WESTERN ALLIANCE BANCORPORATION
Form 10-Q
July 31, 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 June 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 July 26, 2018, Western Alliance Bancorporation had 105,864,560 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, LLC	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	GSE	Government-Sponsored Enterprise
ALCO	Asset and Liability Management Committee	HFI	Held for Investment
AOCI	Accumulated Other Comprehensive Income	HTM	Held-to-Maturity
ASC	Accounting Standards Codification	ICS	Insured Cash Sweep Service
ASU	Accounting Standards Update	IRC	Internal Revenue Code
Basel Committee	Basel Committee on Banking Supervision	ISDA	International Swaps and Derivatives Association
Basel III	Banking Supervision's December 2010 final capital framework	LIBOR	London Interbank Offered Rate
BOD	Board of Directors	LIHTC	Low-Income Housing Tax Credit
CDARS	Certificate Deposit Account Registry Service	MBS	Mortgage-Backed Securities
CDO	Collateralized Debt Obligation	NBL	National Business Lines
CEO	Chief Executive Officer	NOL	Net Operating Loss
CFO	Chief Financial Officer	NPV	Net Present Value
CRA	Community Reinvestment Act	OCC	Office of the Comptroller of the Currency
CRE	Commercial Real Estate	OCI	Other Comprehensive Income
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	OREO	Other Real Estate Owned
EGRRCPA	The Economic Growth, Regulatory Relief, and Consumer Protection Act	OTTI	Other-than-Temporary Impairment
EPS	Earnings per share	PCI	Purchased Credit Impaired
EVE	Economic Value of Equity	SBA	

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

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

	June 30, 2018	December 31, 2017
	(Unaudited)	
	(in thousands, except shares and per share amounts)	
Assets:		
Cash and due from banks	$171,298	$181,191
Interest-bearing deposits in other financial institutions	335,520	235,577
Cash, cash equivalents, and restricted cash	506,818	416,768
Money market investments	5	—
Investment securities - AFS, at fair value; amortized cost of $3,280,814 at June 30, 2018 and $3,515,401 at December 31, 2017	3,199,015	3,499,519
Investment securities - HTM, at amortized cost; fair value of $274,718 at June 30, 2018 and $256,314 at December 31, 2017	280,186	255,050
Equity securities	143,490	—
Investments in restricted stock, at cost	65,955	65,785
Loans - HFI, net of deferred loan fees and costs	16,138,260	15,093,935
Less: allowance for credit losses	(147,083)	(140,050)
Net loans held for investment	15,991,177	14,953,885
Premises and equipment, net	115,378	118,719
Other assets acquired through foreclosure, net	27,541	28,540
Bank owned life insurance	168,753	167,764
Goodwill	289,895	289,895
Other intangible assets, net	10,056	10,853
Deferred tax assets, net	39,097	5,780
Investments in LIHTC	304,112	267,023
Other assets	225,974	249,504
Total assets	$21,367,452	$20,329,085
Liabilities:		
Deposits:		
Non-interest-bearing demand	$7,947,906	$7,433,962
Interest-bearing	10,139,622	9,538,570
Total deposits	18,087,528	16,972,532
Customer repurchase agreements	18,021	26,017
Other borrowings	75,000	390,000
Qualifying debt	361,060	376,905
Other liabilities	434,159	333,933
Total liabilities	18,975,768	18,099,387
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Common stock - par value $0.0001; 200,000,000 authorized; 107,629,478 shares issued at June 30, 2018 and 107,057,520 at December 31, 2017	10	10
Treasury stock, at cost (1,753,107 shares at June 30, 2018 and 1,570,155 shares at December 31, 2017)	(50,971)	(40,173)
Additional paid in capital	1,438,857	1,424,540

Accumulated other comprehensive (loss) income	(51,315)	(3,145)
Retained earnings	1,055,103	848,466
Total stockholders' equity	2,391,684	2,229,698
Total liabilities and stockholders' equity	$21,367,452	$20,329,085

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	$222,035	$183,657	$427,994	$356,210
Investment securities	25,975	19,286	51,747	35,858
Dividends	2,197	1,921	3,675	4,149
Other	1,395	2,089	2,883	3,001
Total interest income	251,602	206,953	486,299	399,218
Interest expense:				
Deposits	19,849	9,645	34,022	18,057
Other borrowings	1,936	59	3,262	249
Qualifying debt	5,695	4,493	10,664	8,831
Other	14	13	23	29
Total interest expense	27,494	14,210	47,971	27,166
Net interest income	224,108	192,743	438,328	372,052
Provision for credit losses	5,000	3,000	11,000	7,250
Net interest income after provision for credit losses	219,108	189,743	427,328	364,802
Non-interest income:				
Service charges and fees	5,672	5,203	11,417	9,941
Income from equity investments	2,517	1,318	3,977	2,010
Card income	2,033	1,516	4,005	3,008
Foreign currency income	1,181	832	2,383	1,874
Income from bank owned life insurance	1,167	973	2,095	1,921
Lending related income and gains (losses) on sale of loans, net	1,047	227	2,025	649
Gain (loss) on sales of investment securities, net	—	(47)	—	588
Unrealized (losses) gains on assets measured at fair value, net	(685)	—	(1,759)	(1)
Other income	512	579	944	1,210
Total non-interest income	13,444	10,601	25,087	21,200
Non-interest expense:				
Salaries and employee benefits	61,785	52,273	123,918	103,893
Legal, professional, and directors' fees	7,946	8,483	13,949	17,286
Occupancy	7,401	6,927	14,265	13,821
Data processing	5,586	4,375	10,793	9,639
Deposit costs	4,114	2,133	7,040	3,874
Insurance	3,885	3,589	7,754	6,817
Business development	1,414	1,447	3,142	3,510
Marketing	1,146	1,131	1,742	1,852
Card expense	1,081	861	2,023	1,592
Loan and repossessed asset expenses	1,017	1,098	1,600	2,376
Intangible amortization	399	488	797	1,177
Net (gain) loss on sales / valuations of repossessed and other assets	(179)	231	(1,407)	(312)
Other expense	6,953	5,384	15,081	10,722
Total non-interest expense	102,548	88,420	200,697	176,247
Income before provision for income taxes	130,004	111,924	251,718	209,755
Income tax expense	25,325	31,964	46,139	56,453

Net income	$104,679	$79,960	$205,579	$153,302
Earnings per share:				
Basic	$1.00	$0.77	$1.97	$1.47
Diluted	0.99	0.76	1.95	1.46
Weighted average number of common shares outstanding:				
Basic	104,691	104,162	104,611	104,075
Diluted	105,420	105,045	105,372	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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Net income	$104,679	$79,960	$205,579	$153,302
Other comprehensive (loss) income, net:				
Unrealized (loss) gain on AFS securities, net of tax effect of $3,387, $(3,534), $16,101, and $(9,204), respectively	(10,389)	5,662	(49,303)	14,831
Unrealized (loss) gain on SERP, net of tax effect of $4, $(23), $6, and $(23), respectively	(12)	37	(23)	36
Unrealized gain (loss) on junior subordinated debt, net of tax effect of $(244), $1,287, $(722), and $2,044, respectively	748	(2,089)	2,214	(3,318)
Realized (gain) loss on sale of AFS securities included in income, net of tax effect of $0, $(18), $0, and $224, respectively	—	29	—	(364)
Net other comprehensive (loss) income	(9,653)	3,639	(47,112)	11,185
Comprehensive income	$95,026	$83,599	$158,467	$164,487

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	—	—	—	—	—	153,302	153,302
Exercise of stock options	23	—	527	—	—	—	527
Restricted stock, performance stock units, and other grants, net	537	—	12,394	—	—	—	12,394
Restricted stock surrendered (2)	(202)	—	—	(10,289)	—	—	(10,289)
Other comprehensive income, net	—	—	—	—	11,185	—	11,185
Balance, June 30, 2017	105,429	$ 10	$1,413,061	$(36,651)	$ 6,490	$676,276	$2,059,186
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	—	—	—	—	—	205,579	205,579
Exercise of stock options	21	—	534	—	—	—	534
Restricted stock, performance stock unit, and other grants, net	551	—	13,783	—	—	—	13,783
Restricted stock surrendered (2)	(183)	—	—	(10,798)	—	—	(10,798)
Other comprehensive loss, net	—	—	—	—	(47,112)	—	(47,112)
Balance, June 30, 2018	105,876	$ 10	$1,438,857	$(50,971)	$ (51,315)	$1,055,103	$2,391,684

(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

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$205,579	$153,302
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	11,000	7,250
Depreciation and amortization	6,815	6,389
Stock-based compensation	13,783	12,394
Deferred income taxes	(17,943)	517
Amortization of net premiums for investment securities	8,073	10,426
Amortization of tax credit investments	17,549	12,692
Accretion of fair market value adjustments on loans acquired from business combinations	(10,806)	(13,584)
Accretion and amortization of fair market value adjustments on other assets and liabilities acquired from business combinations	950	1,332
Income from bank owned life insurance	(2,095)	(1,921)
(Gains) / Losses on:		
Sales of investment securities	—	(588)
Assets measured at fair value, net	1,759	1
Sale of loans	(1,443)	107
Other assets acquired through foreclosure, net	(1,390)	172
Valuation adjustments of other repossessed assets, net	33	(224)
Sale of premises, equipment, and other assets, net	(50)	(260)
Changes in:		
Other assets	26,419	(8,108)
Other liabilities	(10,880)	(4,459)
Net cash provided by operating activities	$247,353	$175,438
Cash flows from investing activities:		
Investment securities - trading		
Proceeds from sales	$—	$995
Investment securities - AFS		
Purchases	(86,316)	(759,768)
Principal pay downs and maturities	210,003	222,706
Proceeds from sales	—	75,332
Investment securities - HTM		
Purchases	(26,025)	(40,765)
Principal pay downs and maturities	489	—
Equity securities		
Purchases	(41,660)	—
Purchase of investment tax credits	(32,631)	(10,756)
Purchase of SBIC investments	(1,351)	—
(Purchase) sale of money market investments, net	(5)	(147)
Proceeds from bank owned life insurance	1,112	—
(Purchase) liquidation of restricted stock	(171)	(107)
Loan fundings and principal collections, net	(968,748)	(736,342)
Purchase of premises, equipment, and other assets, net	(1,836)	(5,093)

Proceeds from sale of other real estate owned and repossessed assets, net	8,100	18,271
Net cash used in investing activities	$(939,039)	$(1,235,674)

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	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Cash flows from financing activities:		
Net increase (decrease) in deposits	$1,114,996	$1,481,249
Net increase (decrease) in borrowings	(322,995)	(89,067)
Proceeds from exercise of common stock options	534	527
Cash paid for tax withholding on vested restricted stock	(10,799)	(10,289)
Net cash provided by financing activities	$781,736	$1,382,420
Net increase (decrease) in cash, cash equivalents, and restricted cash	90,050	322,184
Cash, cash equivalents, and restricted cash at beginning of period	416,768	284,491
Cash, cash equivalents, and restricted cash at end of period	$506,818	$606,675
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$46,358	$26,375
Income taxes	14,792	53,937
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	5,744	1,392
Unfunded commitments originated	58,639	67,718
Change in unrealized (loss) gain on AFS securities, net of tax	(49,303)	14,467
Change in unrealized gain (loss) on junior subordinated debt, net of tax	2,214	(3,318)
Change in unfunded obligations	99,980	(32,742)

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 non-performing loans and OREO 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 June 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, LLC, 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 six months ended June 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.

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 six months ended June 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 June 30, 2018 and 2017. The estimated fair value amounts for June 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 include 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. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018,

including interim periods within those fiscal years. Early adoption is permitted. Management is in the process of finalizing the population of its leases that are within the scope of the new guidance, gathering all key lease data for these leases, and purchasing a new lease software solution that will facilitate application of the new accounting requirements.

In June 2016, the FASB issued guidance within ASU 2016-13, Measurement of Credit Losses on Financial Instruments. 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 has completed its gap assessment and are fully engaged with the implementation of its plan. Key initiatives underway include model development, data adequacy and formation, accounting policy drafting and software solution installations. The team has completed installation of a vended software solution to aggregate model outputs and is currently configuring the application with the expectation that the majority of its model solutions will be in the testing phase by December 31, 2018. Further, the team is also in the process of evaluating 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 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

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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.

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 has 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. 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 six months ended June 30, 2018, the Company recognized a loss of $1.8 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.

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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 June 30, 2018 and December 31, 2017 are summarized as follows:

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity debt securities				
Tax-exempt	$280,186	$ 2,080	$(7,548)	$274,718
Available-for-sale debt securities				
CDO	$50	$ 21,795	$—	$21,845
Commercial MBS issued by GSEs	109,010	49	(6,364)	102,695
Corporate debt securities	105,036	119	(5,175)	99,980
Private label residential MBS	856,917	35	(25,565)	831,387
Residential MBS issued by GSEs	1,618,253	216	(58,696)	1,559,773
Tax-exempt	493,052	5,767	(6,481)	492,338
Trust preferred securities	32,000	—	(3,383)	28,617
U.S. government sponsored agency securities	64,000	—	(4,093)	59,907
U.S. treasury securities	2,496	—	(23)	2,473
Total AFS debt securities	$3,280,814	$ 27,981	$(109,780)	$3,199,015

	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 fair value of the Company's equity securities at June 30, 2018 totaled $143.5 million, which consisted of CRA investments of $50.8 million and preferred stock of $92.7 million. The portion of unrealized gains and losses related to equity securities still held at the reporting date is calculated as follows:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
	(in thousands)	
Net (losses) gains on equity securities	$(685)	$(1,759)
Less: Net gains (losses) on equity securities sold	—	—
Unrealized (losses) gains on equity securities still held at the reporting date	$(685)	$(1,759)

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), 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.

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 six months ended June 30, 2018 and 2017. The Company does not consider any securities to be other-than-temporarily impaired as of June 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 June 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:

	June 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	$7,548	$121,943	$—	$—	$7,548	$121,943
Available-for-sale debt securities						
Commercial MBS issued by GSEs	$325	$11,688	$6,039	$89,172	$6,364	$100,860
Corporate debt securities	2,825	57,176	2,350	37,650	5,175	94,826
Private label residential MBS	16,820	601,595	8,745	200,707	25,565	802,302
Residential MBS issued by GSEs	26,183	923,747	32,513	616,712	58,696	1,540,459
Tax-exempt	2,762	155,941	3,719	67,341	6,481	223,282
Trust preferred securities	—	—	3,383	28,617	3,383	28,617

U.S. government sponsored agency securities	131	4,869	3,962	55,038	4,093	59,907
U.S. treasury securities	23	2,473	—	—	23	2,473
Total AFS securities	$49,069	$1,757,489	$60,711	$1,095,237	$109,780	$2,852,726

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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

At June 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 securities in an unrealized loss position at June 30, 2018 is 391, compared to 302 at December 31, 2017. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysis reports. Since material downgrades have not occurred and management does not intend to sell the debt securities in an unrealized loss position in the foreseeable future, none of the securities described in the above table or in this paragraph are deemed to be OTTI.

The amortized cost and fair value of securities as of June 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.

	June 30, 2018	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held-to-maturity		
Due in one year or less	$1,200	$1,241
After one year through five years	24,818	24,608
After ten years	254,168	248,869
Total HTM securities	$280,186	$274,718
Available-for-sale		
Due in one year or less	$4,015	$4,016
After one year through five years	15,904	16,144
After five years through ten years	252,097	244,948
After ten years	424,618	440,054

Mortgage-backed securities	2,584,180	2,493,853
Total AFS securities	$3,280,814	$3,199,015

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

	June 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	$—	$—	$—	$—	$—	$—	$280,186	$280,186
Available-for-sale debt securities								
CDO	$—	$—	$—	$—	$—	$21,845	$—	$21,845
Commercial MBS issued by GSEs	—	102,695	—	—	—	—	—	102,695
Corporate debt securities	—	—	—	71,780	28,200	—	—	99,980
Private label residential MBS	791,921	—	36,359	464	1,092	1,551	—	831,387
Residential MBS issued by GSEs	—	1,559,773	—	—	—	—	—	1,559,773
Tax-exempt	62,616	24,515	222,071	179,682	—	—	3,454	492,338
Trust preferred securities	—	—	—	—	28,617	—	—	28,617
U.S. government sponsored agency securities	—	59,907	—	—	—	—	—	59,907
U.S. treasury securities	—	2,473	—	—	—	—	—	2,473
Total AFS securities (1)	$854,537	$1,749,363	$258,430	$251,926	$57,909	$23,396	$3,454	$3,199,015
Equity securities								
CRA investments	$—	$25,026	$—	$—	$—	$—	$25,767	$50,793
Preferred stock	—	—	—	9,875	64,073	3,983	14,766	92,697
Total equity securities (1)	$—	$25,026	$—	$9,875	$64,073	$3,983	$40,533	$143,490

(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 $724.4 million and $913.7 million at June 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Gross gains	$ —	$ 78	$ —	$ 713
Gross losses	—	(125)	—	(125)
Net gains on sales of investment securities	$ —	$ (47)	$ —	$ 588

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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:

	June 30, 2018	December 31, 2017
	(in thousands)	
Commercial and industrial	$7,278,408	$6,841,381
Commercial real estate - non-owner occupied	4,010,576	3,904,011
Commercial real estate - owner occupied	2,270,531	2,241,613
Construction and land development	1,978,287	1,632,204
Residential real estate	545,256	425,940
Consumer	55,202	48,786
Loans, net of deferred loan fees and costs	16,138,260	15,093,935
Allowance for credit losses	(147,083)	(140,050)
Total loans HFI	$15,991,177	$14,953,885

Net deferred loan fees and costs as of June 30, 2018 and December 31, 2017 total $32.1 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 $7.9 million and $8.5 million as of June 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 $9.6 million and $14.1 million as of June 30, 2018 and December 31, 2017, respectively. Credit marks were $19.7 million and $27.0 million as of June 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:

	June 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	$7,275,474	$801	$ 13	$2,120	$2,934	$7,278,408
Commercial real estate						
Owner occupied	2,268,882	156	—	1,493	1,649	2,270,531
Non-owner occupied	3,871,249	—	—	—	—	3,871,249
Multi-family	139,327	—	—	—	—	139,327
Construction and land development						
Construction	1,301,199	—	—	—	—	1,301,199
Land	677,088	—	—	—	—	677,088
Residential real estate	535,914	2,492	58	6,792	9,342	545,256
Consumer	54,869	—	—	333	333	55,202
Total loans	$16,124,002	$3,449	$ 71	$10,738	$14,258	$16,138,260

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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:

	June 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	$17,231	$ 2,120	$ 19,351	$ —	$17,913	$ 4,113	$ 22,026	$ 43
Commercial real estate								
Owner occupied	—	1,493	1,493	—	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	4,074	8,766	12,840	—	2,039	6,078	8,117	—
Consumer	—	333	333	—	—	82	82	—
Total	$21,305	$ 12,712	$ 34,017	$ —	$21,909	$ 22,016	$ 43,925	$ 43

The reduction in interest income associated with loans on non-accrual status was approximately $0.6 million for each of the three months ended June 30, 2018 and 2017 and $1.2 million for each of the six months ended June 30, 2018 and 2017.

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:

	June 30, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial and industrial	$7,093,991	$84,327	$ 98,615	$ 1,475	$ —	$7,278,408
Commercial real estate						
Owner occupied	2,166,460	42,517	60,766	788	—	2,270,531
Non-owner occupied	3,848,975	13,986	8,288	—	—	3,871,249
Multi-family	139,327	—	—	—	—	139,327
Construction and land development						
Construction	1,292,058	3,202	5,939	—	—	1,301,199
Land	676,005	267	816	—	—	677,088
Residential real estate	525,912	5,936	13,408	—	—	545,256
Consumer	54,578	43	581	—	—	55,202
Total	$15,797,306	$150,278	$ 188,413	$ 2,263	$ —	$16,138,260

	June 30, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$15,796,007	$149,817	$ 176,311	$ 1,867	$ —	$16,124,002
Past due 30 - 59 days	518	459	2,472	—	—	3,449
Past due 60 - 89 days	69	2	—	—	—	71
Past due 90 days or more	712	—	9,630	396	—	10,738
Total	$15,797,306	$150,278	$ 188,413	$ 2,263	$ —	$16,138,260

	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:

	June 30, 2018	December 31, 2017
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310 (1)	$ 3,523	$ 19,315
Impaired loans without a specific valuation allowance under ASC 310 (2)	104,084	79,239
Total impaired loans	$ 107,607	$ 98,554
Valuation allowance related to impaired loans (3)	$ (2,349)	$ (5,606)

(1) Includes TDR loans of $0.4 million and $3.7 million at June 30, 2018 and December 31, 2017, respectively.

(2) Includes TDR loans of $49.6 million and $48.8 million at June 30, 2018 and December 31, 2017, respectively.

(3) Includes valuation allowance related to TDR loans of $0.4 million and $1.2 million at June 30, 2018 and December 31, 2017, respectively.

The following table presents impaired loans by class:

	June 30, 2018	December 31, 2017
	(in thousands)	
Commercial and industrial	$ 49,737	$ 34,156
Commercial real estate		
Owner occupied	9,318	10,430
Non-owner occupied	17,470	21,251
Multi-family	—	—
Construction and land development		
Construction	—	—
Land	9,600	15,426
Residential real estate	21,114	17,170
Consumer	368	121
Total	$ 107,607	$ 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 June 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Average balance on impaired loans	$104,403	$107,816	$98,743	$105,504
Interest income recognized on impaired loans	1,122	1,115	1,995	2,035
Interest recognized on non-accrual loans, cash basis	436	350	874	678

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Commercial and industrial	$49,373	$33,900	$43,111	$30,001
Commercial real estate				
Owner occupied	8,417	21,500	8,730	21,314
Non-owner occupied	17,524	22,149	18,225	23,274
Multi-family	—	—	—	—
Construction and land development				
Construction	—	—	—	—
Land	9,603	12,956	9,942	13,694
Residential real estate	19,109	17,107	18,454	17,007
Consumer	377	204	281	214
Total	$104,403	$107,816	$98,743	$105,504

The average investment in TDR loans was $55.3 million and $57.5 million for the three months ended June 30, 2018 and 2017, respectively, and $51.8 million and $58.9 million for the six months ended June 30, 2018 and 2017, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Commercial and industrial	$489	$337	$739	$480
Commercial real estate				
Owner occupied	131	188	258	364
Non-owner occupied	265	280	526	519
Multi-family	—	—	—	—
Construction and land development				
Construction	—	—	—	—
Land	149	166	279	388
Residential real estate	88	143	192	282
Consumer	—	1	1	2
Total	$1,122	$1,115	$1,995	$2,035

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

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The following table summarizes nonperforming assets:

	June 30, 2018	December 31, 2017
	(in thousands)	
Non-accrual loans (1)	$34,017	$ 43,925
Loans past due 90 days or more on accrual status (2)	—	43
Accruing troubled debt restructured loans	42,407	42,431
Total nonperforming loans	76,424	86,399
Other assets acquired through foreclosure, net	27,541	28,540
Total nonperforming assets	$103,965	$ 114,939

(1) Includes non-accrual TDR loans of $7.6 million and $10.1 million at June 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance, at beginning of period	$8,108	$13,812	$9,324	$15,177
Reclassifications from non-accretable to accretable yield (1)	—	2,086	683	2,086
Accretion to interest income	(264)	(777)	(578)	(1,684)
Reversal of fair value adjustments upon disposition of loans	(3,016)	(874)	(4,601)	(1,332)
Balance, at end of period	$4,828	$14,247	$4,828	$14,247

(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 June 30,					
	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
	(in thousands)					
2018						
Beginning Balance	$22,594	$ 32,868	$ 5,519	$ 82,878	$ 800	$144,659
Charge-offs	1	233	885	2,777	5	3,901
Recoveries	(8)	(246)	(141)	(916)	(14)	(1,325)
Provision	(442)	(902)	2,074	4,227	43	5,000
Ending balance	$22,159	$ 31,979	$ 6,849	$ 85,244	$ 852	$147,083
2017						
Beginning Balance	$21,097	$ 28,004	$ 4,412	$ 73,429	$ 707	$127,649
Charge-offs	—	1,819	332	651	8	2,810
Recoveries	(508)	(406)	(1,299)	(1,759)	—	(3,972)
Provision	(753)	2,002	(541)	2,197	95	3,000
Ending balance	$20,852	$ 28,593	$ 4,838	$ 76,734	$ 794	$131,811

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	Six Months Ended June 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	992	6,295	5	7,526
Recoveries	(1,397)	(371)	(390)	(1,376)	(25)	(3,559)
Provision	1,252	346	1,973	7,370	59	11,000
Ending balance	$22,159	$ 31,979	$ 6,849	$ 85,244	$ 852	$147,083
2017						
Beginning Balance	$21,175	$ 25,673	$ 3,851	$ 73,333	$ 672	$124,704
Charge-offs	—	1,819	447	3,245	42	5,553
Recoveries	(785)	(938)	(1,551)	(2,087)	(49)	(5,410)
Provision	(1,108)	3,801	(117)	4,559	115	7,250
Ending balance	$20,852	$ 28,593	$ 4,838	$ 76,734	$ 794	$131,811

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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 June 30, 2018;							
Recorded Investment							
Impaired loans with an allowance recorded	$—	$ —	$3,352	$171	$—	$—	$3,523
Impaired loans with no allowance recorded	9,319	17,470	46,385	20,942	9,600	368	104,084
Total loans individually evaluated for impairment	9,319	17,470	49,737	21,113	9,600	368	107,607
Loans collectively evaluated for impairment	2,253,581	3,911,232	7,228,671	523,553	1,968,687	54,834	15,940,558
Loans acquired with deteriorated credit quality	7,631	81,874	—	590	—	—	90,095
Total recorded investment	$2,270,531	$ 4,010,576	$7,278,408	$545,256	$ 1,978,287	$ 55,202	$16,138,260
Unpaid Principal Balance							
Impaired loans with an allowance recorded	$—	$ —	$4,077	$171	$—	$—	$4,248
Impaired loans with no allowance recorded	15,855	24,247	80,810	29,948	26,228	10,823	187,911
Total loans individually evaluated for impairment	15,855	24,247	84,887	30,119	26,228	10,823	192,159
Loans collectively evaluated for impairment	2,253,581	3,911,232	7,228,671	523,553	1,968,687	54,834	15,940,558
Loans acquired with deteriorated credit quality	9,831	99,083	4,362	709	—	—	113,985
Total unpaid principal balance	$2,279,267	$ 4,034,562	$7,317,920	$554,381	$ 1,994,915	$ 65,657	$16,246,702
Related Allowance for Credit Losses							
Impaired loans with an allowance recorded	$—	$ —	$2,178	$171	$—	$—	$2,349
Impaired loans with no allowance recorded	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	—	—	2,178	171	—	—	2,349
Loans collectively evaluated for impairment	14,651	16,843	83,063	6,678	22,159	852	144,246
Loans acquired with deteriorated credit quality	—	485	3	—	—	—	488
Total allowance for credit losses	$14,651	$ 17,328	$85,244	$6,849	$ 22,159	$ 852	$147,083

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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

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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 June 30, 2018, the Company had two new TDR loans with a recorded investment of $16.6 million and no new TDR loans during the three months ended June 30, 2017. During the six months ended June 30, 2018, the Company had seven new TDR loans with a recorded investment of $31.6 million and one new TDR loan with a recorded investment of $4.9 million during the six months ended June 30, 2017. No principal amounts were forgiven and there were no waived fees or other expenses resulting from these TDRs.

During the three and six months ended June 30, 2018, there were no TDR loans for which there was a payment default. During the three months ended June 30, 2017, there was one CRE, non-owner occupied TDR loan with a recorded investment of $0.3 million for which there was a payment default. During the six months ended June 30, 2017, there were two TDR loans with a recorded investment of $0.4 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 June 30, 2018, commitments outstanding on TDR loans totaled $0.9 million. There were no loan commitments outstanding on TDR loans at December 31, 2017.

Loan Purchases and Sales

For the three months ended June 30, 2018 and 2017, secondary market loan purchases totaled $316.8 million and $196.7 million, respectively. For the six months ended June 30, 2018 and 2017, secondary market loan purchases totaled $458.3 million and $450.0 million, respectively. For 2018, these purchased loans consisted of $283.3 million of commercial and industrial loans and $175.1 million of residential real estate loans. For 2017, these purchased loans consisted of $347.6 million of commercial and industrial loans and $102.4 million of residential real estate loans.

During the three months ended June 30, 2018, the Company sold loans which primarily consisted of CRE loans with a carrying value of $3.1 million and recognized a net gain of $0.8 million. During the three months ended June 30, 2017, there were no significant secondary market loan sales. During the six months ended June 30, 2018, the Company sold loans which primarily consisted of commercial and industrial loans with a carrying value of $34.1 million and recognized a gain of $1.4 million on the sales. During the six months ended June 30, 2017, the Company sold CRE loans with a carrying value of $9.2 million and recognized a loss of less than 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 June 30,		
	2018		
	Gross Balance	Valuation Allowance	Net Balance
	(in thousands)		
Balance, beginning of period	$34,244	$ (4,050)	$30,194
Proceeds from sale of other real estate owned and repossessed assets, net	(3,247)	431	(2,816)
Valuation adjustments, net	—	15	15
Gains (losses), net (1)	148	—	148
Balance, end of period	$31,145	$ (3,604)	$27,541
	2017		
Balance, beginning of period	$50,919	$ (5,719)	$45,200
Transfers to other assets acquired through foreclosure, net	1,392	—	1,392
Proceeds from sale of other real estate owned and repossessed assets, net	(17,208)	1,826	(15,382)
Valuation adjustments, net	—	(156)	(156)
(Losses) gains, net (1)	(66)	—	(66)
Balance, end of period	$35,037	$ (4,049)	$30,988

	Six Months Ended June 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	(8,541)	441	(8,100)
Valuation adjustments, net	—	(33)	(33)
Gains (losses), net (2)	1,390	—	1,390
Balance, end of period	$31,145	$ (3,604)	$27,541
	2017		
Balance, beginning of period	$54,138	$ (6,323)	$47,815
Transfers to other assets acquired through foreclosure, net	1,392	—	1,392
Proceeds from sale of other real estate owned and repossessed assets, net	(20,321)	2,050	(18,271)
Valuation adjustments, net	—	224	224
(Losses) gains, net (2)	(172)	—	(172)
Balance, end of period	$35,037	$ (4,049)	$30,988

(1) There were zero and $0.1 million in net gains related to initial transfers to other assets during the three months ended June 30, 2018 and 2017, respectively.

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

At June 30, 2018 and 2017, the majority of the Company's repossessed assets consisted of properties located in Nevada. The Company held 14 properties at June 30, 2018, compared to 19 at December 31, 2017, and 21 at June 30, 2017.

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5. OTHER BORROWINGS

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Short-Term:		
FHLB advances	$75,000	$ 390,000
Total short-term borrowings	$75,000	$ 390,000

The Company maintains other lines of credit with correspondent banks totaling $180.0 million. These lines of credit are unsecured, of which $45.0 million has a floating interest rate of one-month LIBOR plus 3.25% and $135.0 million has a rate equivalent to the federal funds effective rate. As of June 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 June 30, 2018, the Company had $75.0 million in short-term FHLB overnight advances with an interest rate of 2.08%. At December 31, 2017, short-term FHLB advances of $390.0 million had an interest rate of 1.41%.

As of June 30, 2018 and December 31, 2017, the Company had additional available credit with the FHLB of approximately $2.66 billion and $1.91 billion, respectively, and with the FRB of approximately $1.28 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 matures 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 $295.5 million and $308.6 million at June 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 $65.5 million and $68.3 million at June 30, 2018 and December 31, 2017, respectively. The weighted average interest rate of all junior subordinated debt as of June 30, 2018 was 4.67%, 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 six months ended June 30, 2018 was $1.1 million and $23.0 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 six months ended June 30, 2018, the Company recognized $4.7 million and $9.0 million, respectively, in stock-based compensation expense related to all restricted stock award grants, compared to $4.1 million and $8.6 million, respectively, for the three and six months ended June 30, 2017.

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 six months ended June 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 six months ended June 30, 2018, the Company recognized $0.6 million and $1.3 million, respectively, in stock-based compensation expense related to these performance-based restricted stock grants, compared to $0.4 million and $0.8 million, respectively, for the three and six months ended June 30, 2017.

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 six months ended June 30, 2018, the Company recognized $1.6 million and $3.3 million, respectively, in stock-based compensation expense related to these performance stock units, compared to $1.4 million and $2.7 million, respectively, for the three and six months ended June 30, 2017.

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 six months ended June 30, 2018, the Company purchased treasury shares of 2,085 and 182,952, respectively, at a weighted average price of $59.46 and $59.02 per share, respectively. During the three and six months ended June 30, 2017, the Company purchased treasury shares of 960 and 202,266, respectively, at a weighted average price of $48.20 and $50.86 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 June 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, March 31, 2018	$(51,470)	$ 458	$ 9,206	$ 144	$(41,662)
Other comprehensive (loss) income before reclassifications	(10,389)	(12)	748	—	(9,653)
Amounts reclassified from AOCI	—	—	—	—	—
Net current-period other comprehensive (loss) income	(10,389)	(12)	748	—	(9,653)
Balance, June 30, 2018	$(61,859)	$ 446	$ 9,954	$ 144	$(51,315)
Balance, March 31, 2017	$(6,140)	$ 120	$ 8,727	$ 144	$2,851
Other comprehensive income (loss) before reclassifications	5,662	37	(2,089)	—	3,610
Amounts reclassified from AOCI	29	—	—	—	29
Net current-period other comprehensive income (loss)	5,691	37	(2,089)	—	3,639
Balance, June 30, 2017	$(449)	$ 157	$ 6,638	$ 144	$6,490

	Six Months Ended June 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	(49,303)	(23)	2,214	—	(47,112)
Amounts reclassified from AOCI	—	—	—	—	—
Net current-period other comprehensive (loss) income	(49,303)	(23)	2,214	—	(47,112)
Balance, June 30, 2018	$(61,859)	$ 446	$ 9,954	$ 144	$(51,315)
Balance, December 31, 2016	$(14,916)	$ 121	$ 9,956	$ 144	$(4,695)
Other comprehensive income (loss) before reclassifications	14,831	36	(3,318)	—	11,549
Amounts reclassified from AOCI	(364)	—	—	—	(364)
Net current-period other comprehensive income (loss)	14,467	36	(3,318)	—	11,185
Balance, June 30, 2017	$(449)	$ 157	$ 6,638	$ 144	$6,490

(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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(in thousands)			
Gain on sales of investment securities, net	$ —	$ (47)	$ —	$ 588
Income tax expense	—	18	—	(224)
Net of tax	$ —	$ (29)	$ —	$ 364

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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 June 30, 2018, December 31, 2017, and June 30, 2017, the Company does not have any outstanding cash flow hedges or free-standing derivatives.

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 loan-term interest rate risk.

As of each of the periods ended June 30, 2018, December 31, 2017, and June 30, 2017, derivatives not designated as hedging instruments were in a net asset position of $0.2 million. For the three months ended June 30, 2018 and 2017, net changes in the fair value related to these derivative contracts totaled $1.2 million and $0.8 million, respectively, and $2.4 million and $1.8 million for the six months ended June 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 June 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:

	June 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	$664,089	$ 13,296	$699,452	$ 41,919
Qualifying debt	(295,546)	23,284	(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 June 30, 2018, December 31, 2017, and June 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:

	June 30, 2018			December 31, 2017			June 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	$986,867	$4,435	$ 41,015	$993,432	$1,703	$ 53,581	$1,032,586	$3,793	$ 64,153
Total	986,867	4,435	41,015	993,432	1,703	53,581	1,032,586	3,793	64,153
Netting adjustments (1)	—	3,838	3,838	—	896	896			