WESTERN ALLIANCE BANCORPORATION
Form 10-Q
October 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from__________ to __________
Commission file number: 001-32550

WESTERN ALLIANCE BANCORPORATION
(Exact name of registrant as specified in its charter)

Delaware	88-0365922
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One E. Washington Street Suite 1400, Phoenix, AZ	85004
(Address of principal executive offices)	(Zip Code)

(602) 389-3500
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

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

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

As of October 26, 2018, Western Alliance Bancorporation had 105,858,808 shares of common stock outstanding.

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PART I

GLOSSARY OF ENTITIES AND TERMS

The acronyms and abbreviations identified below are used in various sections of this Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Item 2 and the Consolidated Financial Statements and the Notes to Unaudited Consolidated Financial Statements in Item I of this Form 10-Q.

ENTITIES / DIVISIONS:

ABA	Alliance Bank of Arizona	HOA Services	Homeowner Associations Services
BON	Bank of Nevada	LVSP	Las Vegas Sunset Properties
Bridge	Bridge Bank	TPB	Torrey Pines Bank
Company	Western Alliance Bancorporation and subsidiaries	WA PWI	Western Alliance Public Welfare Investments, LLC
CSI	CS Insurance Company	WAB or Bank	Western Alliance Bank
FIB	First Independent Bank	WABT	Western Alliance Business Trust
HFF	Hotel Franchise Finance	WAL or Parent	Western Alliance Bancorporation

TERMS:

AFS	Available-for-Sale	GNMA	Government National Mortgage Association
ALCO	Asset and Liability Management Committee	GSE	Government-Sponsored Enterprise
AOCI	Accumulated Other Comprehensive Income	HFI	Held for Investment
ASC	Accounting Standards Codification	HTM	Held-to-Maturity
ASU	Accounting Standards Update	ICS	Insured Cash Sweep Service
Basel Committee	Basel Committee on Banking Supervision	IRC	Internal Revenue Code
Basel III	Banking Supervision's December 2010 final capital framework	ISDA	International Swaps and Derivatives Association
BOD	Board of Directors	LIBOR	London Interbank Offered Rate
CDARS	Certificate Deposit Account Registry Service	LIHTC	Low-Income Housing Tax Credit
CDO	Collateralized Debt Obligation	MBS	Mortgage-Backed Securities
CEO	Chief Executive Officer	NBL	National Business Lines
CFO	Chief Financial Officer	NOL	Net Operating Loss
CRA	Community Reinvestment Act	NPV	Net Present Value
CRE	Commercial Real Estate	OCC	Office of the Comptroller of the Currency
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	OCI	Other Comprehensive Income
EGRRCPA	The Economic Growth, Regulatory Relief, and Consumer Protection Act	OREO	Other Real Estate Owned
EPS	Earnings per share	OTTI	Other-than-Temporary Impairment

EVE	Economic Value of Equity	PCI	Purchased Credit Impaired
Exchange Act	Securities Exchange Act of 1934, as amended	SBA	Small Business Administration
FASB	Financial Accounting Standards Board	SBIC	Small Business Investment Company
FDIC	Federal Deposit Insurance Corporation	SEC	Securities and Exchange Commission
FHLB	Federal Home Loan Bank	SERP	Supplemental Executive Retirement Plan
FHLMC	Federal Home Loan Mortgage Corporation	TCJA	Tax Cuts and Jobs Act
FNMA	Federal National Mortgage Association	TDR	Troubled Debt Restructuring
FRB	Federal Reserve Bank	TEB	Tax Equivalent Basis
FVO	Fair Value Option	XBRL	eXtensible Business Reporting Language
GAAP	U.S. Generally Accepted Accounting Principles		

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Item 1. Financial Statements
WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017
	(in thousands, except shares and per share amounts)	
Assets:		
Cash and due from banks	$148,545	$181,191
Interest-bearing deposits in other financial institutions	482,019	235,577
Federal funds sold	70,000	—
Cash, cash equivalents, and restricted cash	700,564	416,768
Money market investments	5	—
Investment securities - AFS, at fair value; amortized cost of $3,211,440 at September 30, 2018 and $3,515,401 at December 31, 2017	3,107,076	3,499,519
Investment securities - HTM, at amortized cost; fair value of $279,033 at September 30, 2018 and $256,314 at December 31, 2017	288,290	255,050
Investment securities - equity	172,294	—
Investments in restricted stock, at cost	65,993	65,785
Loans - HFI, net of deferred loan fees and costs	16,732,765	15,093,935
Less: allowance for credit losses	(150,011)	(140,050)
Net loans held for investment	16,582,754	14,953,885
Premises and equipment, net	119,211	118,719
Other assets acquired through foreclosure, net	20,028	28,540
Bank owned life insurance	169,162	167,764
Goodwill	289,895	289,895
Other intangible assets, net	9,658	10,853
Deferred tax assets, net	43,483	5,780
Investments in LIHTC	295,116	267,023
Other assets	312,618	249,504
Total assets	$22,176,147	$20,329,085
Liabilities:		
Deposits:		
Non-interest-bearing demand	$8,014,715	$7,433,962
Interest-bearing	10,893,865	9,538,570
Total deposits	18,908,580	16,972,532
Customer repurchase agreements	20,969	26,017
Other borrowings	—	390,000
Qualifying debt	359,082	376,905
Other liabilities	399,123	333,933
Total liabilities	19,687,754	18,099,387
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock - par value $0.0001; 200,000,000 authorized; 107,633,006 shares issued at September 30, 2018 and 107,057,520 at December 31, 2017	10	10
Treasury stock, at cost (1,771,509 shares at September 30, 2018 and 1,570,155 shares at December 31, 2017)	(52,035)	(40,173)

Additional paid in capital	1,444,555	1,424,540
Accumulated other comprehensive (loss) income	(70,363)	(3,145)
Retained earnings	1,166,226	848,466
Total stockholders’ equity	2,488,393	2,229,698
Total liabilities and stockholders’ equity	$22,176,147	$20,329,085

See accompanying Notes to Unaudited Consolidated Financial Statements.

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	$234,709	$191,096	$662,703	$547,306
Investment securities	26,100	22,152	77,847	58,010
Dividends	1,831	2,005	5,506	6,154
Other	2,576	2,583	5,459	5,584
Total interest income	265,216	217,836	751,515	617,054
Interest expense:				
Deposits	25,266	11,449	59,288	29,506
Other borrowings	90	84	3,352	333
Qualifying debt	5,794	4,708	16,458	13,539
Other	28	12	51	41
Total interest expense	31,178	16,253	79,149	43,419
Net interest income	234,038	201,583	672,366	573,635
Provision for credit losses	6,000	5,000	17,000	12,250
Net interest income after provision for credit losses	228,038	196,583	655,366	561,385
Non-interest income:				
Service charges and fees	5,267	5,248	16,684	15,189
Card income	2,138	1,509	6,143	4,517
Income from equity investments	1,440	967	5,417	2,977
Lending related income and gains (losses) on sale of loans, net	1,422	97	3,447	746
Foreign currency income	1,092	756	3,475	2,630
Income from bank owned life insurance	868	975	2,963	2,896
(Loss) gain on sales of investment securities, net	(7,232)	319	(7,232)	907
Unrealized (losses) gains on assets measured at fair value, net	(1,212)	—	(2,971)	(1)
Other income	635	585	1,579	1,795
Total non-interest income	4,418	10,456	29,505	31,656
Non-interest expense:				
Salaries and employee benefits	64,762	52,747	188,680	156,640
Legal, professional, and directors' fees	7,907	6,038	21,856	23,324
Occupancy	7,406	7,507	21,671	21,328
Data processing	5,895	4,524	16,688	14,163
Deposit costs	4,848	2,904	11,888	6,778
Insurance	3,712	3,538	11,466	10,355
Business development	1,381	1,439	4,523	4,949
Card expense	1,282	966	3,305	2,558
Loan and repossessed asset expenses	1,230	1,263	2,830	3,639
Marketing	687	776	2,429	2,628
Intangible amortization	398	489	1,195	1,666
Net (gain) loss on sales / valuations of repossessed and other assets	(67)	266	(1,474)	(46)
Other expense	14,400	6,839	29,481	17,561
Total non-interest expense	113,841	89,296	314,538	265,543
Income before provision for income taxes	118,615	117,743	370,333	327,498
Income tax expense	7,492	34,899	53,631	91,352

Net income	$111,123	$82,844	$316,702	$236,146
Earnings per share:				
Basic	$1.06	$0.79	$3.03	$2.27
Diluted	1.05	0.79	3.00	2.25
Weighted average number of common shares outstanding:				
Basic	104,768	104,221	104,664	104,124
Diluted	105,448	104,942	105,398	104,941

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Net income	$111,123	$82,844	$316,702	$236,146
Other comprehensive (loss) income, net:				
Unrealized (loss) gain on AFS securities, net of tax effect of $7,337, $(689), $23,438, and $(9,894), respectively	(22,462)	1,116	(71,765)	15,947
Unrealized (loss) gain on SERP, net of tax effect of $4, $(71), $10, and $(93), respectively	(12)	114	(35)	150
Unrealized (loss) gain on junior subordinated debt, net of tax effect of $661, $(394), $(61), and $1,649, respectively	(2,028)	641	186	(2,677)
Realized loss (gain) on sale of AFS securities included in income, net of tax effect of $(1,778), $122, $(1,778), and $346, respectively	5,454	(197)	5,454	(561)
Net other comprehensive (loss) income	(19,048)	1,674	(66,160)	12,859
Comprehensive income	$92,075	$84,518	$250,542	$249,005

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid in Capital	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
	(in thousands)						
Balance, December 31, 2016	105,071	$ 10	$1,400,140	$(26,362)	$ (4,695)	$522,436	$1,891,529
Balance, January 1, 2017 (1)	105,071	10	1,400,140	(26,362)	(4,695)	522,974	1,892,067
Net income	—	—	—	—	—	236,146	236,146
Exercise of stock options	36	—	786	—	—	—	786
Restricted stock, performance stock units, and other grants, net	653	—	17,909	—	—	—	17,909
Restricted stock surrendered (2)	(267)	—	—	(13,642)	—	—	(13,642)
Other comprehensive income, net	—	—	—	—	12,859	—	12,859
Balance, September 30, 2017	105,493	$ 10	$1,418,835	$(40,004)	$ 8,164	$759,120	$2,146,125
Balance, December 31, 2017	105,487	$ 10	$1,424,540	$(40,173)	$ (3,145)	$848,466	$2,229,698
Balance, January 1, 2018 (3)	105,487	10	1,424,540	(40,173)	(4,203)	849,524	2,229,698
Net income	—	—	—	—	—	316,702	316,702
Exercise of stock options	21	—	534	—	—	—	534
Restricted stock, performance stock unit, and other grants, net	554	—	19,481	—	—	—	19,481
Restricted stock surrendered (2)	(201)	—	—	(11,862)	—	—	(11,862)
Other comprehensive loss, net	—	—	—	—	(66,160)	—	(66,160)
Balance, September 30, 2018	105,861	$ 10	$1,444,555	$(52,035)	$ (70,363)	$1,166,226	$2,488,393

(1) As adjusted for adoption of ASU 2017-12. The cumulative effect of adoption of this guidance at January 1, 2017 resulted in an increase to retained earnings of $0.5 million and a corresponding increase to loans for the fair market value adjustment on the swaps.

(2) Share amounts represent Treasury Shares, see "Note 1. Summary of Significant Accounting Policies" for further discussion.

(3) As adjusted for adoption of ASU 2016-01 and ASU 2018-02. The cumulative effect of adoption of this guidance at January 1, 2018 resulted in an increase to retained earnings of $1.1 million and a corresponding decrease to accumulated other comprehensive income. See "Note 1. Summary of Significant Accounting Policies" for further discussion.

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$316,702	$236,146
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	17,000	12,250
Depreciation and amortization	10,460	9,956
Stock-based compensation	19,481	17,909
Deferred income taxes	(16,107)	3,371
Amortization of net premiums for investment securities	10,795	14,926
Amortization of tax credit investments	26,546	19,524
Accretion of fair market value adjustments on loans acquired from business combinations	(14,099)	(20,994)
Accretion and amortization of fair market value adjustments on other assets and liabilities acquired from business combinations	1,427	1,898
Income from bank owned life insurance	(2,963)	(2,896)
(Gains) / Losses on:		
Sales of investment securities	7,232	(907)
Assets measured at fair value, net	2,971	1
Sale of loans	(2,434)	117
Other assets acquired through foreclosure, net	(1,464)	(233)
Valuation adjustments of other repossessed assets, net	32	120
Sale of premises, equipment, and other assets, net	(42)	67
Changes in:		
Other assets	17,419	(12,958)
Other liabilities	3,324	(7,214)
Net cash provided by operating activities	$396,280	$271,083
Cash flows from investing activities:		
Investment securities - trading		
Proceeds from sales	$—	$994
Investment securities - AFS		
Purchases	(251,413)	(1,361,908)
Principal pay downs and maturities	329,958	370,231
Proceeds from sales	44,308	87,853
Investment securities - HTM		
Purchases	(34,275)	(62,489)
Principal pay downs and maturities	754	—
Equity securities		
Purchases	(71,727)	—
Reinvestment of dividends	(426)	—
Purchase of investment tax credits	(66,456)	(19,916)
Purchase of SBIC investments	(3,063)	—
(Purchase) sale of money market investments, net	(5)	(175)
Proceeds from bank owned life insurance	1,655	607
(Purchase) liquidation of restricted stock, net	(208)	(430)
Loan fundings and principal collections, net	(1,591,733)	(1,179,494)

Purchase of premises, equipment, and other assets, net	(8,319)	(7,644)
Proceeds from sale of other real estate owned and repossessed assets, net	8,793	20,748
Net cash used in investing activities	$(1,642,157)	$(2,151,623)

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	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Cash flows from financing activities:		
Net increase (decrease) in deposits	$1,936,048	$2,354,920
Net increase (decrease) in borrowings	(395,047)	(95,661)
Proceeds from exercise of common stock options	534	786
Cash paid for tax withholding on vested restricted stock	(11,862)	(13,642)
Net cash provided by financing activities	$1,529,673	$2,246,403
Net increase (decrease) in cash, cash equivalents, and restricted cash	283,796	365,863
Cash, cash equivalents, and restricted cash at beginning of period	416,768	284,491
Cash, cash equivalents, and restricted cash at end of period	$700,564	$650,354
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$81,247	$47,815
Income taxes	14,658	79,522
Non-cash operating, investing, and financing activity:		
Transfers to other assets acquired through foreclosure, net	5,744	1,812
Unfunded commitments originated	65,639	103,012
Change in unrealized (loss) gain on AFS securities, net of tax	(66,311)	15,386
Change in unrealized gain (loss) on junior subordinated debt, net of tax	186	(2,677)
Change in unfunded obligations	82,270	140,217
Non-cash charitable contribution	6,895	—

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of operation
WAL is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, international banking, and online banking products and services through its wholly-owned banking subsidiary, WAB.
WAB operates the following full-service banking divisions: ABA, BON, FIB, Bridge, and TPB. The Company also serves business customers through a national platform of specialized financial services. In addition, the Company has two non-bank subsidiaries, LVSP, which holds and manages certain OREO properties and a captive insurance company formed and licensed under the laws of the State of Arizona, CSI. CSI was established as part of the Company's overall enterprise risk management strategy.
Basis of presentation
The accounting and reporting policies of the Company are in accordance with GAAP and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in the Consolidated Financial Statements.
Use of estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates and judgments are ongoing and are based on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from those estimates and assumptions used in the Consolidated Financial Statements and related notes. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; estimated cash flows related to PCI loans; fair value determinations related to acquisitions and certain assets and liabilities carried at fair value; and accounting for income taxes.
Principles of consolidation
As of September 30, 2018, WAL has the following significant wholly-owned subsidiaries: WAB, LVSP, and eight unconsolidated subsidiaries used as business trusts in connection with the issuance of trust-preferred securities.
The Bank has the following significant wholly-owned subsidiaries: WABT, which holds certain investment securities, municipal and nonprofit loans, and leases; WA PWI, which holds certain limited partnerships invested primarily in low income housing tax credits and small business investment corporations; and BW Real Estate, Inc., which operates as a real estate investment trust and holds certain of WAB's real estate loans and related securities.
The Company does not have any other significant entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.
Reclassifications
Certain amounts reported in prior periods may have been reclassified in the Consolidated Financial Statements to conform to the current presentation. The reclassifications have no effect on net income or stockholders’ equity as previously reported.

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Interim financial information

The accompanying Unaudited Consolidated Financial Statements as of and for the three and nine months ended September 30, 2018 and 2017 have been prepared in condensed format and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to the Company's audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal, recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the Company's audited Consolidated Financial Statements.

Investment securities

Investment securities include debt securities and equity securities. Debt securities may be classified as HTM, AFS, or measured at fair value. The appropriate classification is initially decided at the time of purchase. Securities classified as HTM are those debt securities that the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or general economic conditions. These securities are carried at amortized cost. The sale of an HTM security within three months of its maturity date or after the majority of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities classified as AFS or trading securities are reported as an asset in the Consolidated Balance Sheet at their estimated fair value. As the fair value of AFS debt securities changes, the changes are reported net of income tax as an element of OCI, except for other-than-temporarily-impaired securities. When AFS debt securities are sold, the unrealized gain or loss is reclassified from OCI to non-interest income. The changes in the fair values of trading securities are reported in non-interest income. Securities classified as AFS are securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company’s assets and liabilities, liquidity needs, decline in credit quality, and regulatory capital considerations.

For periods prior to January 1, 2018, equity securities were classified as AFS and reported at fair value with unrealized gains and losses included as a separate component of AOCI, net of tax. Upon adoption of ASU 2016-01, the fair value changes in equity securities are recognized as part of non-interest income, see "Recently adopted accounting guidance" below for further discussion.

Interest income is recognized based on the coupon rate and increased by accretion of discounts earned or decreased by the amortization of premiums paid over the contractual life of the security, adjusted for prepayment estimates, using the interest method.

In estimating whether there are any OTTI losses, management considers the 1) length of time and the extent to which the fair value has been less than amortized cost; 2) financial condition and near term prospects of the issuer; 3) impact of changes in market interest rates; and 4) intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value and whether it is not more likely than not the Company would be required to sell the security.

Declines in the fair value of individual AFS securities that are deemed to be other-than-temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings; and 2) interest rate, market, or other factors is recognized in other comprehensive income or loss.

For individual debt securities where the Company either intends to sell the security or more likely than not will not recover all of its amortized cost, the OTTI is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date. For individual debt securities for which a credit loss

has been recognized in earnings, interest accruals and amortization and accretion of premiums and discounts are suspended when the credit loss is recognized. Interest received after accruals have been suspended is recognized on a cash basis.

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Restricted stock

WAB is a member of the Federal Reserve System and, as part of its membership, is required to maintain stock in the FRB in a specified ratio to its capital. In addition, WAB is a member of the FHLB system and, accordingly, maintains an investment in capital stock of the FHLB based on the borrowing capacity used. The Bank also maintains an investment in its primary correspondent bank. All of these investments are considered equity securities with no actively traded market. Therefore, the shares are considered restricted investment securities. These investments are carried at cost, which is equal to the value at which they may be redeemed. The dividend income received from the stock is reported in interest income. The Company conducts a periodic review and evaluation of its restricted stock to determine if any impairment exists. No impairment has been recorded to date.

Loans, held for investment

The Company generally holds loans for investment and has the intent and ability to hold loans until their maturity. Therefore, they are reported at book value. Net loans are stated at the amount of unpaid principal, adjusted for net deferred fees and costs, purchase accounting fair value adjustments, and an allowance for credit losses. In addition, the book values of loans subject to a fair value hedge are adjusted for changes in value attributable to the effective portion of the hedged benchmark interest rate risk.

The Company may also acquire loans through a business combination. These acquired loans are recorded at estimated fair value on the date of purchase, which is comprised of unpaid principal adjusted for estimated credit losses and interest rate fair value adjustments. Loans are evaluated individually at the acquisition date to determine if there has been credit deterioration since origination. Such loans may then be aggregated and accounted for as a pool of loans based on common characteristics. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company’s estimate of undiscounted cash flows expected to be collected over the Company’s initial investment in the loan. The excess of contractual cash flows over the cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan’s yield over the remaining life. Subsequent decreases to cash flows expected to be collected are recognized as impairment. The Company may not carry over or create a valuation allowance in the initial accounting for loans acquired under these circumstances. For purchased loans that are not deemed impaired at the acquisition date, fair value adjustments attributable to both credit and interest rates are accreted (or amortized) over the contractual life of the individual loan. For additional information, see "Note 3. Loans, Leases and Allowance for Credit Losses" of these Notes to Unaudited Consolidated Financial Statements.

Loan fees collected for the origination of loans less direct loan origination costs (net deferred loan fees) are amortized over the contractual life of the loan through interest income. If a loan has scheduled payments, the amortization of the net deferred loan fee is calculated using the interest method over the contractual life of the loan. If a loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer’s unused line of credit and fees related to standby letters of credit are recognized over the commitment period. When loans are repaid, any remaining unamortized balances of premiums, discounts, or net deferred fees are recognized as interest income.

Non-accrual loans: When a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. The Company ceases accruing interest income when the loan has become delinquent by more than 90 days or when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if the loans are well secured by collateral and in the process of collection.

For all loan types, when a loan is placed on non-accrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed, and the Company makes a loan-level decision to apply either the cash basis or cost recovery method. The Company recognizes income on a cash basis only for those non-accrual loans for which the collection of the remaining principal balance is not in doubt. Under the cost recovery method, subsequent payments received from the customer are applied to principal and generally no further interest

income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required.

Impaired loans: A loan is identified as impaired when it is no longer probable that interest and principal will be collected according to the contractual terms of the original loan agreement. Generally, impaired loans are classified as non-accrual. However, in certain instances, impaired loans may continue on an accrual basis, if full repayment of all principal and interest is expected and the loan is both well secured and in the process of collection. Impaired loans are measured for reserve requirements in accordance with ASC 310, Receivables, based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the

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collateral less applicable disposition costs if the loan is collateral dependent. The amount of an impairment reserve, if any, and any subsequent changes are recorded as a provision for credit losses. Losses are recorded as a charge-off when losses are confirmed. In addition to management's internal loan review process, regulators may from time to time direct the Company to modify loan grades, loan impairment calculations, or loan impairment methodology.

Troubled Debt Restructured Loans: A TDR loan is a loan on which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms that have been modified or restructured due to a borrower's financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, or deferral of interest payments. A TDR loan is also considered impaired. A TDR loan may be returned to accrual status when the loan is brought current, has performed in accordance with the contractual restructured terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual restructured principal and interest is no longer in doubt. However, such loans continue to be considered impaired. Consistent with regulatory guidance, a TDR loan that is subsequently modified in another restructuring agreement but has shown sustained performance and classification as a TDR, will be removed from TDR status provided that the modified terms were market-based at the time of modification.

Allowance for credit losses

Credit risk is inherent in the business of extending loans and leases to borrowers, for which the Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through a provision for credit losses recorded to expense. Loans are charged against the allowance for credit losses when management believes that the contractual principal or interest will not be collected. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount believed adequate to absorb estimated probable losses on existing loans that may become uncollectable, based on evaluation of the collectability of loans and prior credit loss experience, together with other factors. The Company formally re-evaluates and establishes the appropriate level of the allowance for credit losses on a quarterly basis.

The allowance consists of specific and general components. The specific allowance applies to impaired loans. For impaired collateral dependent loans, the reserve is calculated based on the collateral value, net of estimated disposition costs. Generally, the Company obtains independent collateral valuation analysis for each loan every twelve months. Loans not collateral dependent are evaluated based on the expected future cash flows discounted at the original contractual interest rate.

The general allowance covers all non-impaired loans and incorporates several quantitative and qualitative factors, which are used for all of the Company's portfolio segments. Quantitative factors include company-specific, ten-year historical net charge-offs stratified by loans with similar characteristics. Qualitative factors include: 1) levels of and trends in delinquencies and impaired loans; 2) levels of and trends in charge-offs and recoveries; 3) trends in volume and terms of loans; 4) changes in underwriting standards or lending policies; 5) experience, ability, depth of lending staff; 6) national and local economic trends and conditions; 7) changes in credit concentrations; 8) out-of-market exposures; 9) changes in quality of loan review system; and 10) changes in the value of underlying collateral.

Due to the credit concentration of the Company's loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Arizona, Nevada, and California. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, regulators, as an integral part of their examination processes, periodically review the Bank's allowance for credit losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examination. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

Goodwill and other intangible assets

The Company records as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. The Company performs its annual goodwill and intangibles impairment tests as of October 1 each year, or more often if events or circumstances indicate that the carrying value

may not be recoverable. The Company can first elect to assess, through qualitative factors, whether it is more likely than not that goodwill is impaired. If the qualitative assessment indicates potential impairment, a quantitative impairment test is necessary. If, based on the quantitative test, a reporting unit's carrying amount exceeds its fair value, a goodwill impairment charge for this difference is recorded to current period earnings as non-interest expense. The Company’s intangible assets consist primarily of core deposit intangible assets that are amortized over periods ranging from 5 to 10 years. The Company considers the remaining useful lives of its core deposit intangible assets each reporting period, as required by ASC 350, Intangibles—Goodwill and Other, to determine whether events and circumstances warrant a

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revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life has changed, the remaining carrying amount of the intangible asset is amortized prospectively over the revised remaining useful life. The Company has not revised its estimates of the useful lives of its core deposit intangibles during the three and nine months ended September 30, 2018 and 2017.

Other assets acquired through foreclosure

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily repossessed assets formerly leased) are classified as OREO and other repossessed property and are initially reported at fair value of the asset less estimated selling costs. Subsequent adjustments are based on the lower of carrying value or fair value less estimated costs to sell the property. Costs related to the development or improvement of the assets are capitalized and costs related to holding the assets are charged to non-interest expense. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances.

Treasury shares

The Company separately presents treasury shares, which represent shares surrendered to the Company equal in value to the statutory payroll tax withholding obligations arising from the vesting of employee restricted stock awards. Treasury shares are carried at cost.

Derivative financial instruments

The Company uses interest-rate swaps to mitigate interest-rate risk associated with changes to the fair value of certain fixed-rate financial instruments (fair value hedges).

The Company recognizes derivatives as assets or liabilities in the Consolidated Balance Sheet at their fair value in accordance with ASC 815, Derivatives and Hedging. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset or liability attributable to a particular risk, such as interest rate risk, are considered fair value hedges.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk are recorded in current-period earnings. Changes in the fair value of derivatives not considered to be highly effective in hedging the change in fair value of the hedged item are recognized in earnings as non-interest income during the period of the change.

The Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction after the derivative contract is executed. At inception, the Company performs a quantitative assessment to determine whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in the fair value of the hedged item. Retroactive effectiveness is assessed, as well as the continued expectation that the hedge will remain effective prospectively. After the initial quantitative assessment is performed, on a quarterly basis, the Company performs a qualitative hedge effectiveness assessment. This assessment takes into consideration any adverse developments related to the counterparty's risk of default and any negative events or circumstances that affect the factors that originally enabled the Company to assess that it could reasonably support, qualitatively, an expectation that the hedging relationship was and will continue to be highly effective. The Company discontinues hedge accounting prospectively when it is determined that a hedge is no longer highly effective. When hedge accounting is discontinued on a fair value hedge that no longer qualifies as an effective hedge, the derivative continues to be reported at fair value in the Consolidated Balance Sheet, but the carrying amount of the hedged item is no longer adjusted for future changes in fair value. The adjustment to the carrying amount of the hedged item that existed at the date hedge accounting is discontinued is amortized over the remaining life of the hedged item into earnings.

Derivative instruments that are not designated as hedges, so called free-standing derivatives, are reported in the Consolidated Balance Sheet at fair value and the changes in fair value are recognized in earnings as non-interest income during the period of change.

The Company may in the normal course of business purchase a financial instrument or originate a loan that contains an embedded derivative instrument. Upon purchasing the instrument or originating the loan, the Company assesses

whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host

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contract and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and carried at fair value. However, in cases where the host contract is measured at fair value, with changes in fair value reported in current earnings, or the Company is unable to reliably identify and measure an embedded derivative for separation from its host contract, the entire contract is carried in the Consolidated Balance Sheet at fair value and is not designated as a hedging instrument.

Off-balance sheet instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instrument arrangements consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Financial Statements when they are funded. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheet. Losses would be experienced when the Company is contractually obligated to make a payment under these instruments and must seek repayment from the borrower, which may not be as financially sound in the current period as they were when the commitment was originally made.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

As with outstanding loans, the Company applies qualitative factors and utilization rates to its off-balance sheet obligations in determining an estimate of losses inherent in these contractual obligations. The estimate for credit losses on off-balance sheet instruments is included in other liabilities and the charge to income that establishes this liability is included in non-interest expense.

The Company also has off-balance sheet arrangements related to its derivative instruments. Derivative instruments are recognized in the Consolidated Financial Statements at fair value and their notional values are carried off-balance sheet. See "Note 9. Derivatives and Hedging Activities" of these Notes to Unaudited Consolidated Financial Statements for further discussion.

Business combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method, the acquiring entity in a business combination recognizes all of the acquired assets and assumed liabilities at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including identified intangible assets, exceeds the purchase price, a bargain purchase gain is recognized. Changes to estimated fair values from a business combination are recognized as an adjustment to goodwill during the measurement period and are recognized in the proper reporting period in which the adjustment amounts are determined. Results of operations of an acquired business are included in the Consolidated Income Statement from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Fair values of financial instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities. ASC 820, Fair Value Measurement, establishes a framework for measuring fair value and a three-level valuation hierarchy for disclosure of fair value measurement, as well as enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The Company uses various valuation approaches, including market, income, and/or cost approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect

the Company’s assumptions about the factors market participants would consider in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

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- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, prepayment speeds, volatilities, etc.) or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market.
- Level 3 - Valuation is generated from model-based techniques where one or more significant inputs are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models, and similar techniques.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who may purchase the asset or assume the liability rather than an entity-specific measure. When market assumptions are available, ASC 820 requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

ASC 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at September 30, 2018 and 2017. The estimated fair value amounts for September 30, 2018 and 2017 have been measured as of period-end, and have not been re-evaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

The information in "Note 13. Fair Value Accounting" in these Notes to Unaudited Consolidated Financial Statements should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company's disclosures and those of other companies or banks may not be meaningful.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash, cash equivalents, and restricted cash

The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks approximate their fair value.

Money market investments

The carrying amounts reported in the Consolidated Balance Sheets for money market investments approximate their fair value.

Investment securities

The fair values of CRA investments and exchange-listed preferred stock are based on quoted market prices and are categorized as Level 1 in the fair value hierarchy.

The fair values of debt securities were determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings, and prepayment speeds. Fair values determined using matrix pricing are generally categorized as Level 2 in the fair value hierarchy.

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Restricted stock

WAB is a member of the Federal Reserve System and the FHLB and, accordingly, maintains investments in the capital stock of the FRB and the FHLB. WAB also maintains an investment in its primary correspondent bank. These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of its restricted stock to determine if any impairment exists. The fair values of these investments have been categorized as Level 2 in the fair value hierarchy.

Loans

The fair value of loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality and adjustments that the Company believes a market participant would consider in determining fair value based on a third party independent valuation. As a result, the fair value for loans is categorized as Level 2 in the fair value hierarchy, excluding impaired loans which are categorized as Level 3.

Accrued interest receivable and payable

The carrying amounts reported in the Consolidated Balance Sheets for accrued interest receivable and payable approximate their fair value.

Derivative financial instruments

All derivatives are recognized in the Consolidated Balance Sheets at their fair value. The fair value for derivatives is determined based on market prices, broker-dealer quotations on similar products, or other related input parameters. As a result, the fair values have been categorized as Level 2 in the fair value hierarchy.

Deposits

The fair value disclosed for demand and savings deposits is by definition equal to the amount payable on demand at their reporting date (that is, their carrying amount), which the Company believes a market participant would consider in determining fair value. The carrying amount for variable-rate deposit accounts approximates their fair value. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits. The fair value measurement of the deposit liabilities is categorized as Level 2 in the fair value hierarchy.

FHLB advances and customer repurchase agreements

The fair values of the Company’s borrowings are estimated using discounted cash flow analyses, based on the market rates for similar types of borrowing arrangements. The FHLB advances and customer repurchase agreements have been categorized as Level 2 in the fair value hierarchy due to their short durations.

Subordinated debt

The fair value of subordinated debt is based on the market rate for the respective subordinated debt security. Subordinated debt has been categorized as Level 3 in the fair value hierarchy.

Junior subordinated debt

Junior subordinated debt is valued based on a discounted cash flow model which uses as inputs Treasury Bond rates and the 'BB' rated financial index. Junior subordinated debt has been categorized as Level 3 in the fair value hierarchy.

Off-balance sheet instruments

The fair value of the Company’s off-balance sheet instruments (lending commitments and standby letters of credit) is based on quoted fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, and the counterparties’ credit standing.

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Income taxes

The Company is subject to income taxes in the United States and files a consolidated federal income tax return with all of its subsidiaries, with the exception of BW Real Estate, Inc. Deferred income taxes are recorded to reflect the effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and their income tax bases using enacted tax rates that are expected to be in effect when the taxes are actually paid or recovered. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Net deferred tax assets are recorded to the extent that these assets will more-likely-than-not be realized. In making these determinations, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, tax planning strategies, projected future taxable income, and recent operating results. If it is determined that deferred income tax assets to be realized in the future are in excess of their net recorded amount, an adjustment to the valuation allowance will be recorded, which will reduce the Company's provision for income taxes.

A tax benefit from an unrecognized tax benefit may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including related appeals or litigation, based on technical merits. Income tax benefits must meet a more-likely-than-not recognition threshold at the effective date to be recognized.

Interest and penalties related to unrecognized tax benefits are recognized as part of the provision for income taxes in the Consolidated Income Statement. Accrued interest and penalties are included in the related tax liability line with other liabilities in the Consolidated Balance Sheet. See "Note 11. Income Taxes" of these Notes to Unaudited Consolidated Financial Statements for further discussion on income taxes.

Non-interest income

Non-interest income includes service charges and fees, income from equity investments, card income, foreign currency income, income from bank owned life insurance, lending related income, net gain or loss on sales of investment securities, net unrealized gains or losses on assets measured at fair value, and other income. Service charges and fees consist of fees earned from performance of account analysis, general account services, and other deposit account services. These fees are recognized as the related services are provided in accordance with ASC 606, Revenue from Contracts with Customers. Income from equity investments includes gains on equity warrant assets, SBIC equity income, and success fees. Card income includes fees earned from customer use of debit and credit cards, interchange income from merchants, and international charges. Card income is generally within the scope of ASC 310, Receivables; however, certain processing transactions for merchants, such as interchange fees, are within the scope of ASC 606. Foreign currency income represents fees earned on the differential between purchases and sales of foreign currency on behalf of the Company’s clients. Income from bank owned life insurance is accounted for in accordance with ASC 325, Investments - Other. Lending related income includes fees earned from gains or losses on the sale of loans, SBA income, and letter of credit fees. Gains and losses on the sale of loans and SBA income are recognized pursuant to ASC 860, Transfers and Servicing. Net unrealized gains or losses on assets measured at fair value represent fair value changes in equity securities and are accounted for in accordance with ASC 321, Investments - Equity Securities. Fees related to standby letters of credit are accounted for in accordance with ASC 440, Commitments. Other income includes operating lease income, which is recognized on a straight-line basis over the lease term in accordance with ASC 840, Leases. Net gain or loss on sales / valuations of repossessed and other assets is presented as a component of non-interest expense, but may also be presented as a component of non-interest income in the event that a net gain is recognized. Net gain or loss on sales of repossessed and other assets are accounted for in accordance with ASC 610, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets. See "Note 15. Revenue from Contracts with Customers" of these Notes to Unaudited Consolidated Financial Statements for further details related to the nature and timing of revenue recognition for non-interest income revenue streams within the scope of the new standard.

Recent accounting pronouncements

In February 2016, the FASB issued guidance within ASU 2016-02, Leases. The amendments in ASU 2016-02 to Topic 842, Leases, require lessees to recognize the lease assets and lease liabilities arising from operating leases in the statement of financial position, which will result in a gross up of assets and liabilities on the balance sheet. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. In July 2018, the FASB issued guidance within ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842) Targeted Improvements. The amendments within ASU 2018-10 clarify how to apply certain aspects of the new leases standard. The amendments address the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments, among other things. The amendments within ASU 2018-11 give entities another option for transition and provide lessors with a practical expedient. The transition option allows entities to continue to apply the legacy guidance in ASC 840, Leases, to prior periods, including disclosure requirements. Accordingly, under this transition approach, the modified retrospective transition method still applies; however, a cumulative-effect adjustment to the opening balance sheet of retained earnings is recognized in the period of adoption, rather than the earliest period presented. The practical expedient provides lessors with an option to not separate non-lease components from the associated lease components when certain criteria are met and requires them to account for the combined components in accordance with the new revenue standard if the associated non-lease components are the predominant components. The amendments in these ASUs are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management evaluated several lease software solutions and selected a software solution that it believes will be able to effectively facilitate the application of the new accounting requirements. The population of its leases that are within the scope of the new guidance has been finalized and largely relate to real estate leases. All key lease data has been gathered and input into the new application and management is in the process of validating this data.

In June 2016, the FASB issued guidance within ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The new standard significantly changes the impairment model for most financial assets that are measured at amortized cost, including off-balance sheet credit exposures, from an incurred loss model to an expected loss model. The amendments in ASU 2016-13 to Topic 326, Financial Instruments - Credit Losses, require that an organization measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU also requires enhanced disclosures, including qualitative and quantitative disclosures that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on AFS debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management has formed a Steering Committee and established an implementation team made up of subject matter experts across different functions within the Company, including Finance, Risk, Credit, and IT, that will facilitate all phases of planning and implementation of the new guidance. Under the direction of the Company's CECL Steering Committee and in partnership with its Enterprise Project Management Office, the implementation team is fully engaged with the implementation of its plan. The Company has identified its portfolio segments and made modeling choices that include both internally-developed models as well as vended solutions, with parallel testing of certain models expected to begin in early 2019. The team is also focused on updating its accounting policies and assessing its control framework to identify risks resulting from new processes, judgments and data.

In March 2017, the FASB issued guidance within ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities. The amendments in ASU 2017-08 to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs, shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date, which more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU

should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In June 2018, the FASB issued guidance within ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting. The amendments in ASU 2018-07 to Topic 718, Compensation-Stock Compensation, are intended to align the accounting for share-based payment awards issued to employees and nonemployees. Changes to the accounting for nonemployee awards include: 1) equity classified share-based payment awards issued to nonemployees will now be measured on the grant date, instead of the previous requirement to remeasure the awards through the performance completion date; 2) for

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performance conditions, compensation cost associated with the award will be recognized when achievement of the performance condition is probable, rather than upon achievement of the performance condition; and 3) the current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting will be eliminated, except for awards in the form of convertible instruments. The new guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company's share-based payment awards to nonemployees consist only of grants made to the Company's BOD as compensation solely related to the individual's role as a Director. As such, in accordance with ASC 718, the Company accounts for these share-based payment awards to its Directors in the same manner as share-based payment awards for its employees. Accordingly, the amendments in this guidance will not have an effect on the accounting for the Company's share-based payment awards to its Directors.

In July 2018, the FASB issued guidance within ASU 2018-09, Codification Improvements. The amendments in ASU 2018-09 are intended to clarify or correct unintended guidance in the FASB Codification and affect a wide variety of Topics in the Codification. The topics that are applicable to the Company include: 1) debt modifications and extinguishments; 2) stock compensation; and 3) derivatives and hedging. For debt modifications and extinguishments, the amendment clarifies that, in an early extinguishment of debt for which the fair value option has been elected, the net carrying amount of the extinguished debt is equal to its fair value at the reacquisition date, and upon extinguishment, the cumulative amount of the gain or loss on the extinguished debt that resulted from changes in instrument-specific credit risk should be presented in net income. The Company has junior subordinated debt that is recorded at fair value at each reporting period due to election of the FVO. Accordingly, if in the future, the Company chooses to repay this debt prior to its contractual maturity, this amendment would be applicable. For stock compensation, the amendment clarifies that excess tax benefits or tax deficiencies should be recognized in the period in which the amount of the tax deduction is determined, which is typically when an award is exercised (in the case of share options) or vests (in the case of non-vested stock awards). The Company already records excess tax benefits or tax deficiencies in the periods in which the tax deduction is determined. Therefore, this amendment will not have an effect on the Company's accounting for excess tax benefits or tax deficiencies. For derivatives and hedging, previous guidance permits derivatives to be offset only when all four conditions (including the intent to set off) are met. This amendment clarifies that the intent to set off is not required to offset fair value amounts recognized for derivative instruments that are executed with the same counterparty under a master netting agreement. This amendment will not have an effect on the offsetting of the Company's derivative assets and liabilities.

In August 2018, the FASB issued guidance within ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments within ASU 2018-13 remove, modify, and supplement the disclosure requirements for fair value measurements. Disclosure requirements that were removed include: the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Additional disclosure requirements include: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. With the exception of the above additional disclosure requirements, which will be applied prospectively, all other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued guidance within ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40). The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments in this Update require an entity (customer) in a hosting arrangement

that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in this Update also require that the capitalized implementation costs of a hosting arrangement that is a service contract be expensed over the term of the hosting arrangement. Presentation requirements include: expense related to the capitalized implementation costs should be presented in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement, payments for capitalized implementation costs in the statement of cash flows should be classified in the same manner as payments made for fees associated with the hosting element, and capitalized implementation costs in the statement of financial position should be presented in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019.

Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Recently adopted accounting guidance

In May 2014, the FASB issued guidance within ASU 2014-09, Revenue from Contracts with Customers. The amendments in ASU 2014-09 to ASC 606, Revenue from Contracts with Customers, creates a common revenue standard and clarifies the principles for recognizing revenue that can be applied consistently across various transactions, industries, and capital markets. The amendments in the ASU clarify that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As part of that principle, the entity should identify the contract(s) with the customer, identify the performance obligation(s) of the contract, determine the transaction price, allocate that transaction price to the performance obligation(s) of the contract, and then recognize revenue when or as the entity satisfies the performance obligation(s). The Company adopted ASU 2014-09 on January 1, 2018 using the modified retrospective method. Substantially all of the Company's revenue is generated from interest income related to loans and investment securities, which are not within the scope of this guidance. The contracts that are within the scope of this guidance include service charges and fees on deposit accounts, certain types of card income, and success fees earned from equity investments. The Company completed its review of contracts and other agreements that are within the scope of this guidance and did not identify any material changes to the timing or amount of revenue recognition. Accordingly, the Company did not recognize an adjustment to retained earnings upon adoption of this guidance. The Company’s accounting policies did not change materially since the principles of revenue recognition in the ASU are largely consistent with current practices applied by the Company. The Company has expanded its qualitative disclosures of performance obligations and disaggregation of significant categories of revenue. See "Note 15. Revenue from Contracts with Customers" for further discussion.

In January 2016, the FASB issued guidance within ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 to Subtopic 825-10, Financial Instruments, contain the following elements: 1) requires equity investments to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5) requires an entity to present separately in OCI the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements; 7) clarifies that the entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. Effective on January 1, 2015, the Company adopted the amendment noted in item 5) above as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Effective on January 1, 2018, the Company adopted the other amendments in this guidance. The primary impact on the Company's Consolidated Financial Statements results from the amendments discussed in item 1) above as changes in the fair value of the Company's equity investments are now recognized in net income, rather than in AOCI. As of January 1, 2018, the Company recorded a cumulative-effect adjustment of $0.4 million to decrease accumulated other comprehensive income with a corresponding increase to opening retained earnings. During the nine months ended September 30, 2018, the Company recognized a loss of $3.0 million related to fair value changes in equity securities, which was recorded in the Consolidated Income Statement.

In August 2016, the FASB issued guidance within ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in ASU 2016-15 to Topic 230, Statement of Cash Flows, provide guidance on eight specific cash flow classification issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including

bank-owned life insurance policies; 6) distributions received from equity method investments; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and the application of the predominance principle. The adoption of this guidance did not have a significant impact on the Company's Consolidated Statement of Cash Flows.

In January 2017, the FASB issued guidance within ASU 2017-01, Clarifying the Definition of a Business. The amendments in ASU 2017-01 to Topic 805, Business Combinations, clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or

businesses. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued guidance within ASU 2017-04, Simplifying the Test for Goodwill Impairment. The amendments in ASU 2017-04 to Topic 350, Intangibles - Goodwill and Other, modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Accordingly, the amendments eliminate Step 2 from the goodwill impairment test because goodwill impairment will no longer be determined by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2017, the FASB issued guidance within ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in ASU 2017-05 to Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets, clarify the scope of Subtopic 610-20 and add guidance for partial sales of nonfinancial assets, including partial sales of real estate. Under current GAAP, there are several different accounting models to evaluate whether the transfer of certain assets qualify for sale treatment. The new standard reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued guidance within ASU 2017-09, Scope of Modification Accounting. The amendments in ASU 2017-09 to Topic 718, Compensation - Stock Compensation, provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all of the following conditions are met: the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued guidance within ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Under current GAAP, the effect of a change in tax laws or rates on deferred tax liabilities and assets are included in income from continuing operations even in situations in which the related income tax effects of items in AOCI were originally recognized in comprehensive income. Accordingly, as the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income from continuing operations, the tax effects of items within AOCI do not reflect the current tax rate. The amendments in ASU 2018-02 to Topic 220, Income Statement - Reporting Comprehensive Income, allow a reclassification from AOCI to retained earnings from tax effects resulting from the TCJA. The Company elected to adopt this guidance effective January 1, 2018 and recorded a cumulative-effect adjustment of $0.7 million to decrease accumulated other comprehensive income with a corresponding increase to opening retained earnings.

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2. INVESTMENT SECURITIES

The carrying amounts and fair values of investment securities at September 30, 2018 and December 31, 2017 are summarized as follows:

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity debt securities				
Tax-exempt	$288,290	$ 773	$(10,030)	$279,033
Available-for-sale debt securities				
CDO	$50	$ 19,098	$—	$19,148
Commercial MBS issued by GSEs	107,915	42	(7,014)	100,943
Corporate debt securities	105,033	119	(5,768)	99,384
Private label residential MBS	887,581	42	(31,681)	855,942
Residential MBS issued by GSEs	1,515,408	167	(65,516)	1,450,059
Tax-exempt	511,957	4,015	(11,065)	504,907
Trust preferred securities	32,000	—	(3,383)	28,617
U.S. government sponsored agency securities	49,000	—	(3,399)	45,601
U.S. treasury securities	2,496	—	(21)	2,475
Total AFS debt securities	$3,211,440	$ 23,483	$(127,847)	$3,107,076
Equity securities (1)				
CRA investments	$52,058	$ —	$(1,314)	$50,744
Preferred stock	122,699	880	(2,029)	121,550
Total equity securities	$174,757	$ 880	$(3,343)	$172,294

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity debt securities				
Tax-exempt	$255,050	$ 4,514	$ (3,250)	$256,314
Available-for-sale debt securities				
CDO	$50	$ 21,807	$—	$21,857
Commercial MBS issued by GSEs	113,069	46	(4,038)	109,077
Corporate debt securities	105,044	261	(1,822)	103,483
Private label residential MBS	874,261	756	(6,493)	868,524
Residential MBS issued by GSEs	1,719,188	810	(30,703)	1,689,295
Tax-exempt	501,988	10,893	(1,971)	510,910
Trust preferred securities	32,000	—	(3,383)	28,617
U.S. government sponsored agency securities	64,000	—	(2,538)	61,462
U.S. treasury securities	2,496	—	(14)	2,482
Available-for-sale equity securities (1)				
CRA investments	51,133	—	(517)	50,616
Preferred stock	52,172	1,160	(136)	53,196

Total AFS securities	$3,515,401	$ 35,733	$ (51,615)	$3,499,519

(1) The Company's equity securities consist of CRA investments and preferred stock. Effective January 1, 2018, the Company adopted the amendments within ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires that fair value changes in equity securities be recognized as part of non-interest income. Prior to January 1, 2018, equity securities were classified as part of AFS securities. On a prospective basis, equity securities will be reported separately.

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The Company conducts an OTTI analysis on a quarterly basis. The initial indication of OTTI for both debt and equity securities is a decline in the market value below the amount recorded for an investment, and taking into account the severity and duration of the decline. Another potential indication of OTTI is a downgrade below investment grade. In determining whether an impairment is OTTI, the Company considers the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. For marketable equity securities, the Company also considers the issuer's financial condition, capital strength, and near-term prospects.

For debt securities, for the purpose of an OTTI analysis, the Company also considers the cause of the price decline (general level of interest rates, credit spreads, and industry and issuer-specific factors), whether downgrades by bond rating agencies have occurred, the issuer's financial condition, near-term prospects, and current ability to make future payments in a timely manner, as well as the issuer's ability to service debt, and any change in agencies' ratings at the evaluation date from the acquisition date and any likely imminent action.

At September 30, 2018 and December 31, 2017, the Company's unrealized losses relate primarily to market interest rate increases since the securities' original purchase date. The total number of AFS securities in an unrealized loss position at September 30, 2018 is 409, compared to 302 at December 31, 2017. The Company has reviewed securities for which there is an unrealized loss in accordance with its accounting policy for OTTI described above and determined that there are no impairment charges for the three and nine months ended September 30, 2018 and 2017. The Company does not consider any securities to be other-than-temporarily impaired as of September 30, 2018 and December 31, 2017. No assurance can be made that OTTI will not occur in future periods.

Information pertaining to securities with gross unrealized losses at September 30, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	September 30, 2018					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity debt securities						
Tax-exempt	$10,030	$215,827	$—	$—	$10,030	$215,827
Available-for-sale debt securities						
Commercial MBS issued by GSEs	$—	$—	$7,014	$99,134	$7,014	$99,134
Corporate debt securities	766	19,234	5,002	74,998	5,768	94,232
Private label residential MBS	13,004	463,026	18,677	374,504	31,681	837,530
Residential MBS issued by GSEs	16,624	563,642	48,892	878,925	65,516	1,442,567
Tax-exempt	6,337	227,531	4,728	66,047	11,065	293,578
Trust preferred securities	—	—	3,383	28,617	3,383	28,617
U.S. government sponsored agency securities	151	4,849	3,248	40,752	3,399	45,601
U.S. treasury securities	16	978	5	1,497	21	2,475
Total AFS securities	$36,898	$1,279,260	$90,949	$1,564,474	$127,847	$2,843,734

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	December 31, 2017					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity debt securities						
Tax-exempt	$3,250	$107,921	$—	$—	$3,250	$107,921
Available-for-sale debt securities						
Commercial MBS issued by GSEs	$161	$13,565	$3,877	$93,641	$4,038	$107,206
Corporate debt securities	1,398	78,602	424	19,576	1,822	98,178
Private label residential MBS	3,115	480,885	3,378	188,710	6,493	669,595
Residential MBS issued by GSEs	13,875	999,478	16,828	523,270	30,703	1,522,748
Tax-exempt	17	6,159	1,954	69,674	1,971	75,833
Trust preferred securities	—	—	3,383	28,617	3,383	28,617
U.S. government sponsored agency securities	14	4,986	2,524	56,476	2,538	61,462
U.S. treasury securities	14	2,482	—	—	14	2,482
Available-for-sale equity securities						
CRA investments	—	—	517	50,616	517	50,616
Preferred stock	136	7,357	—	—	136	7,357
Total AFS securities	$18,730	$1,593,514	$32,885	$1,030,580	$51,615	$2,624,094

The portion of unrealized gains and losses related to equity securities still held at the reporting date is calculated as follows:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
	(in thousands)	
Net (losses) gains on equity securities	$(1,212)	$ (2,971)
Less: Net gains (losses) recognized on equity securities sold	—	—
Unrealized (losses) gains on equity securities still held at the reporting date	$(1,212)	$ (2,971)

The amortized cost and fair value of securities as of September 30, 2018, by contractual maturities, are shown below. MBS are shown separately as individual MBS are comprised of pools of loans with varying maturities. Therefore, these securities are listed separately in the maturity summary.

	September 30, 2018	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held-to-maturity		
Due in one year or less	$1,200	$1,236
After one year through five years	10,100	10,122
After five years through ten years	14,602	14,351
After ten years	262,388	253,324
Total HTM securities	$288,290	$279,033

Available-for-sale		
Due in one year or less	$4,001	$3,996
After one year through five years	17,355	17,571
After five years through ten years	223,060	215,580
After ten years	456,120	462,985
Mortgage-backed securities	2,510,904	2,406,944
Total AFS securities	$3,211,440	$3,107,076

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The following tables summarize the carrying amount of the Company's investment ratings position as of September 30, 2018 and December 31, 2017:

	September 30, 2018							
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Held-to-maturity debt securities								
Tax-exempt	$—	$—	$—	$—	$—	$—	$288,290	$288,290
Available-for-sale debt securities								
CDO	$—	$—	$—	$—	$—	$19,148	$—	$19,148
Commercial MBS issued by GSEs	—	100,943	—	—	—	—	—	100,943
Corporate debt securities	—	—	—	71,685	27,699	—	—	99,384
Private label residential MBS	818,046	—	34,957	395	1,019	1,525	—	855,942
Residential MBS issued by GSEs	—	1,450,059	—	—	—	—	—	1,450,059
Tax-exempt	61,443	20,636	244,696	170,409	—	—	7,723	504,907
Trust preferred securities	—	—	—	—	28,617	—	—	28,617
U.S. government sponsored agency securities	—	45,601	—	—	—	—	—	45,601
U.S. treasury securities	—	2,475	—	—	—	—	—	2,475
Total AFS securities (1)	$879,489	$1,619,714	$279,653	$242,489	$57,335	$20,673	$7,723	$3,107,076
Equity securities								
CRA investments	$—	$26,291	$—	$—	$—	$—	$24,453	$50,744
Preferred stock	—	—	—	—	72,991	39,032	9,527	121,550
Total equity securities (1)	$—	$26,291	$—	$—	$72,991	$39,032	$33,980	$172,294

(1) Where ratings differ, the Company uses an average of the available ratings by major credit agencies.

	December 31, 2017							
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Held-to-maturity debt securities								
Tax-exempt	$—	$—	$—	$—	$—	$—	$255,050	$255,050
Available-for-sale debt securities								
CDO	$—	$—	$—	$—	$—	$21,857	$—	$21,857
Commercial MBS issued by GSEs	—	109,077	—	—	—	—	—	109,077
Corporate debt securities	—	—	—	74,293	29,190	—	—	103,483
Private label residential MBS	809,242	—	55,161	1,350	931	1,840	—	868,524
	—	1,689,295	—	—	—	—	—	1,689,295

Residential MBS issued by GSEs								
Tax-exempt	64,893	25,280	249,200	167,994	—	—	3,543	510,910
Trust preferred securities	—	—	—	—	28,617	—	—	28,617
U.S. government sponsored agency securities	—	61,462	—	—	—	—	—	61,462
U.S. treasury securities	—	2,482	—	—	—	—	—	2,482
Available-for-sale equity securities								
CRA investments	—	25,349	—	—	—	—	25,267	50,616
Preferred stock	—	—	—	10,388	23,822	4,104	14,882	53,196
Total AFS securities (1)	$874,135	$1,912,945	$304,361	$254,025	$82,560	$27,801	$43,692	$3,499,519

(1) Where ratings differ, the Company uses an average of the available ratings by major credit agencies.

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Securities with carrying amounts of approximately $814.1 million and $913.7 million at September 30, 2018 and December 31, 2017, respectively, were pledged for various purposes as required or permitted by law.

The following table presents gross gains and losses on sales of investment securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Gross gains	$—	$468	$—	$1,181
Gross losses	(7,232)	(149)	(7,232)	(274)
Net (losses) gains on sales of investment securities	$(7,232)	$319	$(7,232)	$907

During the three months ended September 30, 2018, the Company sold certain available-for-sale securities with a carrying value of $111.9 million and recognized a net loss on sale of these securities of $7.2 million. The sale resulted from management's review of its investment portfolio, which led to its decision to sell lower yielding securities and reinvest in securities with higher yields and shorter durations. With the exception of these transactions, management does not intend to sell any of its debt securities in an unrealized loss position in the foreseeable future and it is more-likely-than-not that the Company will not be required to sell these securities prior to recovery.

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3. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

The composition of the Company's held for investment loan portfolio is as follows:

	September 30, 2018	December 31, 2017
	(in thousands)	
Commercial and industrial	$7,487,725	$6,841,381
Commercial real estate - non-owner occupied	3,952,966	3,904,011
Commercial real estate - owner occupied	2,288,156	2,241,613
Construction and land development	2,107,631	1,632,204
Residential real estate	827,073	425,940
Consumer	69,214	48,786
Loans, net of deferred loan fees and costs	16,732,765	15,093,935
Allowance for credit losses	(150,011)	(140,050)
Total loans HFI	$16,582,754	$14,953,885

Net deferred loan fees and costs as of September 30, 2018 and December 31, 2017 total $31.0 million and $25.3 million, respectively, which is a reduction in the carrying value of loans. Net unamortized purchase discounts on secondary market loan purchases total $3.3 million and $8.5 million as of September 30, 2018 and December 31, 2017, respectively. Total loans held for investment are also net of interest rate and credit marks on acquired loans, which are a net reduction in the carrying value of loans. Interest rate marks were $8.7 million and $14.1 million as of September 30, 2018 and December 31, 2017, respectively. Credit marks were $17.2 million and $27.0 million as of September 30, 2018 and December 31, 2017, respectively.

The following table presents the contractual aging of the recorded investment in past due loans held for investment by class of loans:

	September 30, 2018					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total
	(in thousands)					
Commercial and industrial	$7,477,017	$8,870	$254	$1,584	$10,708	$7,487,725
Commercial real estate						
Owner occupied	2,287,826	—	330	—	330	2,288,156
Non-owner occupied	3,787,571	—	531	—	531	3,788,102
Multi-family	164,864	—	—	—	—	164,864
Construction and land development						
Construction	1,412,161	—	—	—	—	1,412,161
Land	695,470	—	—	—	—	695,470
Residential real estate	811,516	5,865	1,338	8,354	15,557	827,073
Consumer	68,881	—	—	333	333	69,214
Total loans	$16,705,306	$14,735	$2,453	$10,271	$27,459	$16,732,765

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	December 31, 2017					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial and industrial	$6,835,385	$ 2,245	$ 669	$ 3,082	$5,996	$6,841,381
Commercial real estate						
Owner occupied	2,240,457	1,026	—	130	1,156	2,241,613
Non-owner occupied	3,696,729	2,993	—	2,847	5,840	3,702,569
Multi-family	201,442	—	—	—	—	201,442
Construction and land development						
Construction	1,090,176	—	—	—	—	1,090,176
Land	536,917	—	—	5,111	5,111	542,028
Residential real estate	411,857	6,874	1,487	5,722	14,083	425,940
Consumer	48,408	83	213	82	378	48,786
Total loans	$15,061,371	$ 13,221	$ 2,369	$ 16,974	$32,564	$15,093,935

The following table presents the recorded investment in non-accrual loans and loans past due ninety days or more and still accruing interest by class of loans:

	September 30, 2018				December 31, 2017			
	Non-accrual loans			Loans past due 90 days or more and still accruing	Non-accrual loans			Loans past due 90 days or more and still accruing
	Current	Past Due/ Delinquent	Total Non-accrual		Current	Past Due/ Delinquent	Total Non-accrual	
	(in thousands)							
Commercial and industrial	$14,894	$ 9,083	$ 23,977	$ —	$17,913	$ 4,113	$ 22,026	$ 43
Commercial real estate								
Owner occupied	—	—	—	—	1,089	792	1,881	—
Non-owner occupied	—	—	—	—	—	5,840	5,840	—
Multi-family	—	—	—	—	—	—	—	—
Construction and land development								
Construction	—	—	—	—	—	—	—	—
Land	—	—	—	—	868	5,111	5,979	—
Residential real estate	4,204	8,354	12,558	—	2,039	6,078	8,117	—
Consumer	—	333	333	—	—	82	82	—
Total	$19,098	$ 17,770	$ 36,868	$ —	$21,909	$ 22,016	$ 43,925	$ 43

The reduction in interest income associated with loans on non-accrual status was approximately $0.6 million and $0.7 million for the three months ended September 30, 2018 and 2017, respectively. For each of the nine months ended September 30, 2018 and 2017, the reduction in interest income associated with loans on non-accrual status was approximately $1.8 million.

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies problem and potential problem loans as Special Mention, Substandard, Doubtful, and Loss. Substandard loans include those characterized by well-defined weaknesses and carry the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, or risk rated nine, have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The final rating of Loss covers loans considered uncollectible and having such little recoverable value that it is not practical to defer writing off the

asset. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that warrant management's close attention, are deemed to be Special Mention. Risk ratings are updated, at a minimum, quarterly.

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The following tables present gross loans by risk rating:

	September 30, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial and industrial	$7,273,634	$83,886	$ 129,183	$ 1,022	$ —	$7,487,725
Commercial real estate						
Owner occupied	2,214,765	18,713	54,678	—	—	2,288,156
Non-owner occupied	3,765,340	14,666	8,096	—	—	3,788,102
Multi-family	164,864	—	—	—	—	164,864
Construction and land development						
Construction	1,404,619	1,233	6,309	—	—	1,412,161
Land	694,596	266	608	—	—	695,470
Residential real estate	808,065	5,884	13,124	—	—	827,073
Consumer	68,599	41	574	—	—	69,214
Total	$16,394,482	$124,689	$ 212,572	$ 1,022	$ —	$16,732,765

	September 30, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$16,386,286	$124,056	$ 194,118	$ 846	$ —	$16,705,306
Past due 30 - 59 days	5,991	393	8,351	—	—	14,735
Past due 60 - 89 days	1,870	240	343	—	—	2,453
Past due 90 days or more	335	—	9,760	176	—	10,271
Total	$16,394,482	$124,689	$ 212,572	$ 1,022	$ —	$16,732,765

	December 31, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial and industrial	$6,675,574	$85,781	$ 76,328	$ 3,698	$ —	$6,841,381
Commercial real estate						
Owner occupied	2,149,465	43,122	48,397	629	—	2,241,613
Non-owner occupied	3,676,711	11,166	14,692	—	—	3,702,569
Multi-family	201,442	—	—	—	—	201,442
Construction and land development						
Construction	1,072,342	4,477	13,357	—	—	1,090,176
Land	535,412	637	5,979	—	—	542,028
Residential real estate	408,527	8,971	8,442	—	—	425,940
Consumer	47,824	878	84	—	—	48,786
Total	$14,767,297	$155,032	$ 167,279	$ 4,327	$ —	$15,093,935

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	December 31, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$14,758,149	$154,295	$ 145,934	$ 2,993	$ —	$15,061,371
Past due 30 - 59 days	7,966	518	4,737	—	—	13,221
Past due 60 - 89 days	1,182	219	968	—	—	2,369
Past due 90 days or more	—	—	15,640	1,334	—	16,974
Total	$14,767,297	$155,032	$ 167,279	$ 4,327	$ —	$15,093,935

The table below reflects the recorded investment in loans classified as impaired:

	September 30, 2018	December 31, 2017
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310 (1)	$3,601	$ 19,315
Impaired loans without a specific valuation allowance under ASC 310 (2)	121,968	79,239
Total impaired loans	$125,569	$ 98,554
Valuation allowance related to impaired loans (3)	$(1,171)	$ (5,606)

(1) Includes TDR loans of $2.6 million and $3.7 million at September 30, 2018 and December 31, 2017, respectively.

(2) Includes TDR loans of $49.5 million and $48.8 million at September 30, 2018 and December 31, 2017, respectively.

(3) Includes valuation allowance related to TDR loans of $0.7 million and $1.2 million at September 30, 2018 and December 31, 2017, respectively.

The following table presents impaired loans by class:

	September 30, 2018	December 31, 2017
	(in thousands)	
Commercial and industrial	$76,185	$ 34,156
Commercial real estate		
Owner occupied	6,660	10,430
Non-owner occupied	12,544	21,251
Multi-family	—	—
Construction and land development		
Construction	—	—
Land	9,128	15,426
Residential real estate	20,686	17,170
Consumer	366	121
Total	$125,569	$ 98,554

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable, in the table above as “Impaired loans without a specific valuation allowance under ASC 310.” However, before concluding that an impaired loan needs no associated valuation allowance, an assessment is made to consider all available and relevant information for the method used to evaluate impairment and the type of loan being assessed. The valuation allowance disclosed above is included in the allowance for credit losses reported in the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017.

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The following table presents the average investment in impaired loans and income recognized on impaired loans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Average balance on impaired loans	$104,652	$108,033	$100,712	$106,456
Interest income recognized on impaired loans	1,114	1,040	3,109	3,075
Interest recognized on non-accrual loans, cash basis	569	694	1,443	1,372

The following table presents the average investment in impaired loans by loan class:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Commercial and industrial	$55,026	$40,074	$47,083	$33,358
Commercial real estate				
Owner occupied	6,698	17,779	8,053	20,136
Non-owner occupied	12,597	20,789	16,349	22,446
Multi-family	—	—	—	—
Construction and land development				
Construction	—	—	—	—
Land	9,218	12,503	9,701	13,297
Residential real estate	20,746	16,692	19,217	17,011
Consumer	367	196	309	208
Total	$104,652	$108,033	$100,712	$106,456

The average investment in TDR loans was $52.2 million and $52.0 million for the three months ended September 30, 2018 and 2017, respectively, and $51.9 million and $56.6 million for the nine months ended September 30, 2018 and 2017, respectively.

The following table presents interest income on impaired loans by class:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Commercial and industrial	$537	$307	$1,276	$788
Commercial real estate				
Owner occupied	118	166	376	530
Non-owner occupied	218	279	744	798
Multi-family	—	—	—	—
Construction and land development				
Construction	—	—	—	—
Land	146	163	425	551
Residential real estate	95	124	287	406
Consumer	—	1	1	2
Total	$1,114	$1,040	$3,109	$3,075

The Company is not committed to lend significant additional funds on these impaired loans.

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The following table summarizes nonperforming assets:

	September 30, 2018	December 31, 2017
	(in thousands)	
Non-accrual loans (1)	$36,868	$ 43,925
Loans past due 90 days or more on accrual status (2)	—	43
Accruing troubled debt restructured loans	42,567	42,431
Total nonperforming loans	79,435	86,399
Other assets acquired through foreclosure, net	20,028	28,540
Total nonperforming assets	$99,463	$ 114,939

(1) Includes non-accrual TDR loans of $9.6 million and $10.1 million at September 30, 2018 and December 31, 2017, respectively.

(2) Includes less than $0.1 million from loans acquired with deteriorated credit quality at December 31, 2017.

Loans Acquired with Deteriorated Credit Quality

Changes in the accretable yield for loans acquired with deteriorated credit quality are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance, at beginning of period	$4,828	$14,247	$9,324	$15,177
Reclassifications from non-accretable to accretable yield (1)	—	—	683	2,086
Accretion to interest income	(224)	(690)	(801)	(2,374)
Reversal of fair value adjustments upon disposition of loans	(563)	(2,199)	(5,165)	(3,531)
Balance, at end of period	$4,041	$11,358	$4,041	$11,358

(1) The primary drivers of reclassification from non-accretable to accretable yield resulted from changes in estimated cash flows.

Allowance for Credit Losses

The following table summarizes the changes in the allowance for credit losses by portfolio type:

	Three Months Ended September 30,					
	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
	(in thousands)					
2018						
Beginning Balance	$22,159	$ 31,979	$ 6,849	$ 85,244	$ 852	$147,083
Charge-offs	—	—	46	4,610	109	4,765
Recoveries	(24)	(856)	(440)	(362)	(11)	(1,693)
Provision	473	(1,250)	832	5,652	293	6,000
Ending balance	$22,656	$ 31,585	$ 8,075	$ 86,648	$ 1,047	$150,011
2017						
Beginning Balance	$20,852	$ 28,593	$ 4,838	$ 76,734	$ 794	$131,811
Charge-offs	—	175	—	2,921	61	3,157
Recoveries	(226)	(1,781)	(108)	(619)	(33)	(2,767)
Provision	(619)	(1,474)	(141)	7,192	42	5,000
Ending balance	$20,459	$ 28,725	$ 4,805	$ 81,624	$ 808	$136,421

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	Nine Months Ended September 30,					
	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
	(in thousands)					
2018						
Beginning Balance	$19,511	$ 31,495	$ 5,478	$ 82,793	$ 773	$140,050
Charge-offs	1	233	1,038	10,904	114	12,290
Recoveries	(1,420)	(1,228)	(831)	(1,737)	(35)	(5,251)
Provision	1,726	(905)	2,804	13,022	353	17,000
Ending balance	$22,656	$ 31,585	$ 8,075	$ 86,648	$ 1,047	$150,011
2017						
Beginning Balance	$21,175	$ 25,673	$ 3,851	$ 73,333	$ 672	$124,704
Charge-offs	—	1,994	447	6,166	103	8,710
Recoveries	(1,011)	(2,719)	(1,659)	(2,705)	(83)	(8,177)
Provision	(1,727)	2,327	(258)	11,752	156	12,250
Ending balance	$20,459	$ 28,725	$ 4,805	$ 81,624	$ 808	$136,421

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The following table presents impairment method information related to loans and allowance for credit losses by loan portfolio segment:

	Commercial Real Estate-Owner Occupied	Commercial Real Estate-Non-Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Consumer	Total Loans
	(in thousands)						
Loans as of September 30, 2018;							
Recorded Investment							
Impaired loans with an allowance recorded	$—	$ —	$ 3,238	$ 363	$ —	$ —	$ 3,601
Impaired loans with no allowance recorded	6,660	12,544	72,947	20,323	9,128	366	121,968
Total loans individually evaluated for impairment	6,660	12,544	76,185	20,686	9,128	366	125,569
Loans collectively evaluated for impairment	2,276,847	3,859,914	7,411,540	805,800	2,098,503	68,848	16,521,452
Loans acquired with deteriorated credit quality	4,649	80,508	—	587	—	—	85,744
Total recorded investment	$2,288,156	$ 3,952,966	$ 7,487,725	$ 827,073	$ 2,107,631	$ 69,214	$ 16,732,765
Unpaid Principal Balance							
Impaired loans with an allowance recorded	$—	$ —	$ 5,520	$ 363	$ —	$ —	$ 5,883
Impaired loans with no allowance recorded	13,164	18,292	108,469	29,312	25,756	10,726	205,719
Total loans individually evaluated for impairment	13,164	18,292	113,989	29,675	25,756	10,726	211,602
Loans collectively evaluated for impairment	2,276,847	3,859,914	7,411,540	805,800	2,098,503	68,848	16,521,452
Loans acquired with deteriorated credit quality	6,351	96,840	4,357	706	—	—	108,254
Total unpaid principal balance	$2,296,362	$ 3,975,046	$ 7,529,886	$ 836,181	$ 2,124,259	$ 79,574	$ 16,841,308
Related Allowance for Credit Losses							
Impaired loans with an allowance recorded	$—	$ —	$ 1,111	$ 60	$ —	$ —	$ 1,171
Impaired loans with no allowance recorded	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	—	—	1,111	60	—	—	1,171
Loans collectively evaluated for impairment	13,946	17,497	85,528	8,015	22,656	1,047	148,689
Loans acquired with deteriorated credit quality	—	142	9	—	—	—	151
Total allowance for credit losses	$ 13,946	$ 17,639	$ 86,648	$ 8,075	$ 22,656	$ 1,047	$ 150,011

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	Commercial Real Estate-Owner Occupied	Commercial Real Estate-Non-Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Consumer	Total Loans
	(in thousands)						
Loans as of December 31, 2017;							
Recorded Investment							
Impaired loans with an allowance recorded	$—	$ —	$ 19,315	$—	$—	$—	$ 19,315
Impaired loans with no allowance recorded	10,430	21,250	14,842	17,170	15,426	121	79,239
Total loans individually evaluated for impairment	10,430	21,250	34,157	17,170	15,426	121	98,554
Loans collectively evaluated for impairment	2,221,614	3,777,219	6,807,181	408,169	1,616,778	48,665	14,879,626
Loans acquired with deteriorated credit quality	9,569	105,542	43	601	—	—	115,755
Total recorded investment	$ 2,241,613	$ 3,904,011	$ 6,841,381	$ 425,940	$ 1,632,204	$ 48,786	$ 15,093,935
Unpaid Principal Balance							
Impaired loans with an allowance recorded	$—	$ —	$ 20,795	$—	$—	$—	$ 20,795
Impaired loans with no allowance recorded	17,459	28,028	42,261	26,057	32,289	10,695	156,789
Total loans individually evaluated for impairment	17,459	28,028	63,056	26,057	32,289	10,695	177,584
Loans collectively evaluated for impairment	2,221,614	3,777,219	6,807,181	408,169	1,616,778	48,665	14,879,626
Loans acquired with deteriorated credit quality	12,619	128,440	3,146	720	—	—	144,925
Total unpaid principal balance	$ 2,251,692	$ 3,933,687	$ 6,873,383	$ 434,946	$ 1,649,067	$ 59,360	$ 15,202,135
Related Allowance for Credit Losses							
Impaired loans with an allowance recorded	$—	$ —	$ 5,606	$—	$—	$—	$ 5,606
Impaired loans with no allowance recorded	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	—	—	5,606	—	—	—	5,606
Loans collectively evaluated for impairment	13,884	16,135	76,919	5,500	19,599	776	132,813
Loans acquired with deteriorated credit quality	—	1,629	2	—	—	—	1,631
Total allowance for credit losses	$ 13,884	$ 17,764	$ 82,527	$ 5,500	$ 19,599	$ 776	$ 140,050

Troubled Debt Restructurings

A TDR loan is a loan on which the Company, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms that have been modified or restructured due to a borrower’s financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, or deferral of interest payments. The majority of the Company's modifications are extensions in terms or deferral of payments which result in no lost principal or interest followed by reductions in interest rates or accrued interest. A TDR loan is also considered impaired. Consistent with regulatory guidance, a TDR loan that is subsequently modified in another restructuring agreement but has shown sustained performance and classification as a TDR, will be removed from TDR status provided that the modified terms were market-based at the time of modification.

During the three months ended September 30, 2018, the Company had four new TDR loans with a recorded investment of $2.8 million and two new TDR loans during the three months ended September 30, 2017 with a recorded investment of $1.9 million. During the nine months ended September 30, 2018, the Company had eleven new TDR loans with a recorded investment of $34.4 million and three new TDR loans with a recorded investment of $6.8 million during the nine months ended September 30, 2017. No principal amounts were forgiven and there were no waived fees or other expenses resulting from these TDRs.

During the three and nine months ended September 30, 2018, there were no TDR loans for which there was a payment default. During the three months ended September 30, 2017, there was one CRE, non-owner occupied TDR loan with a recorded investment of $0.1 million for which there was a payment default. During the nine months ended September 30, 2017, there were three TDR loans with a recorded investment of $0.5 million for which there was a payment default.

A TDR loan is deemed to have a payment default when it becomes past due 90 days, goes on non-accrual, or is restructured again. Payment defaults, along with other qualitative indicators, are considered by management in the determination of the allowance for credit losses.

At September 30, 2018, commitments outstanding on TDR loans totaled $0.3 million. There were no loan commitments outstanding on TDR loans at December 31, 2017.

Loan Purchases and Sales

For the three months ended September 30, 2018 and 2017, secondary market loan purchases totaled $482.8 million and $216.8 million, respectively. For the nine months ended September 30, 2018 and 2017, secondary market loan purchases totaled $1.01 billion and $666.8 million, respectively. For 2018, these purchased loans consisted of $511.5 million of commercial and industrial loans, $471.7 million of residential real estate loans, and $27.1 million of construction loans. For 2017, these purchased loans consisted of $520.4 million of commercial and industrial loans and $146.4 million of residential real estate loans.

During the three months ended September 30, 2018, the Company sold loans which primarily consisted of commercial and industrial loans with a carrying value of $12.4 million and recognized a net gain of $1.0 million. During the three months ended September 30, 2017, the Company sold commercial and industrial loans with a carrying value of $41.3 million and did not recognize a significant net gain or loss on the sales. During the nine months ended September 30, 2018, the Company sold loans which primarily consisted of commercial and industrial loans with a carrying value of $46.5 million and recognized a gain of $2.4 million on the sales. During the nine months ended September 30, 2017, the Company sold loans, which consisted primarily of commercial and industrial loans with a carrying value of $50.5 million and recognized a loss of $0.1 million on the sales.

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4. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

The following table represents the changes in other assets acquired through foreclosure:

	Three Months Ended September 30,		
	2018		
	Gross Balance	Valuation Allowance	Net Balance
	(in thousands)		
Balance, beginning of period	$31,145	$ (3,604)	$27,541
Proceeds from sale of other real estate owned and repossessed assets, net	(1,093)	401	(692)
Charitable contribution (1)	(6,895)	—	(6,895)
Valuation adjustments, net	—	—	—
Gains (losses), net (2)	74	—	74
Balance, end of period	$23,231	$ (3,203)	$20,028
	2017		
Balance, beginning of period	$35,037	$ (4,049)	$30,988
Transfers to other assets acquired through foreclosure, net	430	—	430
Proceeds from sale of other real estate owned and repossessed assets, net	(2,491)	330	(2,161)
Valuation adjustments, net	—	(343)	(343)
Gains (losses), net (2)	78	—	78
Balance, end of period	$33,054	$ (4,062)	$28,992

	Nine Months Ended September 30,		
	2018		
	Gross Balance	Valuation Allowance	Net Balance
	(in thousands)		
Balance, beginning of period	$32,552	$ (4,012)	$28,540
Transfers to other assets acquired through foreclosure, net	5,744	—	5,744
Proceeds from sale of other real estate owned and repossessed assets, net	(9,634)	841	(8,793)
Charitable contribution (1)	(6,895)	—	(6,895)
Valuation adjustments, net	—	(32)	(32)
Gains (losses), net (3)	1,464	—	1,464
Balance, end of period	$23,231	$ (3,203)	$20,028
	2017		
Balance, beginning of period	$54,138	$ (6,323)	$47,815
Transfers to other assets acquired through foreclosure, net	1,812	—	1,812
Proceeds from sale of other real estate owned and repossessed assets, net	(23,129)	2,381	(20,748)
Valuation adjustments, net	—	(120)	(120)
Gains (losses), net (3)	233	—	233
Balance, end of period	$33,054	$ (4,062)	$28,992

(1) Represents a contribution of OREO property to the Company's charitable foundation. See Note 16. Related Party Transactions for further discussion.

(2) There were no net gains related to initial transfers to other assets during the three months ended September 30, 2018 and 2017, respectively.

(3) There were $1.0 million and $0.1 million in net gains related to initial transfers to other assets during the nine months ended September 30, 2018 and 2017, respectively.

At September 30, 2018 and 2017, the majority of the Company's repossessed assets consisted of properties located in Nevada. The Company held 12 properties at September 30, 2018, compared to 19 at December 31, 2017, and 20 at September 30, 2017.

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5. OTHER BORROWINGS

The following table summarizes the Company’s borrowings as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	(in thousands)	
Short-Term:		
FHLB advances	$ —	$ 390,000
Total short-term borrowings	$ —	$ 390,000

The Company maintains other lines of credit with correspondent banks totaling $306.0 million. These lines of credit are unsecured, of which $45.0 million have a floating interest rate of one-month LIBOR plus 3.25% and $261.0 million have a rate equivalent to the federal funds effective rate. As of September 30, 2018 and December 31, 2017, there were no outstanding balances on the Company's lines of credit.

The Company maintains lines of credit with the FHLB and the FRB. The Company’s borrowing capacity is determined based on collateral pledged, generally consisting of investment securities and loans, at the time of the borrowing. At September 30, 2018, the Company had no short-term FHLB overnight advances. At December 31, 2017, short-term FHLB advances of $390.0 million had an interest rate of 1.41%.

Other short-term borrowing sources available to the Company include Federal funds purchased from correspondent banks and customer repurchase agreements. Federal funds purchased have a rate equivalent to the federal funds effective rate plus 0.10% to 0.20% and customer repurchase agreements have an average rate of 0.15%. There were no outstanding balances on Federal funds purchased as of September 30, 2018 and December 31, 2017. At September 30, 2018 and December 31, 2017, customer repurchase agreements totaled $21.0 million and $26.0 million, respectively.

As of September 30, 2018 and December 31, 2017, the Company had additional available credit with the FHLB of approximately $2.84 billion and $1.91 billion, respectively, and with the FRB of approximately $1.40 billion and $1.11 billion, respectively.

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6. QUALIFYING DEBT

Subordinated Debt

The Parent has $175.0 million of subordinated debentures, which were recorded net of issuance costs of $5.5 million, and mature July 1, 2056. Beginning on or after July 1, 2021, the Company may redeem the debentures, in whole or in part, at their principal amount plus any accrued and unpaid interest. The debentures have a fixed interest rate of 6.25% per annum.

WAB has $150.0 million of subordinated debt, which was recorded net of debt issuance costs of $1.8 million, and matures July 15, 2025. The subordinated debt has a fixed interest rate of 5.00% through June 30, 2020 and then converts to a variable rate of 3.20% plus three-month LIBOR through maturity.

To hedge the interest rate risk on the Company's subordinated debt issuances, the Company entered into fair value interest rate hedges with receive fixed/pay variable swaps.

The carrying value of all subordinated debt issuances, which includes the fair value of the related hedges, totals $290.8 million and $308.6 million at September 30, 2018 and December 31, 2017, respectively.

Junior Subordinated Debt

The Company has formed or acquired through acquisition eight statutory business trusts, which exist for the exclusive purpose of issuing Cumulative Trust Preferred Securities.

With the exception of debt issued by Bridge Capital Trust I and Bridge Capital Trust II, junior subordinated debt is recorded at fair value at each reporting date due to the FVO election made by the Company under ASC 825. The Company did not make the FVO election for the junior subordinated debt acquired as part of the Bridge acquisition. Accordingly, the carrying value of these trusts does not reflect the current fair value of the debt and includes a fair market value adjustment established at acquisition that is being accreted over the remaining life of the trusts.

The carrying value of junior subordinated debt was $68.3 million at each of the periods ended September 30, 2018 and December 31, 2017, respectively. The weighted average interest rate of all junior subordinated debt as of September 30, 2018 was 4.74%, which is three-month LIBOR plus the contractual spread of 2.34%, compared to a weighted average interest rate of 4.03% at December 31, 2017.

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7. STOCKHOLDERS' EQUITY

Stock-Based Compensation

Restricted Stock Awards

Restricted stock awards granted to employees generally vest over a three-year period. Stock grants made to non-employee WAL directors in 2018 became fully vested at June 30, 2018. The Company estimates the compensation expense for stock grants based upon the grant date fair value. Stock compensation expense is recognized on a straight-line basis over the requisite service period for the entire award. The aggregate grant date fair value for the restricted stock awards granted during the three and nine months ended September 30, 2018 was $0.7 million and $23.7 million, respectively. Stock compensation expense related to restricted stock awards and stock options granted to employees are included in Salaries and employee benefits in the Consolidated Income Statement. For restricted stock awards granted to WAL directors, the related stock compensation expense is included in Legal, professional, and directors' fees. For the three and nine months ended September 30, 2018, the Company recognized $3.4 million and $12.4 million, respectively, in stock-based compensation expense related to all restricted stock award grants, compared to $2.7 million and $11.3 million for the three and nine months ended September 30, 2017, respectively.

In addition, the Company previously granted shares of restricted stock to certain members of executive management that had both performance and service conditions that affect vesting. There were no such grants made during the three and nine months ended September 30, 2018, however expense is still being recognized for the grants made in 2016 and 2017 as they also have a three-year vesting period. For the three and nine months ended September 30, 2018, the Company recognized $0.6 million and $1.9 million, respectively, in stock-based compensation expense related to these performance-based restricted stock grants, compared to $0.8 million and $1.6 million for the three and nine months ended September 30, 2017, respectively.

Performance Stock Units

The Company grants members of its executive management performance stock units that do not vest unless the Company achieves a specified cumulative EPS target over a three-year performance period. The number of shares issued will vary based on the cumulative EPS target that is achieved. The Company estimates the cost of performance stock units based upon the grant date fair value and expected vesting percentage over the three-year performance period. For the three and nine months ended September 30, 2018, the Company recognized $1.5 million and $4.8 million, respectively, in stock-based compensation expense related to these performance stock units, compared to $1.9 million and $4.5 million for the three and nine months ended September 30, 2017, respectively.

The three-year performance period for the 2015 grant ended on December 31, 2017, and the Company's cumulative EPS for the performance period exceeded the level required for a maximum award under the terms of the grant. As a result, executive management members were entitled to the maximum award of 202,074 shares, which was paid out in the first quarter of 2018.

Treasury Shares

Treasury share purchases represent shares surrendered to the Company equal in value to the statutory payroll tax withholding obligations arising from the vesting of employee restricted stock awards. During the three and nine months ended September 30, 2018, the Company purchased treasury shares of 18,402 and 201,354, respectively, at a weighted average price of $57.81 and $58.91 per share, respectively. During the three and nine months ended September 30, 2017, the Company purchased treasury shares of 64,705 and 266,883, respectively, at a weighted average price of $51.82 and $51.10 per share, respectively.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated other comprehensive income (loss) by component, net of tax, for the periods indicated:

	Three Months Ended September 30,				
	Unrealized holding (losses) gains on AFS	Unrealized holding gains (losses) on SERP	Unrealized holding gains (losses) on junior subordinated debt	Impairment loss on securities	Total
	(in thousands)				
Balance, June 30, 2018	$(61,859)	$ 446	$ 9,954	$ 144	$(51,315)
Other comprehensive (loss) income before reclassifications	(22,462)	(12)	(2,028)	—	(24,502)
Amounts reclassified from AOCI	5,454	—	—	—	5,454
Net current-period other comprehensive (loss) income	(17,008)	(12)	(2,028)	—	(19,048)
Balance, September 30, 2018	$(78,867)	$ 434	$ 7,926	$ 144	$(70,363)
Balance, June 30, 2017	$(449)	$ 157	$ 6,638	$ 144	$6,490
Other comprehensive income (loss) before reclassifications	1,116	114	641	—	1,871
Amounts reclassified from AOCI	(197)	—	—	—	(197)
Net current-period other comprehensive income (loss)	919	114	641	—	1,674
Balance, September 30, 2017	$470	$ 271	$ 7,279	$ 144	$8,164

	Nine Months Ended September 30,				
	Unrealized holding (losses) gains on AFS	Unrealized holding gains (losses) on SERP	Unrealized holding gains (losses) on junior subordinated debt	Impairment loss on securities	Total
	(in thousands)				
Balance, December 31, 2017	$(10,026)	$ 385	$ 6,352	$ 144	$(3,145)
Balance, January 1, 2018 (1)	(12,556)	469	7,740	144	(4,203)
Other comprehensive (loss) income before reclassifications	(71,765)	(35)	186	—	(71,614)
Amounts reclassified from AOCI	5,454	—	—	—	5,454
Net current-period other comprehensive (loss) income	(66,311)	(35)	186	—	(66,160)
Balance, September 30, 2018	$(78,867)	$ 434	$ 7,926	$ 144	$(70,363)
Balance, December 31, 2016	$(14,916)	$ 121	$ 9,956	$ 144	$(4,695)
Other comprehensive income (loss) before reclassifications	15,947	150	(2,677)	—	13,420
Amounts reclassified from AOCI	(561)	—	—	—	(561)
Net current-period other comprehensive income (loss)	15,386	150	(2,677)	—	12,859
Balance, September 30, 2017	$470	$ 271	$ 7,279	$ 144	$8,164

(1) As adjusted for adoption of ASU 2016-01 and ASU 2018-02, see "Note 1. Summary of Significant Accounting Policies" for further discussion.

The following table presents reclassifications out of accumulated other comprehensive income (loss):

Income Statement Classification	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(in thousands)			
(Loss) gain on sales of investment securities, net	$(7,232)	$319	$(7,232)	$907
Income tax expense (benefit)	1,778	(122)	1,778	(346)
Net of tax	$(5,454)	$197	$(5,454)	$561

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9. DERIVATIVES AND HEDGING ACTIVITIES

The Company is a party to various derivative instruments. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require a small or no initial investment, and allow for the net settlement of positions. A derivative’s notional amount serves as the basis for the payment provision of the contract and takes the form of units, such as shares or dollars. A derivative’s underlying variable is a specified interest rate, security price, commodity price, foreign exchange rate, index, or other variable. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the fair value of the derivative contract.

The primary type of derivatives that the Company uses are interest rate swaps. Generally, these instruments are used to help manage the Company's exposure to interest rate risk and meet client financing and hedging needs.

Derivatives are recorded at fair value in the Consolidated Balance Sheets, after taking into account the effects of bilateral collateral and master netting agreements. These agreements allow the Company to settle all derivative contracts held with the same counterparty on a net basis, and to offset net derivative positions with related cash collateral, where applicable.

As of September 30, 2018, December 31, 2017, and September 30, 2017, the Company does not have any outstanding cash flow hedges.

Derivatives Designated in Hedge Relationships

The Company utilizes derivatives that have been designated as part of a hedge relationship in accordance with the applicable accounting guidance to minimize the exposure to changes in benchmark interest rates and volatility of net interest income and EVE to interest rate fluctuations. The primary derivative instruments used to manage interest rate risk are interest rate swaps, which convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index.

The Company has entered into pay fixed/receive variable interest rate swaps designated as fair value hedges of certain fixed rate loans. As a result, the Company receives variable-rate interest payments in exchange for making fixed-rate payments over the lives of the contracts without exchanging the notional amounts.

The Company has also entered into receive fixed/pay variable interest rate swaps, designated as fair value hedges on its fixed rate subordinated debt offerings. As a result, the Company is paying a floating rate of three-month LIBOR plus 3.16% and is receiving semi-annual fixed payments of 5.00% to match the payments on the $150.0 million subordinated debt. For the fair value hedge on the Parent's $175.0 million subordinated debentures issued on June 16, 2016, the Company is paying a floating rate of three-month LIBOR plus 3.25% and is receiving quarterly fixed payments of 6.25% to match the payments on the debt.

Derivatives Not Designated in Hedge Relationships

Management also enters into certain foreign exchange derivative contracts and back-to-back interest rate swaps which are not designated as accounting hedges. Foreign exchange derivative contracts include spot, forward, and forward window contracts. The purpose of these derivative contracts is to mitigate foreign currency risk on transactions entered into, or on behalf of customers. Contracts with customers, along with the related derivative trades the Company places, are both remeasured at fair value, and are referred to as economic hedges since they economically offset the Company's exposure. The Company's back-to-back interest rate swaps are used to manage long-term interest rate risk.

As of each of the periods ended September 30, 2018, December 31, 2017, and September 30, 2017, derivatives not designated as hedging instruments were in a net asset position of $0.2 million. For the three months ended September 30, 2018 and 2017, net changes in the fair value related to these derivative contracts totaled $1.1 million and $0.8 million, respectively, and $3.5 million and $2.6 million for the nine months ended September 30, 2018 and 2017, respectively, and are included as part of Foreign currency income in the Consolidated Income Statements.

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As of September 30, 2018 and December 31, 2017, the following amounts are reflected in the Consolidated Balance Sheet related to cumulative basis adjustments for fair value hedges:

	September 30, 2018		December 31, 2017	
	Carrying Value of Hedged Assets/(Liabilities)	Cumulative Amount of the Fair Value Hedging Adjustment (1)	Carrying Value of Hedged Assets/(Liabilities)	Cumulative Amount of the Fair Value Hedging Adjustment (1)
	(in thousands)			
Loans - HFI, net of deferred loan fees and costs	$635,184	$ 1,997	$699,452	$ 41,919
Qualifying debt	(290,801)	28,160	(308,608)	9,959

(1) Included in the carrying value of the hedged assets/(liabilities).

For the Company's derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings in the same line item as the offsetting loss or gain on the related interest rate swaps. For loans, the gain or loss on the hedged item is included in interest income and for subordinated debt, the gain or loss on the hedged item is included in interest expense.

Fair Values, Volume of Activity, and Gain/Loss Information Related to Derivative Instruments

The following table summarizes the fair values of the Company's derivative instruments on a gross and net basis as of September 30, 2018, December 31, 2017, and September 30, 2017. The derivative asset and liability balances are presented on a gross basis, prior to the application of bilateral collateral and master netting agreements. Total derivative assets and liabilities are adjusted to take into account the impact of legally enforceable master netting agreements that allow the Company to settle all derivative contracts with the same counterparty on a net basis and to offset the net derivative position with the related collateral. Where master netting agreements are not in effect or are not enforceable under bankruptcy laws, the Company does not adjust those derivative amounts with counterparties. The fair value of derivative contracts, after taking into account the effects of master netting agreements, is included in other assets or other liabilities in the Consolidated Balance Sheets, as indicated in the following table:

	September 30, 2018			December 31, 2017			September 30, 2017		
		Fair Value			Fair Value			Fair Value	
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
	(in thousands)								
Derivatives designated as hedging instruments:									
Fair value hedges									
Interest rate swaps	$971,408	$7,883	$ 38,040	$993,432	$1,703	$ 53,581	$1,016,694	$1,656	$ 59,346
Total	971,408	7,883	38,040	993,432	1,703	53,581	1,016,694	1,656	59,346
Netting adjustments (1)	—	6,119	6,119	—	896	896	—	1,588	1,588
Net derivatives in the balance sheet	$971,408	$1,764	$ 31,921	$993,432	$807	$ 52,685	$1,016,694	$68	$ 57,758
Derivatives not designated as hedging instruments:									
Foreign currency contracts (2)	$47,349	$1,003	$ 841	$85,335	$1,232	$ 983	$68,122	$494	$ 291

Interest rate swaps	2,348	92	92	36,969	776	776	35,578	641	641
Total	$49,697	$1,095	$ 933	$122,304	$2,008	$ 1,759	$103,700	$1,135	$ 932

(1) Netting adjustments represent the amounts recorded to convert the Company's derivative balances from a gross basis to a net basis in accordance with the applicable accounting guidance.

(2) Prior period derivative asset / liability netting adjustments have been made to conform to current presentation.

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. Management generally enters into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with the same counterparty. Additionally, management monitors counterparty credit risk exposure on each contract to determine appropriate limits on the Company's total credit exposure across all product

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types. In general, the Company has a zero credit threshold with regard to derivative exposure with counterparties. Management reviews the Company's collateral positions on a daily basis and exchanges collateral with counterparties in accordance with standard ISDA documentation and other related agreements. The Company generally holds collateral in the form of cash deposits or highly rated securities issued by the U.S. Treasury or government-sponsored enterprises, such as GNMA, FNMA, and FHLMC. The total collateral netted against net derivative liabilities totaled $34.7 million at September 30, 2018, $53.6 million at December 31, 2017, and $59.3 million at September 30, 2017.
The following table summarizes the Company's largest exposure to an individual counterparty at the dates indicated:

	September 30, 2018	December 31, 2017	September 30, 2017
	(in thousands)		
Largest gross exposure (derivative asset) to an individual counterparty	$5,802	$ 893	$ 945
Collateral posted by this counterparty	—	—	—
Derivative liability with this counterparty	9,567	40,340	44,053
Collateral pledged to this counterparty	22,179	60,476	65,051
Net exposure after netting adjustments and collateral	$—	$ —	$ —

Credit Risk Contingent Features

Management has entered into certain derivative contracts that require the Company to post collateral to the counterparties when these contracts are in a net liability position. Conversely, the counterparties may be required to post collateral when these contracts are in a net asset position. The amount of collateral to be posted is based on the amount of the net liability and exposure thresholds. As of September 30, 2018, December 31, 2017, and September 30, 2017 the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting provisions) held by the Company that were in a net liability position totaled $31.9 million, $52.7 million, and $57.8 million, respectively. As of September 30, 2018, the Company was in an over-collateralized net position of $17.7 million after considering $52.4 million of collateral held in the form of cash and securities. As of December 31, 2017 and September 30, 2017, the Company was in an over-collateralized position of $25.0 million and $25.1 million, respectively.

10. EARNINGS PER SHARE

Diluted EPS is based on the weighted average outstanding common shares during each period, including common stock equivalents. Basic EPS is based on the weighted average outstanding common shares during the period.
The following table presents the calculation of basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Weighted average shares - basic	104,768	104,221	104,664	104,124
Dilutive effect of stock awards	680	721	734	817
Weighted average shares - diluted	105,448	104,942	105,398	104,941
Net income	$111,123	$82,844	$316,702	$236,146
Earnings per share - basic	1.06	0.79	3.03	2.27
Earnings per share - diluted	1.05	0.79	3.00	2.25

The Company had no anti-dilutive stock options outstanding at each of the periods ended September 30, 2018 and 2017.

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11. INCOME TAXES

The effective tax rate was 6.32% and 29.64% for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, the Company's effective tax rate was 14.48% and 27.89%, respectively. The decrease in the effective tax rate from the three and nine months ended September 30, 2017 is due primarily to the decrease in the Federal statutory rate effective in 2018 and management's decision during the quarter to carryback its 2017 federal NOLs. These federal NOLs resulted from the acceleration of deductions into and deferral of revenue from 2017. As the federal income tax rate was higher in the years to which the carryback is applicable, a larger tax benefit results from the decision to carryback the 2017 federal NOLs, rather than carryforward these losses to future taxable years.

As of September 30, 2018, the net deferred tax asset was $43.5 million, an increase of $37.7 million from December 31, 2017. This overall increase in the net deferred tax asset was primarily the result of the deferral of WAB's dividend from the real estate investment trust from 2017 to 2018 and decreases in the fair market value of AFS securities, which were not fully offset by the utilization of NOL and credit carryovers.

Although realization is not assured, the Company believes that the realization of the recognized deferred tax asset of $43.5 million at September 30, 2018 is more-likely-than-not based on expectations as to future taxable income and based on available tax planning strategies that could be implemented if necessary to prevent a carryover from expiring.

At September 30, 2018 and December 31, 2017, the Company had no deferred tax valuation allowance.

As of September 30, 2018, the Company’s gross federal NOL carryovers, all of which are subject to limitations under Section 382 of the IRC, totaled approximately $49.8 million for which an ending deferred tax asset of $6.3 million has been recorded reflecting the expected benefit of these federal NOL carryovers remaining. The Company also has varying gross amounts of state NOL carryovers, primarily with California and Arizona. The ending gross California and Arizona NOL carryovers totaled approximately $7.3 million and $5.0 million, respectively. A deferred tax asset of $1.1 million has been recorded to reflect the expected benefit of all state NOL carryovers remaining.

Investments in LIHTC

The Company invests in LIHTC funds that are designed to generate a return primarily through the realization of federal tax credits.

Investments in LIHTC total $295.1 million and $267.0 million as of September 30, 2018 and December 31, 2017, respectively. Unfunded LIHTC obligations are included as part of other liabilities in the Consolidated Balance Sheets and total $139.4 million and $151.3 million as of September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018 and 2017, $9.0 million and $6.8 million, respectively, of amortization related to LIHTC investments was recognized as a component of income tax expense. For the nine months ended September 30, 2018 and 2017, $26.5 million and $19.5 million, respectively, of amortization related to LIHTC investments was recognized as a component of income tax expense.

12. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments and Letters of Credit

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheets.

Lines of credit are obligations to lend money to a borrower. Credit risk arises when the borrower's current financial condition may indicate less ability to pay than when the commitment was originally made. In the case of standby letters of credit, the risk arises from the potential failure of the customer to perform according to the terms of a contract. In such a situation, the third party might draw on the standby letter of credit to pay for completion of the contract and the Company would look to its customer to repay these funds with interest. To minimize the risk, the Company uses the same credit policies in making commitments and conditional obligations as it would for a loan to that customer.

Standby letters of credit and financial guarantees are commitments issued by the Company to guarantee the performance of a customer to a third party in borrowing arrangements. The Company generally has recourse to

recover from the customer any amounts paid under the guarantees. Typically, letters of credit issued have expiration dates within one year.

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A summary of the contractual amounts for unfunded commitments and letters of credit are as follows:

	September 30, 2018	December 31, 2017
	(in thousands)	
Commitments to extend credit, including unsecured loan commitments of $594,074 at September 30, 2018 and $364,638 at December 31, 2017	$ 6,798,062	$ 5,851,158
Credit card commitments and financial guarantees	218,993	153,752
Standby letters of credit, including unsecured letters of credit of $16,940 at September 30, 2018 and $11,664 at December 31, 2017	216,636	161,966
Total	$ 7,233,691	$ 6,166,876

Commitments to extend credit are agreements to lend to a customer provided that there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

The Company has exposure to credit losses from unfunded commitments and letters of credit. As funds have not been disbursed on these commitments, they are not reported as loans outstanding. Credit losses related to these commitments are included in other liabilities as a separate loss contingency and are not included in the allowance for credit losses reported in "Note 3. Loans, Leases and Allowance for Credit Losses" of these Unaudited Consolidated Financial Statements. This loss contingency for unfunded loan commitments and letters of credit was $7.6 million and $6.2 million as of September 30, 2018 and December 31, 2017, respectively. Changes to this liability are adjusted through other expense in the Consolidated Income Statement.

Concentrations of Lending Activities

The Company’s lending activities are driven in large part by the customers served in the market areas where the Company has branch offices in the states of Arizona, Nevada, and California. Despite the geographic concentration of lending activities, the Company does not have a single external customer from which it derives 10% or more of its revenues. The Company monitors concentrations within four broad categories: geography, industry, product, and collateral. The Company's loan portfolio includes significant credit exposure to the CRE market. As of September 30, 2018 and December 31, 2017, CRE related loans accounted for approximately 50% and 52% of total loans, respectively. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 37% and 36% of these CRE loans, excluding construction and land loans, were owner-occupied at September 30, 2018 and December 31, 2017, respectively.

Contingencies

The Company is involved in various lawsuits of a routine nature that are being handled and defended in the ordinary course of the Company’s business. Expenses are being incurred in connection with these lawsuits, but in the opinion of management, based in part on consultation with outside legal counsel, the resolution of these lawsuits and associated defense costs will not have a material impact on the Company’s financial position, results of operations, or cash flows.

Lease Commitments

The Company leases the majority of its office locations and many of these leases contain multiple renewal options and provisions for increased rents. Total rent expense of $2.8 million for each of the three months ended September 30, 2018 and 2017 was included in Occupancy expense in these Unaudited Consolidated Financial Statements. For the nine months ended September 30, 2018 and 2017, total rent expense was $8.1 million and $8.2 million, respectively.

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13. FAIR VALUE ACCOUNTING
The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC 825 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 825 are described in "Note 1. Summary of Significant Accounting Policies" of these Notes to Unaudited Consolidated Financial Statements.
In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally-developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below. Transfers between levels in the fair value hierarchy are recognized as of the end of the month following the event or change in circumstances that caused the transfer.
Under ASC 825, the Company elected the FVO treatment for junior subordinated debt issued by WAL. This election is irrevocable and results in the recognition of unrealized gains and losses on these items at each reporting date. These unrealized gains and losses are recognized as part of other comprehensive income rather than earnings. The Company did not elect FVO treatment for the junior subordinated debt assumed in the Bridge Capital Holdings acquisition.
For the three and nine months ended September 30, 2018 and 2017, gains and losses from fair value changes on junior subordinated debt and trading securities were as follows:

	Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the Fair Value Option				
	Unrealized Gain/(Loss) on Assets and Liabilities Measured at Fair Value, Net	Interest Income on Securities	Interest Expense on Junior Subordinated Debt	Total Changes Included in Current-Period Earnings	Changes Included in OCI
	(in thousands)				
Three Months Ended September 30, 2018					
Junior subordinated debt	$(2,689)	$ —	$ 1,056	$ 1,056	$(2,028)
Nine Months Ended September 30, 2018					
Junior subordinated debt	$247	$ —	$ 2,979	$ 2,979	$186
Three Months Ended September 30, 2017					

Junior subordinated debt	$1,035	$ —	$ (835)	$ (835)	$641
Nine Months Ended September 30, 2017					
Trading securities	$—	$ 9	$ —	$ 9	$—
Junior subordinated debt	(4,327)	—	(2,376)	(2,376)	(2,677)
Total	$(4,327)	$ 9	$ (2,376)	$ (2,367)	$(2,677)

During the year ended December 31, 2017, the Company sold all of its trading securities. No significant gain or loss was recognized upon sale of these securities.

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Fair value on a recurring basis

Financial assets and financial liabilities measured at fair value on a recurring basis include the following:

Trading securities: All of the Company’s trading securities, which consisted of MBS, were reported at fair value utilizing Level 2 inputs in the same manner as described above for AFS securities.

AFS securities: Securities classified as AFS are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond’s terms and conditions, among other things.

Equity securities: Preferred stock and CRA investments are reported at fair value utilizing Level 1 inputs.

Independent pricing service: The Company's independent pricing service provides pricing information on the majority of the Company's Level 1 and 2 securities. Management independently evaluates the fair value measurements received from the Company's third party pricing service through multiple review steps. First, management reviews what has transpired in the marketplace with respect to interest rates, credit spreads, volatility, and mortgage rates, among other things, and develops an expectation of changes to the securities' valuations from the previous quarter. Then, management obtains market values from additional sources. The pricing service provides management with observable market data including interest rate curves and mortgage prepayment speed grids, as well as dealer quote sheets, new bond offering sheets, and historical trade documentation. Management reviews the assumptions and decides whether they are reasonable. Management may compare interest rates, credit spreads, and prepayments speeds used as part of the assumptions to those that management believes are reasonable. Management may price securities using the provided assumptions to determine whether they can develop similar prices on like securities. Any discrepancies between management’s review and the prices provided by the vendor are discussed with the vendor and the Company’s other valuation advisors. Lastly, management selects a sample of investment securities and compares the values provided by its primary third party pricing service to the market values obtained from secondary sources and evaluates those with notable variances.

Interest rate swaps: Interest rate swaps are reported at fair value utilizing Level 2 inputs. The Company obtains dealer quotations to value its interest rate swaps.

Junior subordinated debt: The Company estimates the fair value of its junior subordinated debt using a discounted cash flow model which incorporates the effect of the Company’s own credit risk in the fair value of the liabilities (Level 3). The Company’s cash flow assumptions are based on contractual cash flows as the Company anticipates that it will pay the debt according to its contractual terms.

As of September 30, 2018, the Company estimates the discount rate at 6.20%, which represents an implied credit spread of 3.80% plus three-month LIBOR (2.40%). As of December 31, 2017, the Company estimated the discount rate at 5.61%, which was a 3.92% credit spread plus three-month LIBOR (1.69%).

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The fair value of assets and liabilities measured at fair value on a recurring basis was determined using the following inputs as of the periods presented:

	Fair Value Measurements at the End of the Reporting Period Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in thousands)			
September 30, 2018				
Assets:				
Available-for-sale debt securities				
CDO	$—	$19,148	$ —	$19,148
Commercial MBS issued by GSEs	—	100,943	—	100,943
Corporate debt securities	—	99,384	—	99,384
Private label residential MBS	—	855,942	—	855,942
Residential MBS issued by GSEs	—	1,450,059	—	1,450,059
Tax-exempt	—	504,907	—	504,907
Trust preferred securities	—	28,617	—	28,617
U.S. government sponsored agency securities	—	45,601	—	45,601
U.S. treasury securities	—	2,475	—	2,475
Total AFS debt securities	$—	$3,107,076	$ —	$3,107,076
Equity securities				
CRA investments	50,744	—	—	50,744
Preferred stock	121,550	—	—	121,550
Total equity securities	$172,294	$—	$ —	$172,294
Derivative assets (1)	$—	$8,978	$ —	$8,978
Liabilities:				
Junior subordinated debt (2)	$—	$—	$ 55,987	$55,987
Derivative liabilities (1)	—	38,973	—	38,973

(1) Derivative assets and liabilities relate to interest rate swaps, see "Note 9. Derivatives and Hedging Activities." In addition, the carrying value of loans is decreased by $1,997 and the net carrying value of subordinated debt is increased by $28,160 as of September 30, 2018 for the effective portion of the hedge, which relates to the fair value of the hedges put in place to mitigate against fluctuations in interest rates.

(2) Includes only the portion of junior subordinated debt that is recorded at fair value at each reporting period pursuant to the election of FVO treatment.

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	Fair Value Measurements at the End of the Reporting Period Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in thousands)			
December 31, 2017				
Assets:				
Available-for-sale debt securities				
CDO	$—	$21,857	$ —	$21,857
Commercial MBS issued by GSEs	—	109,077	—	109,077
Corporate debt securities	—	103,483	—	103,483
Private label residential MBS	—	868,524	—	868,524
Residential MBS issued by GSEs	—	1,689,295	—	1,689,295
Tax-exempt	—	510,910	—	510,910
Trust preferred securities	—	28,617	—	28,617
U.S. government sponsored agency securities	—	61,462	—	61,462
U.S. treasury securities	—	2,482	—	2,482
Available-for-sale equity securities				
CRA investments	50,616	—	—	50,616
Preferred stock	53,196	—	—	53,196
Total AFS securities	$103,812	$3,395,707	$ —	$3,499,519
Derivative assets (1)	$—	$3,711	$ —	$3,711
Liabilities:				
Junior subordinated debt (2)	$—	$—	$ 56,234	$56,234
Derivative liabilities (1)	—	55,340	—	55,340

(1) Derivative assets and liabilities relate to interest rate swaps, see "Note 9. Derivatives and Hedging Activities." In addition, the carrying value of loans is increased by $41,919 and the net carrying value of subordinated debt is decreased by $9,959 as of December 31, 2017 for the effective portion of the hedge, which relates to the fair value of the hedges put in place to mitigate against fluctuations in interest rates.

(2) Includes only the portion of junior subordinated debt that is recorded at fair value at each reporting period pursuant to the election of FVO treatment.

For the three and nine months ended September 30, 2018 and 2017, the change in Level 3 liabilities measured at fair value on a recurring basis was as follows:

	Junior Subordinated Debt			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Beginning balance	$(53,298)	$(55,772)	$(56,234)	$(50,410)
Change in fair value	(2,689)	1,035	247	(4,327)
Ending balance	$(55,987)	$(54,737)	$(55,987)	$(54,737)

For Level 3 liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, the significant unobservable inputs used in the fair value measurements were as follows:

	September 30, 2018 (in thousands)	Valuation Technique	Significant Unobservable Inputs	Input Value
Junior subordinated debt	$ 55,987	Discounted cash flow	Implied credit rating of the Company	6.20%

	December 31, 2017 (in thousands)	Valuation Technique	Significant Unobservable Inputs	Input Value
Junior subordinated debt	$ 56,234	Discounted cash flow	Implied credit rating of the Company	5.61%

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The significant unobservable inputs used in the fair value measurement of the Company's junior subordinated debt as of September 30, 2018 and December 31, 2017 was the implied credit risk for the Company, calculated as the difference between the 20-year 'BB' rated financial index over the corresponding swap index.

Fair value on a nonrecurring basis

Certain assets are measured at fair value on a nonrecurring basis. That is, the assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents such assets carried on the Balance Sheet by caption and by level within the ASC 825 hierarchy:

	Fair Value Measurements at the End of the Reporting Period Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)			
As of September 30, 2018;				
Impaired loans with specific valuation allowance	$ 2,430	$ —	$ —	$ 2,430
Impaired loans without specific valuation allowance (1)	81,445	—	—	81,445
Other assets acquired through foreclosure	20,028	—	—	20,028
As of December 31, 2017:				
Impaired loans with specific valuation allowance	$ 13,709	$ —	$ —	$ 13,709
Impaired loans without specific valuation allowance (1)	63,607	—	—	63,607
Other assets acquired through foreclosure	28,540	—	—	28,540

(1) Net of loan balances with charge-offs of $40.5 million and $15.6 million as of September 30, 2018 and December 31, 2017, respectively.

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For Level 3 assets measured at fair value on a nonrecurring basis as of September 30, 2018 and December 31, 2017, the significant unobservable inputs used in the fair value measurements were as follows:

	September 30, 2018 (in thousands)	Valuation Technique(s)		Significant Unobservable Inputs	Range
Impaired loans	$ 83,875	Collateral method	Third party appraisal	Costs to sell	4.0% to 10.0%
		Discounted cash flow method	Discount rate	Contractual loan rate	4.0% to 7.0%
			Scheduled cash collections	Probability of default	0% to 20.0%
			Proceeds from non-real estate collateral	Loss given default	0% to 70.0%
Other assets acquired through foreclosure	20,028	Collateral method	Third party appraisal	Costs to sell	4.0% to 10.0%

	December 31, 2017 (in thousands)	Valuation Technique(s)		Significant Unobservable Inputs	Range
Impaired loans	$ 77,316	Collateral method	Third party appraisal	Costs to sell	4.0% to 10.0%
		Discounted cash flow method	Discount rate	Contractual loan rate	4.0% to 7.0%
			Scheduled cash collections	Probability of default	0% to 20.0%
			Proceeds from non-real estate collateral	Loss given default	0% to 70.0%
Other assets acquired through foreclosure	28,540	Collateral method	Third party appraisal	Costs to sell	4.0% to 10.0%

Impaired loans: The specific reserves for collateral dependent impaired loans are based on collateral value, net of estimated disposition costs and other identified quantitative inputs. Collateral value is determined based on independent third-party appraisals or internally-developed discounted cash flow analyses. Appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2. However, certain assumptions and unobservable inputs are often used by the appraiser, therefore qualifying the assets as Level 3 in the fair value hierarchy. In addition, when adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. Internal discounted cash flow analyses are also utilized to estimate the fair value of impaired loans, which considers internally-developed, unobservable inputs such as discount rates, default rates, and loss severity. Total Level 3 impaired loans had an estimated fair value of $83.9 million and $77.3 million at September 30, 2018 and December 31, 2017, respectively. Impaired loans with a specific valuation allowance had a gross estimated fair value of $3.6 million and $19.3 million at September 30, 2018 and December 31, 2017, respectively, which was reduced by a specific valuation allowance of $1.2 million and $5.6 million, respectively.

Other assets acquired through foreclosure: Other assets acquired through foreclosure consist of properties acquired as a result of, or in-lieu-of, foreclosure. These assets are initially reported at the fair value determined by independent appraisals using appraised value less estimated cost to sell. Such properties are generally re-appraised every twelve months. There is risk for subsequent volatility. Costs relating to the development or improvement of the assets are

capitalized and costs relating to holding the assets are charged to expense.

Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2. However, certain assumptions and unobservable inputs are often used by the appraiser, therefore qualifying the assets as Level 3 in the fair value hierarchy. When significant adjustments are based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the collateral is further impaired below the

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appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement. The Company had $20.0 million and $28.5 million of such assets at September 30, 2018 and December 31, 2017, respectively.

Credit vs. non-credit losses

Under the provisions of ASC 320, Investments-Debt and Equity Securities, OTTI is separated into the amount of total impairment related to the credit loss and the amount of the total impairment related to all other factors. The amount of the total OTTI related to the credit loss is recognized in earnings. The amount of the total impairment related to all other factors is recognized in OCI.

For the three and nine months ended September 30, 2018 and 2017, the Company determined that no securities experienced credit losses.

There is no OTTI balance recognized in comprehensive income as of September 30, 2018 and 2017.

Fair Value of Financial Instruments

The estimated fair value of the Company’s financial instruments is as follows:

	September 30, 2018				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
	(in thousands)				
Financial assets:					
Federal funds sold	$70,000	$—	$70,000	$ —	$70,000
Investment securities:					
HTM	288,290	—	279,033	—	279,033
AFS	3,107,076	—	3,107,076	—	3,107,076
Equity	172,294	172,294	—	—	172,294
Derivative assets	8,978	—	8,978	—	8,978
Loans, net	16,582,754	—	15,964,980	83,875	16,048,855
Accrued interest receivable	88,847	—	88,847	—	88,847
Financial liabilities:					
Deposits	$18,908,580	$—	$18,918,956	$ —	$18,918,956
Customer repurchase agreements	20,969	—	20,969	—	20,969
Qualifying debt	359,082	—	328,448	67,013	395,461
Derivative liabilities	38,973	—	38,973	—	38,973
Accrued interest payable	14,268	—	14,268	—	14,268

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	December 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
	(in thousands)				
Financial assets:					
Investment securities:					
HTM	$255,050	$—	$256,314	$ —	$256,314
AFS	3,499,519	103,812	3,395,707	—	3,499,519
Derivative assets	3,711	—	3,711	—	3,711
Loans, net	14,953,885	—	14,577,010	77,316	14,654,326
Accrued interest receivable	85,517	—	85,517	—	85,517
Financial liabilities:					
Deposits	$16,972,532	$—	$16,980,066	$ —	$16,980,066
Customer repurchase agreements	26,017	—	26,017	—	26,017
FHLB advances	390,000	—	390,000	—	390,000
Qualifying debt	376,905	—	336,803	67,210	404,013
Derivative liabilities	55,340	—	55,340	—	55,340
Accrued interest payable	16,366	—	16,366	—	16,366

Interest rate risk

The Company assumes interest rate risk (the risk to the Company’s earnings and capital from changes in interest rate levels) as a result of its normal operations. As a result, the fair values of the Company’s financial instruments, as well as its future net interest income will change when interest rate levels change and that change may be either favorable or unfavorable to the Company.

Interest rate risk exposure is measured using interest rate sensitivity analysis to determine the Company's change in EVE and net interest income resulting from hypothetical changes in interest rates. If potential changes to EVE and net interest income resulting from hypothetical interest rate changes are not within the limits established by the BOD, the BOD may direct management to adjust the asset and liability mix to bring interest rate risk within BOD-approved limits.

WAB has an ALCO charged with managing interest rate risk within the BOD-approved limits. Limits are structured to preclude an interest rate risk profile that does not conform to both management and BOD risk tolerances without ALCO approval. There is also ALCO reporting at the Parent level for reviewing interest rate risk for the Company, which gets reported to the BOD and its Finance and Investment Committee.

Fair value of commitments

The estimated fair value of standby letters of credit outstanding at September 30, 2018 and December 31, 2017 is insignificant. Loan commitments on which the committed interest rates are less than the current market rate are also insignificant at September 30, 2018 and December 31, 2017.

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14. SEGMENTS

The Company's reportable segments are aggregated based primarily on geographic location, services offered, and markets served. The Company's regional segments, which include Arizona, Nevada, Southern California, and Northern California, provide full service banking and related services to their respective markets. The operations from the regional segments correspond to the following banking divisions: ABA in Arizona, BON and FIB in Nevada, TPB in Southern California, and Bridge in Northern California.

The Company's NBL segments provide specialized banking services to niche markets. The Company's NBL reportable segments include HOA Services, Public & Nonprofit Finance, Technology & Innovation, HFF, and Other NBLs. These NBLs are managed centrally and are broader in geographic scope than the Company's other segments, though still predominately located within the Company's core market areas.

The Corporate & Other segment consists of corporate-related items, income and expense items not allocated to the Company's other reportable segments, and inter-segment eliminations.

The Company's segment reporting process begins with the assignment of all loan and deposit accounts directly to the segments where these products are originated and/or serviced. Equity capital is assigned to each segment based on the risk profile of their assets and liabilities. With the exception of goodwill, which is assigned a 100% weighting, equity capital allocations ranged from 0% to 12% during the year, with a funds credit provided for the use of this equity as a funding source. Any excess or deficient equity not allocated to segments based on risk is assigned to the Corporate & Other segment.

Net interest income, provision for credit losses, and non-interest expense amounts are recorded in their respective segment to the extent that the amounts are directly attributable to those segments. Net interest income is recorded in each segment on a TEB with a corresponding increase in income tax expense, which is eliminated in the Corporate & Other segment.

Further, net interest income of a reportable segment includes a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics. Using this funds transfer pricing methodology, liquidity is transferred between users and providers. A net user of funds has lending/investing in excess of deposits/borrowings and a net provider of funds has deposits/borrowings in excess of lending/investing. A segment that is a user of funds is charged for the use of funds, while a provider of funds is credited through funds transfer pricing, which is determined based on the average life of the assets or liabilities in the portfolio.

The net income amount for each reportable segment is further derived by the use of expense allocations. Certain expenses not directly attributable to a specific segment are allocated across all segments based on key metrics, such as number of employees, average loan balances, and average deposit balances. These types of expenses include information technology, operations, human resources, finance, risk management, credit administration, legal, and marketing.

Income taxes are applied to each segment based on the effective tax rate for the geographic location of the segment. Any difference in the corporate tax rate and the aggregate effective tax rates in the segments are adjusted in the Corporate & Other segment.

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The following is a summary of operating segment information for the periods indicated:

		Regional Segments			
Balance Sheet:	Consolidated Company	Arizona	Nevada	Southern California	Northern California
At September 30, 2018	(in millions)				
Assets:					
Cash, cash equivalents, and investment securities	$4,334.2	$2.0	$8.5	$2.1	$1.8
Loans, net of deferred loan fees and costs	16,732.8	3,593.5	1,936.7	2,116.3	1,332.3
Less: allowance for credit losses	(150.0)	(33.1)	(18.6)	(20.2)	(11.3)
Total loans	16,582.8	3,560.4	1,918.1	2,096.1	1,321.0
Other assets acquired through foreclosure, net	20.0	1.7	14.1	—	—
Goodwill and other intangible assets, net	299.5	—	23.2	—	155.8
Other assets	939.6	46.3	58.0	15.1	18.8
Total assets	$22,176.1	$3,610.4	$2,021.9	$2,113.3	$1,497.4
Liabilities:					
Deposits	$18,908.6	$5,331.7	$3,847.3	$2,550.7	$1,951.5
Borrowings and qualifying debt	359.1	—	—	—	—
Other liabilities	420.0	13.5	16.3	1.9	12.3
Total liabilities	19,687.7	5,345.2	3,863.6	2,552.6	1,963.8
Allocated equity:	2,488.4	439.8	270.7	242.4	308.7
Total liabilities and stockholders' equity	$22,176.1	$5,785.0	$4,134.3	$2,795.0	$2,272.5
Excess funds provided (used)	—	2,174.6	2,112.4	681.7	775.1
Income Statement:					
Three Months Ended September 30, 2018	(in thousands)				
Net interest income	$234,038	$56,701	$37,933	$29,572	$23,825
Provision for (recovery of) credit losses	6,000	(297)	(38)	1,467	482
Net interest income after provision for credit losses	228,038	56,998	37,971	28,105	23,343
Non-interest income	4,418	2,230	2,573	931	2,312
Non-interest expense	(113,841)	(23,231)	(16,471)	(14,332)	(13,207)
Income (loss) before income taxes	118,615	35,997	24,073	14,704	12,448
Income tax expense (benefit)	7,492	8,999	5,055	4,117	3,486
Net income	$111,123	$26,998	$19,018	$10,587	$8,962
Nine Months Ended September 30, 2018	(in thousands)				
Net interest income	$672,366	$169,233	$109,898	$85,038	$69,081
Provision for (recovery of) credit losses	17,000	1,655	(2,005)	1,921	2,043
Net interest income after provision for credit losses	655,366	167,578	111,903	83,117	67,038
Non-interest income	29,505	5,902	8,585	2,898	7,281
Non-interest expense	(314,538)	(67,154)	(46,486)	(42,470)	(39,139)
Income (loss) before income taxes	370,333	106,326	74,002	43,545	35,180
Income tax expense (benefit)	53,631	26,644	15,634	12,288	9,938
Net income	$316,702	$79,682	$58,368	$31,257	$25,242

Balance Sheet:	National Business Lines HOA Services	Public & Nonprofit Finance	Technology & Innovation	Hotel Franchise Finance	Other NBLs	Corporate & Other
At September 30, 2018						
Assets:	(in millions)					
Cash, cash equivalents, and investment securities	$—	$—	$—	$—	$—	$4,319.8
Loans, net of deferred loan fees and costs	202.1	1,520.2	1,106.5	1,435.4	3,483.2	6.6
Less: allowance for credit losses	(1.9)	(14.4)	(9.9)	(7.3)	(33.2)	(0.1)
Total loans	200.2	1,505.8	1,096.6	1,428.1	3,450.0	6.5
Other assets acquired through foreclosure, net	—	—	—	—	—	4.2
Goodwill and other intangible assets, net	—	—	120.4	0.1	—	—
Other assets	1.0	19.2	5.4	6.8	23.8	745.2
Total assets	$201.2	$1,525.0	$1,222.4	$1,435.0	$3,473.8	$5,075.7
Liabilities:						
Deposits	$2,523.9	$—	$2,319.5	$—	$—	$384.0
Borrowings and qualifying debt	—	—	—	—	—	359.1
Other liabilities	1.7	10.1	0.1	(0.1)	85.4	278.8
Total liabilities	2,525.6	10.1	2,319.6	(0.1)	85.4	1,021.9
Allocated equity:	68.5	121.4	256.5	119.1	286.0	375.3
Total liabilities and stockholders' equity	$2,594.1	$131.5	$2,576.1	$119.0	$371.4	$1,397.2
Excess funds provided (used)	2,392.9	(1,393.5)	1,353.7	(1,316.0)	(3,102.4)	(3,678.5)
Income Statement:						
Three Months Ended September 30, 2018	(in thousands)					
Net interest income	$17,930	$3,683	$27,233	$13,557	$20,329	$3,275
Provision for (recovery of) credit losses	103	(553)	1,448	223	3,214	(49)
Net interest income after provision for credit losses	17,827	4,236	25,785	13,334	17,115	3,324
Non-interest income	215	159	2,836	—	549	(7,387)
Non-interest expense	(8,254)	(2,134)	(9,933)	(3,014)	(7,280)	(15,985)
Income (loss) before income taxes	9,788	2,261	18,688	10,320	10,384	(20,048)
Income tax expense (benefit)	2,251	521	4,298	2,374	2,388	(25,997)
Net income	$7,537	$1,740	$14,390	$7,946	$7,996	$5,949
Nine Months Ended September 30, 2018	(in thousands)					
Net interest income	$49,335	$11,224	$74,615	$41,617	$58,813	$3,512
Provision for (recovery of) credit losses	285	(786)	5,355	2,006	6,573	(47)
Net interest income after provision for credit losses	49,050	12,010	69,260	39,611	52,240	3,559
Non-interest income	543	159	9,518	12	1,182	(6,575)
Non-interest expense	(24,090)	(6,386)	(29,666)	(7,419)	(19,193)	(32,535)
Income (loss) before income taxes	25,503	5,783	49,112	32,204	34,229	(35,551)
Income tax expense (benefit)	5,866	1,329	11,296	7,407	7,873	(44,644)
Net income	$19,637	$4,454	$37,816	$24,797	$26,356	$9,093

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		Regional Segments			
	Consolidated Company	Arizona	Nevada	Southern California	Northern California
At December 31, 2017	(in millions)				
Assets:					
Cash, cash equivalents, and investment securities	$4,237.1	$2.1	$8.2	$2.1	$1.7
Loans, net of deferred loan fees and costs	15,093.9	3,323.7	1,844.8	1,934.7	1,275.5
Less: allowance for credit losses	(140.0)	(31.5)	(18.1)	(19.5)	(13.2)
Total loans	14,953.9	3,292.2	1,826.7	1,915.2	1,262.3
Other assets acquired through foreclosure, net	28.5	2.3	13.3	—	0.2
Goodwill and other intangible assets, net	300.7	—	23.2	—	156.5
Other assets	808.9	46.3	58.8	14.4	15.1
Total assets	$20,329.1	$3,342.9	$1,930.2	$1,931.7	$1,435.8
Liabilities:					
Deposits	$16,972.5	$4,841.3	$3,951.4	$2,461.1	$1,681.7
Borrowings and qualifying debt	766.9	—	—	—	—
Other liabilities	360.0	11.6	20.9	3.2	11.9
Total liabilities	18,099.4	4,852.9	3,972.3	2,464.3	1,693.6
Allocated equity:	2,229.7	396.5	263.7	221.8	303.1
Total liabilities and stockholders' equity	$20,329.1	$5,249.4	$4,236.0	$2,686.1	$1,996.7
Excess funds provided (used)	—	1,906.5	2,305.8	754.4	560.9
Income Statement:					
Three Months Ended September 30, 2017	(in thousands)				
Net interest income (expense)	$201,583	$52,637	$36,310	$26,811	$21,932
Provision for (recovery of) credit losses	5,000	(289)	(2,044)	(58)	3,144
Net interest income (expense) after provision for credit losses	196,583	52,926	38,354	26,869	18,788
Non-interest income	10,456	1,265	2,354	971	1,796
Non-interest expense	(89,296)	(18,844)	(14,748)	(12,340)	(11,317)
Income (loss) before income taxes	117,743	35,347	25,960	15,500	9,267
Income tax expense (benefit)	34,899	13,857	9,086	6,517	3,897
Net income	$82,844	$21,490	$16,874	$8,983	$5,370
Nine Months Ended September 30, 2017	(in thousands)				
Net interest income (expense)	$573,635	$145,839	$108,028	$81,087	$63,686
Provision for (recovery of) credit losses	12,250	109	(5,378)	(20)	4,238
Net interest income (expense) after provision for credit losses	561,385	145,730	113,406	81,107	59,448
Non-interest income	31,656	3,567	6,800	2,602	5,839
Non-interest expense	(265,543)	(55,388)	(45,733)	(38,063)	(36,188)
Income (loss) before income taxes	327,498	93,909	74,473	45,646	29,099
Income tax expense (benefit)	91,352	36,831	26,066	19,194	12,236
Net income	$236,146	$57,078	$48,407	$26,452	$16,863

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	National Business Lines					
	HOA Services	Public & Nonprofit Finance	Technology & Innovation	Hotel Franchise Finance	Other NBLs	Corporate & Other
At December 31, 2017						
Assets:	(in millions)					
Cash, cash equivalents, and investment securities	$—	$—	$—	$—	$—	$4,223.0
Loans, net of deferred loan fees and costs	162.1	1,580.4	1,097.9	1,327.7	2,543.0	4.1
Less: allowance for credit losses	(1.6)	(15.6)	(11.4)	(4.0)	(25.0)	(0.1)
Total loans	160.5	1,564.8	1,086.5	1,323.7	2,518.0	4.0
Other assets acquired through foreclosure, net	—	—	—	—	—	12.7
Goodwill and other intangible assets, net	—	—	120.9	0.1	—	—
Other assets	0.9	17.9	6.0	5.9	15.5	628.1
Total assets	$161.4	$1,582.7	$1,213.4	$1,329.7	$2,533.5	$4,867.8
Liabilities:						
Deposits	$2,230.4	$—	$1,737.6	$—	$—	$69.0
Borrowings and qualifying debt	—	—	—	—	—	766.9
Other liabilities	1.2	42.4	0.8	0.4	5.5	262.1
Total liabilities	2,231.6	42.4	1,738.4	0.4	5.5	1,098.0
Allocated equity:	59.4	126.5	244.1	108.3	206.0	300.3
Total liabilities and stockholders' equity	$2,291.0	$168.9	$1,982.5	$108.7	$211.5	$1,398.3
Excess funds provided (used)	2,129.6	(1,413.8)	769.1	(1,221.0)	(2,322.0)	(3,469.5)
Income Statement:						
Three Months Ended September 30, 2017	(in thousands)					
Net interest income (expense)	$13,746	$7,269	$20,415	$15,346	$16,933	$(9,816)
Provision for (recovery of) credit losses	40	91	(83)	1,116	4,416	(1,333)
Net interest income (expense) after provision for credit losses	13,706	7,178	20,498	14,230	12,517	(8,483)
Non-interest income	136	183	1,855	—	379	1,517
Non-interest expense	(7,011)	(2,053)	(8,824)	(1,905)	(5,286)	(6,968)
Income (loss) before income taxes	6,831	5,308	13,529	12,325	7,610	(13,934)
Income tax expense (benefit)	2,562	1,028	5,075	4,622	2,853	(14,598)
Net income	$4,269	$4,280	$8,454	$7,703	$4,757	$664
Nine Months Ended September 30, 2017	(in thousands)					
Net interest income (expense)	$40,275	$21,242	$59,610	$42,337	$46,380	$(34,849)
Provision for (recovery of) credit losses	332	796	816	2,924	10,265	(1,832)
Net interest income (expense) after provision for credit losses	39,943	20,446	58,794	39,413	36,115	(33,017)
Non-interest income	417	415	5,689	—	1,632	4,695
Non-interest expense	(21,416)	(6,522)	(26,685)	(7,949)	(14,573)	(13,026)
Income (loss) before income taxes	18,944	14,339	37,798	31,464	23,174	(41,348)
Income tax expense (benefit)	7,104	4,424	14,175	11,799	8,690	(49,167)
Net income	$11,840	$9,915	$23,623	$19,665	$14,484	$7,819

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15. REVENUE FROM CONTRACTS WITH CUSTOMERS

Adoption of ASU 2014-09, Revenue from Contracts with Customers, Amendments to ASC 606

The core principal of ASC 606, Revenue from Contracts with Customers, is that an entity shall recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. ASC 606 requires entities to exercise more judgment when considering the terms of a contract than under ASC 605, Revenue Recognition. ASC 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope. The majority of the Company's revenue streams including interest income, credit and debit card fees, income from equity investments including warrants and SBIC equity income, income from bank owned life insurance, foreign currency income, lending related income, and gains and losses on sales of investment securities are outside the scope of ASC 606. Revenue streams including service charges and fees, interchange fees on credit and debit cards, and success fees are within the scope of ASC 606.

On January 1, 2018, the Company adopted the amendments to ASC 606 using the modified retrospective method, and applied the guidance to all contracts in scope that were not completed as of January 1, 2018. Comparative prior periods have not been adjusted and are presented under ASC 605. The Company did not identify any material changes to the timing or amount of revenue recognition as a result of adoption.

Disaggregation of Revenue

The following table represents a disaggregation of revenue from contracts with customers for the periods indicated along with the reportable segment for each revenue category:

		Regional Segments			
Three Months Ended September 30, 2018	Consolidated Company	Arizona	Nevada	Southern California	Northern California
	(in thousands)				
Revenue from contracts with customers:					
Service charges and fees	$5,267	$917	$1,967	$ 634	$ 905
Debit and credit card interchange (1)	1,834	284	381	171	992
Success fees (2)	675	—	—	—	—
Other income	84	29	34	7	18
Total revenue from contracts with customers	$7,860	$1,230	$2,382	$ 812	$ 1,915
Revenues outside the scope of ASC 606 (3)	(3,442)	1,000	191	119	397
Total non-interest income	$4,418	$2,230	$2,573	$ 931	$ 2,312

		Regional Segments			
Nine Months Ended September 30, 2018	Consolidated Company	Arizona	Nevada	Southern California	Northern California
	(in thousands)				
Revenue from contracts with customers:					
Service charges and fees	$16,684	$2,826	$6,143	$ 2,053	$ 2,945
Debit and credit card interchange (1)	4,990	822	995	471	2,687
Success fees (2)	2,370	—	—	—	21
Other income	497	139	153	51	134
Total revenue from contracts with customers	$24,541	$3,787	$7,291	$ 2,575	$ 5,787
Revenues outside the scope of ASC 606 (3)	4,964	2,115	1,294	323	1,494
Total non-interest income	$29,505	$5,902	$8,585	$ 2,898	$ 7,281

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	National Business Lines					
Three Months Ended September 30, 2018	HOA Services	Public & Nonprofit Finance	Technology & Innovation	Hotel Franchise Finance	Other NBLs	Corporate & Other
	(in thousands)					
Revenue from contracts with customers:						
Service charges and fees	$208	$ —	$ 643	$ —	$ —	$ (7)
Debit and credit card interchange (1)	6	—	—	—	—	—
Success fees (2)	—	—	675	—	—	—
Other income	1	—	—	—	—	(5)
Total revenue from contracts with customers	$215	$ —	$ 1,318	$ —	$ —	$ (12)
Revenues outside the scope of ASC 606 (3)	—	159	1,518	—	549	(7,375)
Total non-interest income	$215	$ 159	$ 2,836	$ —	$ 549	$ (7,387)

	National Business Lines					
Nine Months Ended September 30, 2018	HOA Services	Public & Nonprofit Finance	Technology & Innovation	Hotel Franchise Finance	Other NBLs	Corporate & Other
	(in thousands)					
Revenue from contracts with customers:						
Service charges and fees	$525	$ —	$ 2,197	$ —	$—	$ (5)
Debit and credit card interchange (1)	15	—	—	—	—	—
Success fees (2)	—	—	2,349	—	—	—
Other income	3	—	—	—	1	16
Total revenue from contracts with customers	$543	$ —	$ 4,546	$ —	$1	$ 11
Revenues outside the scope of ASC 606 (3)	—	159	4,972	12	1,181	(6,586)
Total non-interest income	$543	$ 159	$ 9,518	$ 12	$1,182	$ (6,575)

		Regional Segments			
Three Months Ended September 30, 2017	Consolidated Company	Arizona	Nevada	Southern California	Northern California
	(in thousands)				
Revenue from contracts with customers:					
Service charges and fees	$5,248	$765	$1,952	$ 628	$ 1,011
Debit and credit card interchange (1)	1,250	232	246	138	634
Success fees (2)	701	—	—	—	102
Other income	127	61	(4)	32	34
Total revenue from contracts with customers	$7,326	$1,058	$2,194	$ 798	$ 1,781
Revenues outside the scope of ASC 606 (3)	3,130	207	160	173	15
Total non-interest income	$10,456	$1,265	$2,354	$ 971	$ 1,796

		Regional Segments			
Nine Months Ended September 30, 2017	Consolidated Company	Arizona	Nevada	Southern California	Northern California
	(in thousands)				
Revenue from contracts with customers:					
Service charges and fees	$15,189	$2,095	$5,544	$ 1,749	$ 3,069
Debit and credit card interchange (1)	3,714	661	723	400	1,930
Success fees (2)	1,162	—	—	—	247
Other income	373	99	(4)	43	107
Total revenue from contracts with customers	$20,438	$2,855	$6,263	$ 2,192	$ 5,353
Revenues outside the scope of ASC 606 (3)	11,218	712	537	410	486

Total non-interest income	$31,656	$3,567	$6,800	$ 2,602	$ 5,839

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Three Months Ended September 30, 2017	National Business Lines					
	HOA Services	Public & Nonprofit Finance	Technology & Innovation	Hotel Franchise Finance	Other NBLs	Corporate & Other
	(in thousands)					
Revenue from contracts with customers:						
Service charges and fees	$136	$ —	$ 762	$ —	$ —	$ (6)
Debit and credit card interchange (1)	—	—	—	—	—	—
Success fees (2)	—	—	599	—	—	—
Other income	—	—	—	—	—	4
Total revenue from contracts with customers	$136	$ —	$ 1,361	$ —	$ —	$ (2)
Revenues outside the scope of ASC 606 (3)	—	183	494	—	379	1,519
Total non-interest income	$136	$ 183	$ 1,855	$ —	$ 379	$ 1,517

Nine Months Ended September 30, 2017	National Business Lines					
	HOA Services	Public & Nonprofit Finance	Technology & Innovation	Hotel Franchise Finance	Other NBLs	Corporate & Other
	(in thousands)					
Revenue from contracts with customers:						
Service charges and fees	$416	$ —	$ 2,319	$ —	$—	$ (3)
Debit and credit card interchange (1)	—	—	—	—	—	—
Success fees (2)	—	—	915	—	—	—
Other income	1	—	3	—	113	11
Total revenue from contracts with customers	$417	$ —	$ 3,237	$ —	$113	$ 8
Revenues outside the scope of ASC 606 (3)	—	415	2,452	—	1,519	4,687
Total non-interest income	$417	$ 415	$ 5,689	$ —	$1,632	$ 4,695

(1) Included as part of Card income in the Consolidated Income Statement.
(2) Included as part of Income from equity investments in the Consolidated Income Statement.
(3) Amounts are accounted for under separate guidance. Refer to discussion of revenue sources not subject to ASC 606 under the Non-interest income section in "Note 1. Summary of Significant Accounting Policies."

Performance Obligations

Many of the services the Company performs for its customers are ongoing, and either party may cancel at any time. The fees for these contracts are dependent upon various underlying factors, such as customer deposit balances, and as such may be considered variable. The Company's performance obligations for these services are satisfied as the services are rendered and payment is collected on a monthly, quarterly, or semi-annual basis. Other contracts with customers are for services to be provided at a point in time, and fees are recognized at the time such services are rendered. The Company had no material unsatisfied performance obligations as of September 30, 2018. The revenue streams within the scope of ASC 606 are described in further detail below.

Service Charges and Fees

The Company performs deposit account services for its customers, which include analysis and treasury management services, use of safe deposit boxes, check upcharges, and other ancillary services. The depository arrangements the Company holds with its customers are considered day-to-day contracts with ongoing renewals and optional purchases, and as such, the contract duration does not extend beyond the services performed. Due to the short-term nature of such contracts, the Company generally recognizes revenue for deposit related fees as services are rendered. From time to time, the Company may waive certain fees for its customers. The Company considers historical experience when recognizing revenue from contracts with customers, and may reduce the transaction price to account for fee waivers or refunds.

Debit and Credit Card Interchange

When a credit or debit card issued by the Company is used to purchase goods or services from a merchant, the Company earns an interchange fee. The Company considers the merchant its customer in these transactions as the Company provides the merchant with the service of enabling the cardholder to purchase the merchant's goods or services with increased convenience, and it enables the merchants to transact with a class of customer that may not have access to sufficient funds at the time of purchase. The Company acts as an agent to the payment network by providing nightly settlement services between the network and the merchant. This transmission of data and funds represents the Company's performance obligation and is performed nightly. As the payment network

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is in direct control of setting the rates and the Company is acting as an agent, the interchange fee is recorded net of expenses as the services are provided.

Success Fees

Success fees are one-time fees detailed as part of certain loan agreements and are earned immediately upon occurrence of a triggering event. Examples of triggering events include: a borrower obtaining its next round of funding, an acquisition, or completion of a public offering. Success fees are variable consideration as the transaction price can vary and is contingent on the occurrence or non-occurrence of a future event. As the consideration is highly susceptible to factors outside of the Company’s influence and uncertainty about the amount of consideration is not expected to be resolved for an extended period of time, the variable consideration is constrained and is not recognized until the achievement of the triggering event.

Principal versus Agent Considerations

When more than one party is involved in providing goods or services to a customer, ASC 606 requires the Company to determine whether it is the principal or an agent in these transactions by evaluating the nature of its promise to the customer. An entity is a principal and therefore records revenue on a gross basis, if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent and records as revenue the net amount it retains for its agency services if its role is to arrange for another entity to provide the goods or services. The Company most commonly acts as a principal and records revenue on a gross basis, except in certain circumstances. As an example, revenues earned from interchange fees, in which the Company acts as an agent, are recorded as non-interest income, net of the related expenses paid to the principal.

Practical Expedients

The Company has elected to apply the practical expedient allowed in ASC 340-40-25-4, which permits the Company to immediately expense contract acquisition costs, such as commissions, when the asset that would have resulted from capitalizing these costs would be amortized in one year or less. The practical expedient described in ASC 606-10-32-18, which is associated with the determination of whether a significant financing component exists, is not currently applicable to the Company.

Contract Balances

The timing of revenue recognition may differ from the timing of cash settlements or invoicing to customers. The Company records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers. The Company generally receives payments for its services during the period or at the time services are provided, therefore, does not have material contract liability balances at period-end. The Company records contract assets or receivables when revenue is recognized prior to receipt of cash from the customer. Accounts receivable totals $1.3 million at each of the periods ended September 30, 2018 and December 31, 2017 and are presented in Other assets in the Consolidated Balance Sheets.

16. RELATED PARTY TRANSACTIONS

Principal stockholders, directors, and executive officers of the Company, their immediate family members, and companies they control or own more than a 10% interest in, are considered to be related parties. In the ordinary course of business, the Company engages in various related party transactions, including extending credit and bank service transactions. All related party transactions are subject to review and approval pursuant to the Company's Related Party Transactions policy.

On April 1, 2017, the Company hired an executive officer who was previously the Managing Partner of an external consulting firm that the Company actively uses for risk management services. Prior to joining the Company, the executive officer sold his interest in this external consulting firm and was paid with a combination of cash and a $1.0 million note, which as of September 30, 2018, was paid in full. Donations and other services to related parties, including sponsorships and expenses to this external consulting firm, totaled $8.7 million and $2.1 million for the nine months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018, total related party expenses of $8.7 million includes a donation to the Company's charitable foundation of $7.6 million, which consists of a non-cash donation of OREO property of $6.9 million and a cash donation of $0.7 million.

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Item 2. Management's Discussions and Analysis of Financial Condition and Results of Operations.

This discussion is designed to provide insight into management's assessment of significant trends related to the Company's consolidated financial condition, results of operations, liquidity, capital resources, and interest rate sensitivity. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and the interim Unaudited Consolidated Financial Statements and Notes to Unaudited Consolidated Financial Statements hereto and financial information appearing elsewhere in this report. Unless the context requires otherwise, the terms "Company," "we," and "our" refer to Western Alliance Bancorporation and its wholly-owned subsidiaries on a consolidated basis.

Forward-Looking Information

Certain statements contained in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including statements that are related to or are dependent on estimates or assumptions relating to expectations, beliefs, projections, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts.

The forward-looking statements contained in this Form 10-Q reflect the Company's current views about future events and financial performance and involve certain risks, uncertainties, assumptions, and changes in circumstances that may cause the Company's actual results to differ significantly from historical results and those expressed in any forward-looking statement, including those risks discussed under the heading “Risk Factors” in this Form 10-Q. Risks and uncertainties include those set forth in the Company's filings with the SEC and the following factors that could cause actual results to differ materially from those presented: 1) financial market and economic conditions adversely effecting financial performance; 2) dependency on real estate and events that negatively impact the real estate market; 3) high concentration of commercial real estate and commercial and industrial loans; 4) actual credit losses may exceed expected losses in the loan portfolio; 5) recent changes to FASB accounting standards and the impact on the recognition of credit losses; 6) results of any tax audit findings, challenges to the Company's tax positions, or adverse changes or interpretations of tax laws; 7) the geographic concentrations of the Company's assets increase the risks related to local economic conditions; 8) exposure of financial instruments to certain market risks may increase the volatility of earnings and AOCI; 9) dependence on low-cost deposits; 10) ability to borrow from the FHLB or the FRB; 11) perpetration of fraud; 12) information security breaches; 13) reliance on third parties to provide key components of the Company's infrastructure; 14) a change in the Company's creditworthiness; 15) the Company's ability to implement and improve its controls and processes to keep pace with its growth; 16) expansion strategies may not be successful; 17) risks associated with new lines of businesses or new products and services within existing lines of business; 18) the Company's ability to compete in a highly competitive market; 19) the Company's ability to recruit and retain qualified employees and implement adequate succession planning to mitigate the loss of key members of its senior management team; 20) inadequate or ineffective risk management practices and internal controls and procedures; 21) the Company's ability to adapt to technological change; 22) exposure to natural and manmade disasters in markets that the Company operates; 23) risk of operating in a highly regulated industry and the Company's ability to remain in compliance; 24) failure to comply with state and federal banking agency laws and regulations; 25) changes in interest rates and increased rate competition; 26) exposure to environmental liabilities related to the properties to which the Company acquires title; and 27) risks related to ownership and price of the Company's common stock.

For more information regarding risks that may cause the Company's actual results to differ materially from any forward-looking statements, see “Risk Factors” in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Financial Overview and Highlights

WAL is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, international banking, and online

banking products and services through its wholly-owned banking subsidiary, WAB.
WAB operates the following full-service banking divisions: ABA, BON and FIB, Bridge, and TPB. The Company also serves business customers through a national platform of specialized financial services.

Financial Results Highlights for the Third Quarter of 2018

- Net income of $111.1 million, compared to $82.8 million for the third quarter 2017
- Diluted earnings per share of $1.05, compared to $0.79 per share for the third quarter 2017
- Total loans of $16.73 billion, up $0.59 billion from June 30, 2018, and $1.64 billion from December 31, 2017
- Total deposits of $18.91 billion, up $0.82 billion from June 30, 2018, and $1.94 billion from December 31, 2017
- Net interest margin of 4.72%, compared to 4.65% in the third quarter 2017
- Net operating revenue of $246.9 million constituting year-over-year growth of 16.6%, or $35.2 million, and an increase in operating non-interest expenses of 18.0%, or $16.0 million, for the third quarter 2017[1]
- Operating PPNR of $141.9 million, up 15.6% from $122.7 million in the third quarter 2017[1]
- Efficiency ratio of 46.6% in the third quarter 2018, compared to 40.1% in the third quarter 2017
- Operating efficiency ratio of 41.5% in the third quarter 2018, compared to 40.0% in the third quarter 2017[1]
- Nonperforming assets (nonaccrual loans and repossessed assets) decreased to 0.26% of total assets, from 0.42% at September 30, 2017
- Annualized net loan charge-offs to average loans outstanding of 0.08%, compared to 0.01% for the third quarter 2017
- Tangible common equity ratio of 10.0%, compared to 9.4% at September 30, 2017[1]
- Stockholders' equity of $2.49 billion, an increase of $96.7 million from June 30, 2018, and $258.7 million from December 31, 2017
- Book value per common share of $23.51, an increase of 15.6% from $20.34 at September 30, 2017
- Tangible book value per share, net of tax, of $20.70, an increase of 18.1% from $17.53 at September 30, 2017[1]

The impact to the Company from these items, and others of both a positive and negative nature, are discussed in more detail below as they pertain to the Company’s overall comparative performance for the three and nine months ended September 30, 2018.

[1] See Non-GAAP Financial Measures section beginning on page 68.

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As a bank holding company, management focuses on key ratios in evaluating the Company's financial condition and results of operations.

Results of Operations and Financial Condition

A summary of the Company's results of operations, financial condition, and selected metrics are included in the following tables:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Net income	$111,123	$82,844	$316,702	$236,146
Earnings per share - basic	1.06	0.79	3.03	2.27
Earnings per share - diluted	1.05	0.79	3.00	2.25
Return on average assets	2.07 %	1.71 %	2.02 %	1.70 %
Return on average tangible common equity (1)	20.57	18.18	20.47	18.15
Net interest margin	4.72	4.65	4.67	4.63

(1) See Non-GAAP Financial Measures section beginning on page 68.

	September 30, 2018	December 31, 2017
	(in thousands)	
Total assets	$22,176,147	$20,329,085
Total loans, net of deferred loan fees and costs	16,732,765	15,093,935
Total deposits	18,908,580	16,972,532

Asset Quality

For all banks and bank holding companies, asset quality plays a significant role in the overall financial condition of the institution and results of operations. The Company measures asset quality in terms of non-accrual loans as a percentage of gross loans and net charge-offs as a percentage of average loans. Net charge-offs are calculated as the difference between charged-off loans and recovery payments received on previously charged-off loans. The following table summarizes the Company's key asset quality metrics:

	September 30, 2018	December 31, 2017
	(in thousands)	
Non-accrual loans	$36,868	$ 43,925
Non-performing assets	99,463	114,939
Non-accrual loans to gross loans	0.22 %	0.29 %
Net charge-offs to average loans outstanding (1)	0.08	0.01

(1) Annualized for the three months ended September 30, 2018. Actual year-to-date for the year ended December 31, 2017.

Asset and Deposit Growth

The Company’s assets and liabilities are comprised primarily of loans and deposits. Therefore, the ability to originate new loans and attract new deposits is fundamental to the Company’s growth. Total assets increased to $22.18 billion at September 30, 2018 from $20.33 billion at December 31, 2017. The increase in total assets of $1.85 billion, or 9.1%, relates primarily to loan growth of $1.64 billion. Total loans increased by $1.64 billion, or 10.9%, to $16.73 billion as of September 30, 2018, compared to $15.09 billion as of December 31, 2017. The increase in loans from December 31, 2017 was driven by increases in commercial and industrial loans of $646.3 million, construction and land development loans of $475.4 million, and residential real estate loans of $401.1 million. Total deposits increased $1.94 billion, or 11.4%, to $18.91 billion as of September 30, 2018 from $16.97 billion as of December 31, 2017.

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RESULTS OF OPERATIONS

The following table sets forth a summary financial overview for the comparable periods:

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2018	2017	(Decrease)	2018	2017	(Decrease)
	(in thousands, except per share amounts)					
Consolidated Income Statement Data:						
Interest income	$265,216	$217,836	$47,380	$751,515	$617,054	$134,461
Interest expense	31,178	16,253	14,925	79,149	43,419	35,730
Net interest income	234,038	201,583	32,455	672,366	573,635	98,731
Provision for credit losses	6,000	5,000	1,000	17,000	12,250	4,750
Net interest income after provision for credit losses	228,038	196,583	31,455	655,366	561,385	93,981
Non-interest income	4,418	10,456	(6,038)	29,505	31,656	(2,151)
Non-interest expense	113,841	89,296	24,545	314,538	265,543	48,995
Income before provision for income taxes	118,615	117,743	872	370,333	327,498	42,835
Income tax expense	7,492	34,899	(27,407)	53,631	91,352	(37,721)
Net income	$111,123	$82,844	$28,279	$316,702	$236,146	$80,556
Earnings per share - basic	$1.06	$0.79	$0.27	$3.03	$2.27	$0.76
Earnings per share - diluted	$1.05	$0.79	$0.26	$3.00	$2.25	$0.75

Non-GAAP Financial Measures

The following discussion and analysis contains financial information determined by methods other than those prescribed by GAAP. The Company's management uses these non-GAAP financial measures in their analysis of the Company's performance. These measurements typically adjust GAAP performance measures to exclude the effects of certain significant activities or transactions that, in management's opinion, do not reflect recurring period-to-period comparisons of the Company's performance. Management believes presentation of these non-GAAP financial measures provides useful supplemental information that is essential to a complete understanding of the operating results of the Company's core businesses. Since the presentation of these non-GAAP performance measures and their impact differ between companies, these non-GAAP disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Operating Pre-Provision Net Revenue

Operating PPNR is defined by the Federal Reserve in SR 14-3, which requires companies subject to the rule to project PPNR over the planning horizon for each of the economic scenarios defined annually by the regulators. Banking regulations define PPNR as net interest income plus non-interest income less non-interest expense. Management has further adjusted this metric to exclude any non-recurring or non-operational elements of non-interest income or non-interest expense, which are outlined in the table below. Management feels that this is an important metric as it illustrates the underlying performance of the Company, it enables investors and others to assess the Company's ability to generate capital to cover credit losses through the credit cycle, and provides consistent reporting with a key metric used by bank regulatory agencies.

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The following table shows the components of operating PPNR for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Total non-interest income	$4,418	$10,456	$29,505	$31,656
Less:				
(Loss) gain on sales of investment securities, net (1)	(7,232)	319	(7,232)	907
Unrealized (losses) gains on assets measured at fair value, net (1)	(1,212)	—	(2,971)	(1)
Total operating non-interest income	12,862	10,137	39,708	30,750
Plus: net interest income	234,038	201,583	672,366	573,635
Net operating revenue	$246,900	$211,720	$712,074	$604,385
Total non-interest expense	$113,841	$89,296	$314,538	$265,543
Less:				
Contribution to charitable foundation (2)	7,645	—	7,645	—
401(k) plan change and other miscellaneous items (2)	1,218	—	1,218	—
Net (gain) loss on sales / valuations of repossessed and other assets (1)	(67)	266	(1,474)	(46)
Total operating non-interest expense	$105,045	$89,030	$307,149	$265,589
Operating pre-provision net revenue	$141,855	$122,690	$404,925	$338,796
Plus:				
Non-operating revenue adjustments	(8,444)	319	(10,203)	906
Less:				
Provision for credit losses	6,000	5,000	17,000	12,250
Non-operating expense adjustments	8,796	266	7,389	(46)
Income before provision for income taxes	118,615	117,743	370,333	327,498
Income tax expense	7,492	34,899	53,631	91,352
Net income	$111,123	$82,844	$316,702	$236,146

(1) The operating PPNR non-GAAP performance metric is adjusted to exclude the effects of these non-operational items.

(2) The operating PPNR non-GAAP performance metric is adjusted to exclude the effects of these non-recurring items. See Note 16. Related Party Transactions for further information regarding the charitable contribution.

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Tangible Common Equity

The following table presents financial measures related to tangible common equity. Tangible common equity represents total stockholders' equity, less identifiable intangible assets and goodwill. Management believes that tangible common equity financial measures are useful in evaluating the Company's capital strength, financial condition, and ability to manage potential losses. In addition, management believes that these measures improve comparability to other institutions that have not engaged in acquisitions that resulted in recorded goodwill and other intangible assets.

	September 30, 2018	December 31, 2017
	(dollars and shares in thousands)	
Total stockholders' equity	$2,488,393	$2,229,698
Less: goodwill and intangible assets	299,553	300,748
Total tangible stockholders' equity	2,188,840	1,928,950
Plus: deferred tax - attributed to intangible assets	2,462	2,698
Total tangible common equity, net of tax	$2,191,302	$1,931,648
Total assets	$22,176,147	$20,329,085
Less: goodwill and intangible assets, net	299,553	300,748
Tangible assets	21,876,594	20,028,337
Plus: deferred tax - attributed to intangible assets	2,462	2,698
Total tangible assets, net of tax	$21,879,056	$20,031,035
Tangible equity ratio	10.0 %	9.6 %
Tangible common equity ratio	10.0	9.6
Common shares outstanding	105,861	105,487
Book value per share	$23.51	$21.14
Tangible book value per share, net of tax	20.70	18.31

Operating Efficiency Ratio

The following table shows the components used in the calculation of the operating efficiency ratio, which management uses as a metric for assessing cost efficiency:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Total operating non-interest expense	$105,045	$89,030	$307,149	$265,589
Divided by:				
Total net interest income	$234,038	$201,583	$672,366	$573,635
Plus:				
Tax equivalent interest adjustment	6,003	10,837	17,668	30,966
Operating non-interest income	12,862	10,137	39,708	30,750
Net operating revenue - TEB	$252,903	$222,557	$729,742	$635,351
Operating efficiency ratio - TEB	41.5 %	40.0 %	42.1 %	41.8 %
Operating efficiency ratio - TEB adjusted (1)		41.0 %		42.9 %

(1) The prior period operating efficiency ratios were adjusted to include the effects from the TCJA of the lower statutory corporate federal tax rate on the calculation of the tax equivalent adjustment in order to be comparable to the current period.

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Regulatory Capital

The following table presents certain financial measures related to regulatory capital under Basel III, which includes Common Equity Tier 1 and total capital. The FRB and other banking regulators use Common Equity Tier 1 and total capital as a basis for assessing a bank's capital adequacy; therefore, management believes it is useful to assess financial condition and capital adequacy using this same basis. Specifically, the total capital ratio takes into consideration the risk levels of assets and off-balance sheet financial instruments. In addition, management believes that the classified assets to Common Equity Tier 1 plus allowance measure is an important regulatory metric for assessing asset quality.

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Common Equity Tier 1:		
Common Equity	$2,488,393	$2,229,698
Less:		
Non-qualifying goodwill and intangibles	296,980	296,421
Disallowed deferred tax asset	984	638
AOCI related adjustments	(78,289)	(9,496)
Unrealized gain on changes in fair value liabilities	11,872	7,785
Common Equity Tier 1	$2,256,846	$1,934,350
Divided by: Risk-weighted assets	$20,690,767	$18,569,608
Common Equity Tier 1 ratio	10.9%	10.4%
Common Equity Tier 1	$2,256,846	$1,934,350
Plus:		
Trust preferred securities	81,500	81,500
Less:		
Disallowed deferred tax asset	—	159
Unrealized gain on changes in fair value liabilities	—	1,947
Tier 1 capital	$2,338,346	$2,013,744
Divided by: Tangible average assets	$21,286,259	$19,624,517
Tier 1 leverage ratio	11.0%	10.3%
Total Capital:		
Tier 1 capital	$2,338,346	$2,013,744
Plus:		
Subordinated debt	299,151	301,020
Qualifying allowance for credit losses	150,011	140,050
Other	7,617	6,174
Less: Tier 2 qualifying capital deductions	—	—
Tier 2 capital	$456,779	$447,244
Total capital	$2,795,125	$2,460,988
Total capital ratio	13.5%	13.3%
Classified assets to Tier 1 capital plus allowance for credit losses:		
Classified assets	$252,770	$222,004
Divided by:		
Tier 1 capital	2,338,346	2,013,744

Plus: Allowance for credit losses	150,011	140,050
Total Tier 1 capital plus allowance for credit losses	$2,488,357	$2,153,794
Classified assets to Tier 1 capital plus allowance	10.2 %	10.3 %

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Net Interest Margin

The net interest margin is reported on a TEB. A tax equivalent adjustment is added to reflect interest earned on certain securities and loans that are exempt from federal and state income tax. The following tables set forth the average balances, interest income, interest expense, and average yield (on a fully TEB) for the periods indicated:

	Three Months Ended September 30,					
	2018			2017		
	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
	(dollars in thousands)					
Interest earning assets						
Loans:						
Commercial and industrial	$7,171,099	$100,312	5.77 %	$6,330,760	$80,638	5.48 %
CRE - non-owner-occupied	4,003,943	59,383	5.95	3,609,484	54,442	6.06
CRE - owner-occupied	2,259,137	30,407	5.50	2,032,664	25,238	5.24
Construction and land development	2,023,116	35,959	7.12	1,633,378	25,898	6.36
Residential real estate	656,492	7,800	4.75	351,517	4,151	4.72
Consumer	57,360	848	5.91	52,168	729	5.59
Total loans (1), (2), (3)	16,171,147	234,709	5.90	14,009,971	191,096	5.68
Securities:						
Securities - taxable	2,738,621	19,277	2.82	2,778,404	17,399	2.50
Securities - tax-exempt	875,207	7,962	4.55	657,064	6,185	5.61
Total securities (1)	3,613,828	27,239	3.24	3,435,468	23,584	3.10
Other	549,499	3,268	2.38	845,852	3,156	1.49
Total interest earning assets	20,334,474	265,216	5.34	18,291,291	217,836	5.00
Non-interest earning assets						
Cash and due from banks	143,996			132,285		
Allowance for credit losses	(148,162)			(133,555)		
Bank owned life insurance	168,821			166,430		
Other assets	1,002,468					