does not necessarily mean that the Corporation expects losses to occur, but that management recognizes a higher degree of risk associated with these loans.

OREO: Management actively seeks to ensure OREO properties held are monitored to minimize the Corporation’s risk of loss.

Other nonperforming assets: The asset represents the Bank’s ownership interest in a profit participation agreement in an entity created to own certain oil and gas assets obtained as a result of bankruptcy and liquidation of a borrower in partial satisfaction of their loan.

Allowance for Credit Losses

Credit risks within the loan portfolio are inherently different for each loan type. Credit risk is controlled and monitored through the use of lending standards, a thorough review of potential borrowers, and ongoing review of loan payment performance. Active asset quality administration, including early problem loan identification and timely resolution of problems, aids in the management of credit risk and minimization of loan losses. Credit risk management for each loan type is discussed in the section entitled Credit Risk. See Note 7 Loans, for additional disclosures on the allowance for credit losses.

To assess the appropriateness of the allowance for loan losses, an allocation methodology is applied by the Corporation which focuses on evaluation of many factors, including but not limited to: evaluation of facts and issues related to specific loans, management’s ongoing review and grading of the loan portfolio, consideration of historical loan loss and delinquency experience on each portfolio category, trends in past due and nonaccrual loans, the level of potential problem loans, the risk characteristics of the various classifications of loans, changes in the size and character of the loan portfolio, concentrations of loans to specific borrowers or industries, existing economic conditions, the fair value of underlying collateral, and other qualitative and quantitative factors which could affect potential credit losses. Assessing these factors involves significant judgment. Because each of the criteria used is subject to change, the allowance for loan losses is not necessarily indicative of the trend of future loan losses in any particular category. Therefore, management considers the allowance for loan losses a critical accounting policy—See section Critical Accounting Policies, in the Corporation’s 2017 Annual Report on Form 10-K for additional information on the allowance for loan losses. See section, Nonperforming Assets, for a detailed discussion on asset quality. See also Note 7 Loans, of the notes to consolidated financial statements for additional allowance for loan losses disclosures. Table 5 provides information on loan growth and period end loan composition, Table 10 provides additional information regarding nonperforming assets, and Table 12 and Table 13 provide additional information regarding activity in the allowance for loan losses.

The methodology used for the allocation of the allowance for loan losses at March 31, 2018 and December 31, 2017 was generally comparable, whereby the Corporation segregated its loss factors (used for both criticized and non-criticized loans) into a component primarily based on historical loss rates and a component primarily based on other qualitative factors that are probable to affect loan collectability. The allocation methodology consists of the following components: First, a valuation allowance estimate is established for specifically identified commercial and consumer loans determined by the Corporation to be impaired, using discounted cash flows, estimated fair value of underlying collateral, and / or other data available. Second, management allocates the allowance for loan losses with loss factors, for criticized loan pools by loan type as well as for non-criticized loan pools by loan type, primarily based on historical loss rates after considering loan type, historical loss and delinquency experience, and industry statistics. Loans that have been criticized are considered to have a higher risk of default than non-criticized loans, as circumstances were present to support the lower loan grade, warranting higher loss factors. The loss factors applied in the methodology are periodically re-evaluated and adjusted to reflect changes in historical loss levels or other risks. Lastly, management allocates allowance for loan losses to absorb unrecognized losses that may not be provided for by the other components due to other factors evaluated by management, such as limitations within the credit risk grading process, known current economic or business conditions that may not yet show in trends, industry or other concentrations with current issues that impose higher inherent risks than are reflected in the loss factors, and other relevant considerations. The total allowance is available to absorb losses from any segment of the loan portfolio.

Table 12 Allowance for Credit Losses

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
			($ in Thousands)		
Allowance for Loan Losses					
Balance at beginning of period	$ 265,880	$ 276,551	$ 281,101	$282,672	$ 278,335
Provision for loan losses	500	—	6,000	11,000	10,000
Charge offs	(12,155)	(14,289)	(14,727)	(15,376)	(11,854)
Recoveries	2,832	3,618	4,177	2,805	6,191
Net charge offs	(9,323)	(10,671)	(10,550)	(12,571)	(5,663)
Balance at end of period	$ 257,058	$ 265,880	$ 276,551	$281,101	$ 282,672
Allowance for Unfunded Commitments					
Balance at beginning of period	$ 24,400	$ 24,400	$ 25,400	$ 24,400	$ 25,400
Provision for unfunded commitments	(500)	—	(1,000)	1,000	(1,000)
Amount recorded at acquisition	2,436	—	—	—	—
Balance at end of period	$ 26,336	$ 24,400	$ 24,400	$ 25,400	$ 24,400
Allowance for credit losses(a)	$ 283,394	$ 290,280	$ 300,951	$306,501	$ 307,072
Provision for credit losses(b)	—	—	5,000	12,000	9,000
Net loan (charge offs) recoveries					
Commercial and industrial	$ (6,599)	$ (8,212)	$ (9,442)	$ (11,046)	$ (4,368)
Commercial real estate — owner occupied	(1,025)	(246)	13	43	19
Commercial and business lending	(7,624)	(8,458)	(9,429)	(11,003)	(4,349)
Commercial real estate — investor	8	(164)	55	(126)	(514)
Real estate construction	189	(365)	(150)	(26)	11
Commercial real estate lending	197	(529)	(95)	(152)	(503)
Total commercial	(7,427)	(8,987)	(9,524)	(11,155)	(4,852)
Residential mortgage	(131)	(966)	(26)	(564)	(128)
Home equity	(677)	330	(87)	54	173
Other consumer	(1,088)	(1,048)	(913)	(906)	(856)
Total consumer	(1,896)	(1,684)	(1,026)	(1,416)	(811)
Total net charge offs	$ (9,323)	$ (10,671)	$ (10,550)	$ (12,571)	$ (5,663)
Ratios					
Allowance for loan losses to total loans	1.13%	1.28%	1.32%	1.35%	1.40%
Allowance for loan losses to net charge offs (annualized)	6.8x	6.3x	6.6x	5.6x	12.3x

(a) Includes the allowance for loan losses and the allowance for unfunded commitments.
(b) Includes the provision for loan losses and the provision for unfunded commitments.

Table 13 Annualized net (charge offs) recoveries(a)

(in basis points)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Net loan (charge offs) recoveries					
Commercial and industrial	(41)	(51)	(58)	(69)	(28)
Commercial real estate — owner occupied	(48)	(12)	1	2	1
Commercial and business lending	(42)	(47)	(51)	(60)	(24)
Commercial real estate — investor	N/M	(2)	1	(2)	(6)
Real estate construction	5	(10)	(4)	(1)	N/M
Commercial real estate lending	1	(4)	(1)	(1)	(4)
Total commercial	(24)	(30)	(31)	(36)	(16)
Residential mortgage	(1)	(5)	N/M	(3)	(1)
Home equity	(28)	15	(4)	2	8
Other consumer	(115)	(109)	(97)	(98)	(90)
Total consumer	(8)	(8)	(5)	(7)	(4)
Total net charge offs	(17)	(20)	(20)	(25)	(11)

(a) Annualized ratio of net charge offs to average loans by loan type.
N/M = Not Meaningful

At March 31, 2018, the allowance for credit losses was $283 million, compared to $290 million at December 31, 2017 and $307 million at March 31, 2017. At March 31, 2018, the allowance for loan losses to total loans was 1.13% and covered 123.26% of nonaccrual loans, compared to 1.28% and 127.49%, respectively, at December 31, 2017 and 1.40% and 108.72%, respectively, at March 31, 2017. Management believes the level of allowance for loan losses to be appropriate at March 31, 2018.

Notable Contributions to the Change in Allowance for Credit Loss

- Total loans increased $2.0 billion (10%) for the first three months of 2018, including a $679 million (8%) increase in total consumer. Compared to March 31, 2017, total loans increased $2.7 billion (13%), including a $1.5 billion (19%) increase in total consumer, a $689 million (14%) increase in commercial real estate lending, and a $479 million (7%) increase in commercial and business lending. See section Loans for additional information on the changes in the loan portfolio and see section Credit Risk for discussion about credit risk management for each loan type.
- Total nonaccrual loans were relatively unchanged for the first three months of 2018, but decreased $51 million from March 31, 2017, primarily due to migration in the oil and gas related credits. See also Note 7 Loans, of the notes to consolidated financial statements and section Nonperforming Assets for additional disclosures on the changes in asset quality.
- Potential problem loans increased $105 million from December 31, 2017 primarily due to the downward migration of general commercial related credits and the addition of Bank Mutual loans. However, potential problem loans decreased $57 million from March 31, 2017, primarily due to improvements in general commercial related credits and migration in oil and gas related credits, respectively. See Table 10, for additional information on the changes in potential problem loans.
- Net charge offs decreased $1 million from December 31, 2017, but increased $4 million from the first three months of 2017, primarily due to an increase in charge offs outside the oil and gas portfolio. See Table 12 and Table 13 for additional information regarding the activity in the allowance for loan losses.
- The allowance for loan losses attributable to oil and gas related credits (included within the commercial and industrial allowance for loan losses) was $19 million at March 31, 2018, compared to $27 million at December 31, 2017 and $42 million at March 31, 2017. See also Oil and gas lending within the Credit Risk section for additional disclosure.

Deposits and Customer Funding

Table 14 Period End Deposit and Customer Funding Composition

($ in Thousands)	March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017		March 31, 2017	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	$ 5,458,473	23%	$ 5,478,416	24%	$ 5,177,734	23%	$ 5,038,162	23%	$ 5,338,212	25%
Savings	1,883,638	8%	1,524,992	7%	1,544,037	7%	1,552,820	7%	1,530,155	7%
Interest-bearing demand	4,719,566	20%	4,603,157	20%	4,990,891	22%	3,858,739	18%	4,736,236	22%
Money market	9,086,553	38%	8,830,328	39%	8,299,512	37%	9,228,129	43%	8,608,523	39%
Brokered CDs	44,503	—%	18,609	—%	3,554	—%	131,184	1%	54,993	—%
Other time	2,632,869	11%	2,330,460	10%	2,317,723	11%	1,809,146	8%	1,559,916	7%
Total deposits	$23,825,602	100%	$22,785,962	100%	$22,333,451	100%	$21,618,180	100%	$21,828,035	100%
Customer funding[(a)]	297,289		250,332		324,042		360,131		448,502	
Total deposits and customer funding	$24,122,891		$23,036,294		$22,657,493		$21,978,311		$22,276,537	
Network transaction deposits[(b)]	$ 2,244,739		$ 2,520,968		$ 2,622,787		$ 3,220,956		$ 3,417,380	
Net deposits and customer funding (total deposits and customer funding, excluding Brokered CDs and network transaction deposits)	$21,833,649		$20,496,717		$20,031,152		$18,626,171		$18,804,164	
Time deposits of more than $250,000	$ 906,727		$ 1,056,172		$ 1,009,097		$ 477,043		$ 244,641	

(a) Securities sold under agreement to repurchase and commercial paper.
(b) Included above in interest-bearing demand and money market.

- Deposits are the Corporation’s largest source of funds.
- Total deposits increased $1.0 billion (5%) from December 31, 2017 primarily due to the acquisition of Bank Mutual partially offset by seasonal deposit outflows and increased $2.0 billion (9%) from March 31, 2017.
- Non-maturity deposit accounts, comprised of savings, money market, and demand (both interest and noninterest-bearing demand) accounts accounted for 89% of our total deposits at March 31, 2018.
- Included in the above amounts were $2.2 billion of network deposits, primarily sourced from other financial institutions and intermediaries. These represented 9% of our total deposits at March 31, 2018.

Liquidity

The objective of liquidity risk management is to ensure that the Corporation has the ability to generate sufficient cash or cash equivalents in a timely and cost effective manner to satisfy the cash flow requirements of depositors and borrowers and to meet its other commitments as they become due. The Corporation’s liquidity risk management process is designed to identify, measure, and manage the Corporation’s funding and liquidity risk to meet its daily funding needs in the ordinary course of business, as well as to address expected and unexpected changes in its funding requirements. The Corporation engages in various activities to manage its liquidity risk, including diversifying its funding sources, stress testing, and holding readily-marketable assets which can be used as a source of liquidity, if needed.

The Corporation performs dynamic scenario analysis in accordance with industry best practices. Measures have been established to ensure the Corporation has sufficient high quality short-term liquidity to meet cash flow requirements under stressed scenarios. In addition, the Corporation also reviews static measures such as deposit funding as a percent of total assets and liquid asset levels. Strong capital ratios, credit quality, and core earnings are also essential to maintaining cost effective access to wholesale funding markets. At March 31, 2018, the Corporation was in compliance with its internal liquidity objectives and has sufficient asset-based liquidity to meet its obligations under a stressed scenario.

The Corporation maintains diverse and readily available liquidity sources, including:

- Investment securities are an important tool to the Corporation’s liquidity objective, and can be pledged or sold to enhance liquidity, if necessary. See Note 6 Investment Securities of the notes to consolidated financial statements for additional information on the Corporation’s investment securities portfolio, including investment securities pledged.
- The Bank pledges eligible loans to both the Federal Reserve Bank and the FHLB as collateral to establish lines of credit and borrow from these entities. Based on the amount of collateral pledged, the FHLB established a collateral value from which the Bank may draw advances against the collateral. Also, the collateral is used to enable the FHLB to issue letters of credit in favor of public fund depositors of the Bank. As of March 31, 2018, the Bank had $2.4 billion available for future advances. The Federal Reserve Bank also establishes a collateral value of assets to support borrowings from the discount window. As of March 31, 2018, the Bank had $2.2 billion available for discount window borrowings.
- The Parent Company has a $200 million commercial paper program, of which, $82 million was outstanding as of March 31, 2018.
- Dividends and service fees from subsidiaries, as well as the proceeds from issuance of capital, are funding sources for the Parent Company.
- The Parent Company has filed a shelf registration statement with the SEC under which the Parent Company may, from time to time, offer shares of the Corporation’s common stock in connection with acquisitions of businesses, assets or securities of other companies.
- The Parent Company also has filed a universal shelf registration statement with the SEC, under which the Parent Company may offer the following securities, either separately or in units: debt securities, preferred stock, depositary shares, common stock, and warrants.
- The Bank may also issue institutional certificates of deposit, network transaction deposits, and brokered certificates of deposit.

Credit ratings relate to the Corporation’s ability to issue debt securities and the cost to borrow money, and should not be viewed as an indication of future stock performance or a recommendation to buy, sell, or hold securities. Adverse changes in these factors could result in a negative change in credit ratings and impact not only the ability to raise funds in the capital markets but also the cost of these funds. The credit ratings of the Parent Company and Associated Bank at March 31, 2018 are displayed below.

Table 15 Credit Ratings

	Moody's	S&P[(a)]
Associated Bank short-term deposits	P-1	—
Associated Bank long-term	A1	BBB+
Corporation short-term	P-2	—
Corporation long-term	Baa1	BBB
Outlook	Stable	Stable

(a) Standard and Poor's.

For the three months ended March 31, 2018, net cash provided by operating activities and financing activities was $43 million and $24 million, respectively, while investing activities used net cash of $350 million, for a net decrease in cash and cash equivalents of $283 million since year-end 2017. At March 31, 2018, assets of $33.4 billion increased $2.9 billion compared to year-end 2017. On the funding side, deposits of $23.8 billion increased by $1.0 billion when compared to year-end 2017.

For the three months ended March 31, 2017, net cash provided by operating activities was $162 million, while financing and investing activities used net cash of $82 million and $32 million, respectively, for a net increase in cash and cash equivalents of $47 million since year-end 2016. During the first three months of 2017, assets of $29.1 billion were relatively unchanged compared to year-end 2016. On the funding side, deposits of $21.8 billion were also relatively unchanged compared to year-end 2016.

Quantitative and Qualitative Disclosures about Market Risk

Market risk and interest rate risk are managed centrally. Market risk is the potential for loss arising from adverse changes in the fair value of fixed income securities, equity securities, other earning assets and derivative financial instruments as a result of changes in interest rates or other factors. Interest rate risk is the potential for reduced net interest income resulting from adverse changes in the level of interest rates. As a financial institution that engages in transactions involving an array of financial products, the Corporation is exposed to both market risk and interest rate risk. In addition to market risk, interest rate risk is measured and managed through a number of methods. The Corporation uses financial modeling simulation techniques that measure the sensitivity of future earnings due to changing rate environments to measure interest rate risk.

Policies established by the Corporation's Asset / Liability Committee ("ALCO") and approved by the Board of Directors are intended to limit these risks. The Board has delegated day-to-day responsibility for managing market and interest rate risk to ALCO. The primary objectives of market risk management is to minimize any adverse effect that changes in market risk factors may have on net interest income and to offset the risk of price changes for certain assets recorded at fair value.

Interest Rate Risk

The primary goal of interest rate risk management is to control exposure to interest rate risk within policy limits approved by the Board of Directors. These limits and guidelines reflect our risk appetite for interest rate risk over both short-term and long-term horizons. No limit breaches occurred during the first three months of 2018.

The major sources of our non-trading interest rate risk are timing differences in the maturity and re-pricing characteristics of assets and liabilities, changes in the shape of the yield curve, and the potential exercise of explicit or embedded options. We measure these risks and their impact by identifying and quantifying exposures through the use of sophisticated simulation and valuation models which are employed by management to understand net interest income (NII) at risk, interest rate sensitive earnings at risk (EAR), and market value of equity (MVE) at risk. The Corporation's interest rate risk profile is such that a higher or steeper yield curve adds to income while a flatter yield curve is relatively neutral, and a lower or inverted yield curve generally has a negative impact on earnings. Based on current rate expectations for a flattening yield curve, our earnings at risk profile is neutral at March 31, 2018. While the modeled outcome of instantaneous and sustained parallel rate shocks of 100 bps or more indicate asset sensitivity, which would provide increased earnings, we see a low probability of a sustained parallel shift occurring in the near term.

For further discussion of the Corporation's interest rate risk and corresponding key assumptions, see the Interest Rate Risk section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Corporation's 2017 Annual Report on Form 10-K.

The sensitivity analysis included below is measured as a percentage change in NII and EAR due to instantaneous moves in benchmark interest rates from a baseline scenario. We evaluate the sensitivity using: 1) a dynamic forecast incorporating expected growth in the balance sheet, and 2) a static forecast where the current balance sheet is held constant.

Table 16 Estimated % Change in Net Interest Income Over 12 Months

	Estimated % Change in Rate Sensitive Earnings at Risk (EAR) Over 12 Months			
	Dynamic Forecast March 31, 2018	Static Forecast March 31, 2018	Dynamic Forecast December 31, 2017	Static Forecast December 31, 2017
Instantaneous Rate Change				
100 bp increase in interest rates	2.6%	1.7%	2.5%	2.7%
200 bp increase in interest rates	5.0%	3.3%	4.6%	4.9%

At March 31, 2018, the MVE profile indicates a decline in net balance sheet value due to instantaneous upward changes in rates.

Table 17 Market Value of Equity Sensitivity

	March 31, 2018	December 31, 2017
Instantaneous Rate Change		
100 bp increase in interest rates	(3.4)%	(3.1)%
200 bp increase in interest rates	(6.9)%	(6.7)%

While an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under an extremely adverse scenario, the Corporation believes that a gradual shift in interest rates would have a much more modest impact. Since MVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in MVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Further, MVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates.

The above NII, EAR, and MVE measures do not include all actions that management may undertake to manage this risk in response to anticipated changes in interest rates.

Contractual Obligations, Commitments, Off-Balance Sheet Arrangements, and Contingent Liabilities

Table 18 Contractual Obligations and Other Commitments

March 31, 2018	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
			($ in Thousands)		
Time deposits	$ 1,893,417	$ 643,818	$ 138,198	$ 1,939	$ 2,677,372
Short-term funding	2,146,374	—	—	—	2,146,374
Long-term funding	1,500,010	499,987	150,451	1,082,890	3,233,338
Operating leases	9,815	18,572	13,881	22,447	64,715
Commitments to extend credit	4,589,376	2,654,980	1,381,952	167,822	8,794,130
Total	$10,138,992	$3,817,357	$1,684,482	$1,275,098	$16,915,929

The Corporation utilizes a variety of financial instruments in the normal course of business to meet the financial needs of its customers and to manage its own exposure to fluctuations in interest rates. These financial instruments include lending-related commitments and derivative instruments. A discussion of the Corporation’s derivative instruments at March 31, 2018, is included in Note 10, Derivative and Hedging Activities, of the notes to consolidated financial statements. A discussion of the Corporation’s lending-related commitments is included in Note 12, Commitments, Off-Balance Sheet Arrangements, Legal Proceedings and Regulatory Matters, of the notes to consolidated financial statements. See also Note 9, Short and Long-Term Funding, of the notes to consolidated financial statements for additional information on the Corporation’s short-term and long-term funding.

Table 18 summarizes significant contractual obligations and other commitments at March 31, 2018, at those amounts contractually due to the recipient, including any premiums or discounts, hedge basis adjustments, or other similar carrying value adjustments.

Capital

Management actively reviews capital strategies for the Corporation and each of its subsidiaries in light of perceived business risks, future growth opportunities, industry standards, and compliance with regulatory requirements. The assessment of overall capital adequacy depends on a variety of factors, including asset quality, liquidity, stability of earnings, changing competitive forces, economic condition in markets served, and strength of management. At March 31, 2018, the capital ratios of the Corporation and its banking subsidiaries were in excess of regulatory minimum requirements. The Corporation's capital ratios are summarized in Table 19.

Table 19 Capital Ratios

	1Q18	4Q17	3Q17	2Q17	1Q17
			($ in Thousands)		
Risk-based Capital (a)					
Common equity Tier 1	$ 2,473,677	$ 2,171,508	$ 2,144,325	$ 2,130,238	$ 2,085,309
Tier 1 capital	2,632,912	2,331,245	2,304,037	2,289,831	2,244,863
Total capital	3,164,362	2,848,851	2,823,097	2,808,049	2,757,310
Total risk-weighted assets	23,535,483	21,544,463	21,657,286	21,590,134	21,128,672
Common equity Tier 1 capital ratio	10.51%	10.08%	9.90%	9.87%	9.87%
Tier 1 capital ratio	11.19%	10.82%	10.64%	10.61%	10.62%
Total capital ratio	13.45%	13.22%	13.04%	13.01%	13.05%
Tier 1 leverage ratio	8.48%	8.02%	7.93%	8.09%	8.05%
Selected Equity and Performance Ratios					
Total stockholders' equity / assets	11.13%	10.62%	10.66%	10.72%	10.80%
Dividend payout ratio (b)	36.59%	45.16%	29.27%	33.33%	33.33%

(a) The Federal Reserve establishes regulatory capital requirements, including well-capitalized standards for the Corporation. The Corporation follows Basel III, subject to certain transition provisions. These regulatory capital measurements are used by management, regulators, investors, and analysts to assess, monitor and compare the quality and composition of our capital with the capital of other financial services companies. See Table 20 for a reconciliation of common equity Tier 1 and average common equity Tier 1.

(b) Ratio is based upon basic earnings per common share.

Non-GAAP Measures

Table 20 Non-GAAP Measures

	Quarter Ended				
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
			($ in Thousands)		
Selected Equity and Performance Ratios (a) (b)					
Tangible common equity / tangible assets	7.22%	7.07%	7.08%	7.11%	7.10%
Return on average equity	7.96%	6.17%	8.10%	7.35%	7.31%
Return on average tangible common equity	11.99%	9.16%	12.20%	11.06%	11.07%
Return on average Common equity Tier 1	11.39%	8.77%	11.73%	10.63%	10.61%
Return on average assets	0.88%	0.66%	0.86%	0.80%	0.79%
Average stockholders' equity / average assets	11.00%	10.73%	10.63%	10.84%	10.85%
Tangible Common Equity and Common Equity Tier 1 Reconciliation (a) (b)					
Common equity	$ 3,552,846	$ 3,077,514	$ 3,043,672	$ 3,031,573	$ 2,984,865
Goodwill and other intangible assets, net	(1,232,870)	(991,819)	(986,086)	(986,536)	(987,032)
Tangible common equity	2,319,977	2,085,695	2,057,586	2,045,037	1,997,833
Less: Accumulated other comprehensive income / loss	107,673	62,758	54,288	53,470	56,344
Less: Deferred tax assets/deferred tax liabilities, net	46,027	23,055	32,451	31,731	31,132
Common equity Tier 1	$ 2,473,677	$ 2,171,508	$ 2,144,325	$ 2,130,238	$ 2,085,309
Tangible Assets Reconciliation (a)					
Total assets	$33,366,505	$ 30,483,594	$ 30,064,547	$29,769,025	$29,109,857
Goodwill and other intangible assets, net	(1,232,870)	(991,819)	(986,086)	(986,536)	(987,032)
Tangible assets	$32,133,636	$ 29,491,775	$ 29,078,461	$28,782,489	$28,122,825
Average Tangible Common Equity and Average Common Equity Tier 1 Reconciliation (a) (b)					
Common equity	$ 3,377,388	$ 3,056,077	$ 3,024,918	$ 3,005,209	$ 2,963,462
Goodwill and other intangible assets, net	(1,107,503)	(991,955)	(986,342)	(986,826)	(987,135)
Tangible common equity	2,269,885	2,064,121	2,038,576	2,018,383	1,976,327
Less: Accumulated other comprehensive income / loss	89,105	61,937	49,164	50,148	54,234
Less: Deferred tax assets/deferred tax liabilities, net	30,943	29,386	31,935	31,294	31,188
Average common equity Tier 1	$ 2,389,933	$ 2,155,444	$ 2,119,675	$ 2,099,825	$ 2,061,749
Efficiency Ratio Reconciliation (c)					
Federal Reserve efficiency ratio	70.76%	66.93%	63.92%	66.69%	66.39%
Fully tax-equivalent adjustment	(0.66)%	(1.30)%	(1.21)%	(1.30)%	(1.30)%
Other intangible amortization	(0.51)%	(0.18)%	(0.16)%	(0.18)%	(0.20)%
Fully tax-equivalent efficiency ratio	69.60%	65.45%	62.55%	65.21%	64.89%

(a) The ratio tangible common equity to tangible assets excludes goodwill and other intangible assets, net, which is a non-GAAP financial measure. This financial measure has been included as it is considered to be a critical metric with which to analyze and evaluate financial condition and capital strength.

(b) The Federal Reserve establishes regulatory capital requirements, including well-capitalized standards for the Corporation. The Corporation follows Basel III, subject to certain transition provisions. These regulatory capital measurements are used by management, regulators, investors, and analysts to assess, monitor and compare the quality and composition of our capital with the capital of other financial services companies.

(c) The efficiency ratio as defined by the Federal Reserve guidance is noninterest expense (which includes the provision for unfunded commitments) divided by the sum of net interest income plus noninterest income, excluding investment securities gains / losses, net. The fully tax-equivalent efficiency ratio is noninterest expense (which includes the provision for unfunded commitments), excluding other intangible amortization, divided by the sum of fully tax-equivalent net interest income plus noninterest income, excluding investment securities gains / losses, net. Management believes the fully tax-equivalent efficiency ratio, which adjusts net interest income for the tax-favored status of certain loans and investment securities, to be the preferred industry measurement as it enhances the comparability of net interest income arising from taxable and tax-exempt sources.

See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, for additional information on the shares repurchased during the first quarter of 2018.

Sequential Quarter Results

The Corporation reported net income of $69 million for the first quarter of 2018, compared to net income of $50 million for the fourth quarter of 2017. Net income available to common equity was $67 million for the first quarter of 2018 or $0.41 for basic and $0.40 diluted earnings per common share. Comparatively, net income available to common equity for the fourth quarter of 2017 was $48 million, or net income of $0.31 for both basic and diluted earnings per common share, respectively (see Table 1).

Fully tax-equivalent net interest income for the first quarter of 2018 was $213 million, $20 million higher from the fourth quarter of 2017. The net interest margin in the first quarter of 2018 was up 13 bp, to 2.92%. Average earning assets increased $1.8 billion to $29.3 billion in the first quarter of 2018, with average loans up $1.2 billion, while average investments and other short-term investments were up $622 million. On the funding side, average interest-bearing deposits were up $1.5 billion, while noninterest-bearing demand deposits were down $56 million. Average short and long-term funding increased $371 million (see Table 2).

The provision for credit losses was zero for the first quarter of 2018, and the fourth quarter of 2017 (see Table 12). See discussion under sections: Provision for Credit Losses, Nonperforming Assets, and Allowance for Credit Losses.

Noninterest income for the first quarter of 2018 increased $6 million (7%) to $90 million versus the fourth quarter of 2017. Fee-based revenue increased $4 million (6%) from the fourth quarter of 2017, primarily due to insurance commissions and fees. Mortgage banking, net, was up $3 million (101%) from the fourth quarter of 2017 as the Corporation resumed its historical practice of originating loans for sale in the secondary market.

Noninterest expense increased $31 million (17%) to $213 million. Personnel expense was $118 million for the first quarter of 2018, up $11 million (10%) from the fourth quarter of 2017. Occupancy expense increased $2 million (14%) from the fourth quarter of 2017. Legal and professional fees were $5 million, down $2 million (25%) from the fourth quarter of 2017. Bank Mutual acquisition related costs were $21 million for the first quarter of 2018.

For the first quarter of 2018, the Corporation recognized income tax expense of $18 million, compared to income tax expense of $40 million for the fourth quarter of 2017, primarily driven by the Tax Cut and Jobs Act signed into law on December 22, 2017. The effective tax rate was 20.43% and 44.34% for the first quarter of 2018 and the fourth quarter of 2017, respectively. See Income Taxes section for a detailed discussion on income taxes.

Comparable Quarter Results

The Corporation reported net income of $69 million for the first quarter of 2018, compared to $56 million for the first quarter of 2017. Net income available to common equity was $67 million for the first quarter of 2018, or $0.41 for basic earnings per common share. Comparatively, net income available to common equity for the first quarter of 2017 was $54 million, or $0.36 for basic earnings per common share (see Table 1).

Fully tax-equivalent net interest income for the first quarter of 2018 was $213 million, $27 million higher than the first quarter of 2017. The net interest margin between the comparable quarters was up 8 bp, to 2.92%, in the first quarter of 2018. Average earning assets increased $2.9 billion to $29.3 billion in the first quarter of 2018, with average loans increased $2.0 billion (predominantly due to the Bank Mutual acquisition). On the funding side, average interest-bearing deposits increased $2.1 billion, while noninterest-bearing demand deposits increased $112 million from the first quarter of 2017. Average short and long-term funding increased $643 million (see Table 2).

The provision for credit losses was zero for the first quarter of 2018, down $9 million from the first quarter of 2017. See discussion under sections: Provision for Credit Losses, Nonperforming Assets, and Allowance for Credit Losses.

Noninterest income for the first quarter of 2018 of $90 million was up $11 million (13%) compared to first quarter of 2017. Net mortgage banking income for the first quarter of 2018 was up $2 million (39%) compared to the first quarter of 2017. Brokerage commissions and fees was up $3 million (68%), primarily driven by increased investment advisory fees compared to the first quarter of 2017.

On a comparable quarter basis, noninterest expense increased $39 million (23%) to $213 million for the first quarter of 2018. Bank Mutual acquisition related costs were $21 million for the first quarter of 2018. Personnel expense was $118 million for the first quarter of 2018, up $11 million (10%) from the first quarter of 2017, primarily driven by the additional cost of Bank Mutual staff. Technology expense increased $3 million (24%) to $18 million in the first quarter of 2018, driven by investments in technology solutions that meet evolving customer needs and improve operational efficiency.

The Corporation recognized income tax expense of $18 million for the first quarter of 2018, compared to income tax expense of $21 million for first quarter of 2017. The effective tax rate was 20.43% and 27.31% for the first quarter of 2018 and 2017, respectively. See Income Taxes section for a detailed discussion on income taxes.

Segment Review

As discussed in Note 15 Segment Reporting of the notes to consolidated financial statements, the Corporation’s reportable segments have been determined based upon its internal profitability reporting system, which is organized by strategic business unit. Certain strategic business units have been combined for segment information reporting purposes where the nature of the products and services, the type of customer, and the distribution of those products and services are similar. The reportable segments are Corporate and Commercial Specialty; Community, Consumer and Business; and Risk Management and Shared Services.

FTP is an important tool for managing the Corporation’s balance sheet structure and measuring risk-adjusted profitability. By appropriately allocating the cost of funding and contingent liquidity to business units, the FTP process improves product pricing, which influences the volume and terms of new business and helps to optimize the risk / reward profile of the balance sheet. This process helps align the Corporation’s funding and contingent liquidity risk with its risk appetite and complements broader liquidity and interest rate risk management programs. FTP methodologies are designed to promote more resilient, sustainable business models and centralize the management of funding and contingent liquidity risks. Through FTP, the Corporation transfers these risks to a central management function that can take advantage of natural off-sets, centralized hedging activities, and a broader view of these risks across business units.

Comparable Quarter Segment Review

The Corporate and Commercial Specialty segment had net income of $47 million for the first quarter of 2018, up $13 million from the comparable quarter in 2017. Segment revenue increased $7 million compared to first quarter of 2017, primarily due to growth in average loan balances and increases in the Federal Reserve interest rate. The credit provision decreased $1 million to $11 million for the first quarter of 2018. Average loan balances were $11.4 billion for the first quarter of 2018, up $625 million from an average balance of $10.8 billion for first quarter of 2017. Average deposit balances were $8.1 billion for the first quarter of 2018, up $1.6 billion from the comparable quarter of 2017. Average allocated capital increased $56 million to $1.2 billion for first quarter of 2018.

The Community, Consumer, and Business segment had net income of $36 million for the first quarter of 2018, up $14 million compared to first quarter of 2017. Segment revenue increased $24 million to $178 million for the first quarter of 2018, primarily due to a $15 million increase in net interest income and $9 million increase in noninterest income. Total noninterest expense for the first quarter of 2018 was $127 million, up $11 million from the comparable quarter of 2017, primarily due to an increase in personnel expense. Average loan balances were $10.1 billion for the first quarter of 2018, up $1.0 billion from the comparable quarter of 2017. Average deposits were $13.1 billion for the first quarter of 2018, up $1.8 billion from average deposits of $11.3 billion for the comparable quarter of 2017. Average allocated capital increased $56 million compared to the first quarter of 2017.

The Risk Management and Shared Services segment had a net loss of $14 million for the first quarter of 2018. Segment revenue was $14 million in the first quarter of 2018, an increase of $9 million from the comparable quarter of 2017, primarily due to an increase in net interest income. The credit provision decreased $8 million. Total noninterest expense for the first quarter of 2018 was $47 million, up $26 million from the comparable quarter of 2017, primarily driven by $21 million of acquisition related costs and certain unallocated expenses related to Bank Mutual shared services and operations prior to system conversion in late June 2018. Average deposits were $2.5 billion for first quarter of 2018, down $1.2 billion versus the comparable quarter of 2017 primarily driven by a $1.2 billion decrease in network transaction deposits. Average allocated capital increased $215 million to $586 million for first quarter of 2018.

Critical Accounting Policies

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses, goodwill impairment assessment, mortgage servicing rights valuation, and income taxes. A discussion of these policies can be found in the Critical Accounting Policies section in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Corporation’s 2017 Annual Report on Form 10-K. There have been no changes in the Corporation’s application of critical accounting policies since December 31, 2017.

Future Accounting Pronouncements

New accounting policies adopted by the Corporation are discussed in Note 3 Summary of Significant Accounting Policies, of the notes to consolidated financial statements. The expected impact of accounting pronouncements recently issued or proposed but not yet required to be adopted are displayed in the table below.

Standard	Description	Date of adoption	Effect on financial statements
ASU 2017-04 Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	The FASB issued an amendment to simplify the subsequent quantitative measurement of goodwill by eliminating step two from the goodwill impairment test. Instead, an entity will perform only step one of its quantitative goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and then recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity will still have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative step one impairment test is necessary. This amendment is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Entities should apply the amendment prospectively. Early adoption is permitted, including in an interim period, for impairment tests performed after January 1, 2017. The Corporation has not had to perform a step one quantitative analysis since 2012, which concluded no impairment was necessary.	2nd Quarter 2020, consistent with the Corporation's annual impairment test in May of each year.	The Corporation is currently evaluating the impact on its results of operations, financial position, and liquidity.
ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The FASB issued an amendment to replace the current incurred loss impairment methodology. Under the new guidance, entities will be required to measure expected credit losses by utilizing forward-looking information to assess an entity's allowance for credit losses. The guidance also requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. This amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities should apply the amendment by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted.	1st Quarter 2020	The Corporation is currently evaluating the impact on its results of operations, financial position, and liquidity. A cross-functional team has been established to assess and implement the standard.
ASU 2016-02 Leases (Topic 842)	The FASB issued an amendment to provide transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This amendment will require lessees to recognize the following for all leases (with the exception of short-term 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; and 2) a right-of-use 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. This amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. Early adoption is permitted. ASU 2018-01 amendment permits an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842.	1st Quarter 2019	The Corporation is currently evaluating the impact on its results of operations, financial position, and liquidity. A cross-functional team has been established to assess and implement the standard.

Recent Developments

On April 24, 2018, the Corporation's Board of Directors declared a regular quarterly cash dividend of $0.15 per common share, payable on June 15, 2018, to shareholders of record at the close of business on June 1, 2018. The Board of Directors also declared a regular quarterly cash dividend of $0.3828125 per depositary share on Associated's 6.125% Series C Perpetual Preferred Stock, payable on June 15, 2018, to shareholders of record at the close of business on June 1, 2018. The Board of Directors also declared a regular quarterly cash dividend of $0.3359375 per depositary share on Associated's 5.375% Series D Perpetual Preferred Stock, payable on June 15, 2018, to shareholders of record at the close of business on June 1, 2018.

In addition, the Board of Directors authorized the repurchase of up to $100 million of the Corporation's common stock. This repurchase authorization is in addition to the authority remaining under the previous program. Repurchases under such programs are subject to regulatory limitations and may occur from time to time in open market purchases, block transactions, accelerated share repurchase programs or similar facilities.

In April 2018, the Corporation entered into two pay fix and receive floating rate interest rate swaps totaling $250 million notional amount. Combining these swaps with the $250 million notional amount of swaps entered into in the first quarter of 2018, the Corporation as of April 2018 has a total of $500 million notional amount pay fix and receive floating rate interest rate swaps with the objective of synthetically converting fixed rate assets to floating rate assets that will benefit the Corporation in a rising rate environment.

ITEM 6.

Exhibits

(a) Exhibits:

Exhibit (31.1), Certification Under Section 302 of Sarbanes-Oxley by Philip B. Flynn, Chief Executive Officer.

Exhibit (31.2), Certification Under Section 302 of Sarbanes-Oxley by Christopher J. Del Moral-Niles, Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ASSOCIATED BANC-CORP
(Registrant)

Date: May 4, 2018

/s/ Philip B. Flynn
Philip B. Flynn
President and Chief Executive Officer

Date: May 4, 2018

/s/ Christopher J. Del Moral – Niles
Christopher J. Del Moral-Niles
Chief Financial Officer

Date: May 4, 2018

/s/ Tammy C. Stadler
Tammy C. Stadler
Principal Accounting Officer

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

I, Philip B. Flynn, certify that:

1. I have reviewed this Amendment No. 1 to quarterly report on Form 10-Q of Associated Banc-Corp; and

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Date: May 4, 2018

/s/ Philip B. Flynn
Philip B. Flynn
President and Chief Executive Officer

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

I, Christopher J. Del Moral-Niles, certify that:

1. I have reviewed this Amendment No. 1 to quarterly report on Form 10-Q of Associated Banc-Corp; and

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Date: May 4, 2018

/s/ Christopher J. Del Moral-Niles
Christopher J. Del Moral-Niles
Chief Financial Officer

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