WESTERN ALLIANCE BANCORPORATION
Form 10-Q
April 30, 2019
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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 March 31, 2019
or

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

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

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

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

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

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

Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

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

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

As of April 25, 2019, Western Alliance Bancorporation had 104,473,076 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 1 of this Form 10-Q.

ENTITIES / DIVISIONS:

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

TERMS:

AFS	Available-for-Sale	HFI	Held for Investment
ALCO	Asset and Liability Management Committee	HTM	Held-to-Maturity
AOCI	Accumulated Other Comprehensive Income	ICS	Insured Cash Sweep Service
ASC	Accounting Standards Codification	IRC	Internal Revenue Code
ASU	Accounting Standards Update	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
CCO	Chief Credit Officer	MBS	Mortgage-Backed Securities
CDARS	Certificate Deposit Account Registry Service	NBL	National Business Lines
CDO	Collateralized Debt Obligation	NOL	Net Operating Loss
CEO	Chief Executive Officer	NPV	Net Present Value
CFO	Chief Financial Officer	OCI	Other Comprehensive Income
CLO	Collateralized Loan Obligation	OREO	Other Real Estate Owned
CRA	Community Reinvestment Act	OTTI	Other-than-Temporary Impairment
CRE	Commercial Real Estate	PCI	Purchased Credit Impaired
EPS	Earnings per share	PPNR	Pre-Provision Net Revenue
EVE	Economic Value of Equity	ROU	Right of use
Exchange Act	Securities Exchange Act of 1934, as amended	SBA	Small Business Administration
FASB	Financial Accounting Standards Board	SBIC	Small Business Investment Company
FDIC	Federal Deposit Insurance Corporation	SEC	Securities and Exchange Commission
FHLB	Federal Home Loan Bank	SERP	Supplemental Executive Retirement Plan
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
GSE	Government-Sponsored Enterprise		

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

	March 31, 2019 (Unaudited)	December 31, 2018
	(in thousands, except shares and per share amounts)	
Assets:		
Cash and due from banks	$160,329	$180,053
Interest-bearing deposits in other financial institutions	335,282	318,519
Federal funds sold	290,000	—
Cash, cash equivalents, and restricted cash	785,611	498,572
Money market investments	—	7
Investment securities - AFS, at fair value; amortized cost of $3,265,546 at March 31, 2019 and $3,339,888 at December 31, 2018	3,244,247	3,276,988
Investment securities - HTM, at amortized cost; fair value of $331,083 at March 31, 2019 and $298,648 at December 31, 2018	310,865	302,905
Investment securities - equity	118,005	115,061
Investments in restricted stock, at cost	66,287	66,132
Loans, net of deferred loan fees and costs	18,116,748	17,710,629
Less: allowance for credit losses	(154,987)	(152,717)
Net loans held for investment	17,961,761	17,557,912
Premises and equipment, net	119,827	119,474
Operating lease right of use asset	72,841	—
Other assets acquired through foreclosure, net	17,707	17,924
Bank owned life insurance	171,126	170,145
Goodwill	289,895	289,895
Other intangible assets, net	8,873	9,260
Deferred tax assets, net	22,309	31,990
Investments in LIHTC	331,972	342,381
Other assets	271,520	310,840
Total assets	$23,792,846	$23,109,486
Liabilities:		
Deposits:		
Non-interest-bearing demand	$7,679,361	$7,456,141
Interest-bearing	12,529,379	11,721,306
Total deposits	20,208,740	19,177,447
Customer repurchase agreements	15,141	22,411
Other borrowings	—	491,000
Qualifying debt	373,996	360,458
Operating lease liability	77,750	—
Other liabilities	396,599	444,436
Total liabilities	21,072,226	20,495,752
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock - par value $0.0001; 200,000,000 authorized; 106,449,184 shares issued at March 31, 2019 and 106,741,870 at December 31, 2018	10	10

Treasury stock, at cost (1,966,238 shares at March 31, 2019 and 1,793,231 shares at December 31, 2018)	(60,983)	(53,083)
Additional paid in capital	1,390,569	1,417,724
Accumulated other comprehensive (loss)	(8,191)	(33,622)
Retained earnings	1,399,215	1,282,705
Total stockholders' equity	2,720,620	2,613,734
Total liabilities and stockholders' equity	$23,792,846	$23,109,486

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	Three Months Ended March 31,	
	2019	2018
	(in thousands, except per share amounts)	
Interest income:		
Loans, including fees	$258,818	$205,959
Investment securities	28,178	25,772
Dividends	1,633	1,478
Other	2,539	1,488
Total interest income	291,168	234,697
Interest expense:		
Deposits	35,788	14,173
Other borrowings	1,277	1,326
Qualifying debt	6,105	4,969
Other	662	9
Total interest expense	43,832	20,477
Net interest income	247,336	214,220
Provision for credit losses	3,500	6,000
Net interest income after provision for credit losses	243,836	208,220
Non-interest income:		
Service charges and fees	5,412	5,745
Income from equity investments	2,009	1,460
Card income	1,841	1,972
Foreign currency income	1,095	1,202
Income from bank owned life insurance	981	928
Lending related income and gains (losses) on sale of loans, net	251	978
Unrealized gains (losses) on assets measured at fair value, net	2,834	(1,074)
Other income	987	432
Total non-interest income	15,410	11,643
Non-interest expense:		
Salaries and employee benefits	68,556	62,133
Occupancy	8,227	6,864
Legal, professional, and directors' fees	7,532	6,003
Data processing	6,332	5,207
Deposit costs	5,724	2,926
Insurance	2,809	3,869
Business development	2,085	1,728
Loan and repossessed asset expenses	2,006	583
Marketing	741	596
Card expense	634	942
Intangible amortization	387	398
Net loss (gain) on sales / valuations of repossessed and other assets	97	(1,228)
Other expense	7,784	8,128
Total non-interest expense	112,914	98,149
Income before provision for income taxes	146,332	121,714
Income tax expense	25,536	20,814

Net income	$120,796	$100,900
Earnings per share:		
Basic	$1.16	$0.97
Diluted	1.16	0.96
Weighted average number of common shares outstanding:		
Basic	104,033	104,530
Diluted	104,475	105,324

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 March 31,	
	2019	2018
	(in thousands)	
Net income	$ 120,796	$ 100,900
Other comprehensive income (loss), net:		
Unrealized gain (loss) on AFS securities, net of tax effect of $(10,222) and $12,714, respectively	31,377	(38,914)
Unrealized (loss) gain on SERP, net of tax effect of $6 and $2, respectively	(18)	(11)
Unrealized (loss) gain on junior subordinated debt, net of tax effect of $1,934 and $(478), respectively	(5,928)	1,466
Net other comprehensive income (loss)	25,431	(37,459)
Comprehensive income	$ 146,227	$ 63,441

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, 2017	105,487	$ 10	$ 1,424,540	$ (40,173)	$ (3,145)	$ 848,466	$ 2,229,698
Balance, January 1, 2018 (1)	105,487	10	1,424,540	(40,173)	(4,203)	849,524	2,229,698
Net income	—	—	—	—	—	100,900	100,900
Exercise of stock options	9	—	215	—	—	—	215
Restricted stock, performance stock units, and other grants, net	546	—	6,705	—	—	—	6,705
Restricted stock surrendered (2)	(181)	—	—	(6,296)	—	—	(6,296)
Other comprehensive income, net	—	—	—	—	(37,459)	—	(37,459)
Balance, March 31, 2018	105,861	$ 10	$ 1,431,460	$ (46,469)	$ (41,662)	$ 950,424	$ 2,293,763
Balance, December 31, 2018	104,949	$ 10	$ 1,417,724	$ (53,083)	$ (33,622)	$ 1,282,705	$ 2,613,734
Net income	—	—	—	—	—	120,796	120,796
Exercise of stock options	1	—	36	—	—	—	36
Restricted stock, performance stock unit, and other grants, net	647	—	6,472	—	—	—	6,472
Restricted stock surrendered (2)	(173)	—	—	(7,900)	—	—	(7,900)
Stock repurchase	(941)	—	(33,663)	—	—	(4,286)	(37,949)
Other comprehensive income, net	—	—	—	—	25,431	—	25,431
Balance, March 31, 2019	104,483	$ 10	$ 1,390,569	$ (60,983)	$ (8,191)	$ 1,399,215	$ 2,720,620

(1) 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.

(2) Share amounts represent Treasury Shares, 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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Cash flows from operating activities:		
Net income	$120,796	$100,900
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	3,500	6,000
Depreciation and amortization	4,209	3,407
Stock-based compensation	6,472	6,705
Deferred income taxes	1,398	(9,372)
Amortization of net premiums for investment securities	3,004	3,920
Amortization of tax credit investments	10,145	8,128
Amortization of operating lease right of use asset	2,601	—
Accretion of fair market value adjustments on loans acquired from business combinations	(2,817)	(5,738)
Accretion and amortization of fair market value adjustments on other assets and liabilities acquired from business combinations	463	475
Income from bank owned life insurance	(981)	(928)
Losses / (Gains) on:		
Assets measured at fair value, net	(2,834)	1,074
Sale of loans	408	(678)
Other assets acquired through foreclosure, net	—	(1,242)
Valuation adjustments of other repossessed assets, net	99	47
Sale of premises, equipment, and other assets, net	(2)	(33)
Changes in:		
Other assets	(33,071)	5,773
Other liabilities	37,924	(30,122)
Net cash provided by operating activities	$151,314	$88,316
Cash flows from investing activities:		
Investment securities - AFS		
Purchases	(26,342)	(67,949)
Principal pay downs and maturities	97,732	105,242
Investment securities - HTM		
Purchases	(10,825)	(7,800)
Principal pay downs and maturities	2,868	243
Equity securities carried at fair value		
Reinvestment of dividends	(151)	—
Purchase of investment tax credits	(24,400)	(13,376)
Purchase of SBIC investments	(1,570)	(263)
Sale (purchase) of money market investments, net	7	(5)
Proceeds from bank owned life insurance	—	72
(Purchase) liquidation of restricted stock, net	(155)	(734)
Loan fundings and principal collections, net	(385,497)	(367,437)
Purchase of premises, equipment, and other assets, net	(3,152)	(576)
Proceeds from sale of other real estate owned and repossessed assets, net	—	5,285
Net cash used in investing activities	$(351,485)	$(347,298)

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	Three Months Ended March 31, 2019	2018
	(in thousands)	
Cash flows from financing activities:		
Net increase (decrease) in deposits	$1,031,293	$382,006
Net increase (decrease) in borrowings	(498,270)	(94,340)
Proceeds from exercise of common stock options	36	215
Cash paid for tax withholding on vested restricted stock	(7,900)	(6,296)
Common stock repurchases	(37,949)	—
Net cash provided by financing activities	$487,210	$281,585
Net increase (decrease) in cash, cash equivalents, and restricted cash	287,039	22,603
Cash, cash equivalents, and restricted cash at beginning of period	498,572	416,768
Cash, cash equivalents, and restricted cash at end of period	$785,611	$439,371
Supplemental disclosure:		
Cash paid (received) during the period for:		
Interest	$43,832	$25,303
Income taxes, net of refunds	(34,619)	9,881
Non-cash operating, investing, and financing activity:		
Transfers to other assets acquired through foreclosure, net	—	5,744
Unfunded commitments originated	1,735	30,000
Change in unrealized gain (loss) on AFS securities, net of tax	31,377	(38,914)
Change in unrealized (loss) gain on junior subordinated debt, net of tax	(5,928)	1,466
Net increase (decrease) in unfunded obligations	12,787	120,512

See accompanying Notes to Unaudited Consolidated Financial Statements.

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of operation
WAL is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, international banking, and online banking products and services through its wholly-owned banking subsidiary, WAB.
WAB operates the following full-service banking divisions: ABA, BON, FIB, Bridge, and TPB. The Company also serves business customers through a national platform of specialized financial services. In addition, the Company has two non-bank subsidiaries, LVSP, which holds and manages certain OREO properties, and a captive insurance company formed and licensed under the laws of the State of Arizona, CSI. CSI was established as part of the Company's overall enterprise risk management strategy.
Basis of presentation
The accounting and reporting policies of the Company are in accordance with GAAP and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in the Consolidated Financial Statements.
Use of estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates and judgments are ongoing and are based on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from those estimates and assumptions used in the Consolidated Financial Statements and related notes. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; certain assets and liabilities carried at fair value; and accounting for income taxes.
Principles of consolidation
As of March 31, 2019, WAL has the following significant wholly-owned subsidiaries: WAB, LVSP, and eight unconsolidated subsidiaries used as business trusts in connection with the issuance of trust-preferred securities.
The Bank has the following significant wholly-owned subsidiaries: WABT, which holds certain investment securities, municipal and nonprofit loans, and leases; WA PWI, which holds certain limited partnerships invested primarily in low income housing tax credits and small business investment corporations; and BW Real Estate, Inc., which operates as a real estate investment trust and holds certain of WAB's real estate loans and related securities.
The Company does not have any other significant entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.
Reclassifications
Certain amounts reported in prior periods may have been reclassified in the Consolidated Financial Statements to conform to the current presentation. The reclassifications have no effect on net income or stockholders’ equity as previously reported.
Interim financial information
The accompanying Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2019 and 2018 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, 2018.

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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.

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.

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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. 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 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.

Leases

At inception, contracts are evaluated to determine whether the contract constitutes a lease agreement. For contracts that are determined to be an operating lease, a corresponding ROU asset and operating lease liability are recorded in separate line items on the consolidated balance sheets. A ROU asset represents the Company's right to use an underlying asset during the lease term and a lease liability represents the Company's commitment to make contractually obligated lease payments. Operating lease ROU assets and liabilities are recognized at the commencement date of the lease and are based on the present value of lease payments over the lease term. The measurement of the operating lease ROU asset includes any lease payments made and is reduced by lease incentives that are paid or are payable to the Company. Variable lease payments that depend on an index or rate such as the Consumer Price Index are included in lease payments based on the rate in effect at the commencement date of the lease. Lease payments are recognized on a straight-line basis as part of occupancy expense over the lease term.

As the rate implicit in the lease is not readily determinable, the incremental collateralized borrowing rate is used to determine the present value of lease payments. This rate gives consideration to the applicable FHLB collateralized borrowing rates and is based on the information available at the commencement date. The Company has elected to apply the short-term lease measurement and recognition exemption to leases with an initial term of 12 months or less; therefore, these leases are not recorded on the Company's consolidated balance sheet, but rather, lease expense is recognized over the lease term on a straight-line basis. The Company's lease agreements may include options to extend or terminate the lease. These options are included in the lease term when it is reasonably certain that the options will be exercised.

In addition to the package of practical expedients, the Company also elected the practical expedient that allows lessees to make an accounting policy election to not separate non-lease components from the associated lease component, and instead account for them all together as part of the applicable lease component. This practical expedient can be elected separately for each underlying class of asset. The majority of the Company's non-lease components such as common area maintenance, parking, and taxes are variable, and are expensed as incurred. Variable payment amounts are determined in arrears by the landlord depending on actual costs incurred. See "Note 4. Leases" of these Notes to Unaudited Consolidated Financial Statements for further disclosures required under the new standard.

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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.

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 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 months ended March 31, 2019 or 2018.

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.

Common Stock Repurchases

On December 11, 2018, the Company adopted its common stock repurchase program, pursuant to which the Company is authorized to repurchase up to $250 million of its shares of common stock. All shares repurchased under the plan are retired upon settlement. The Company has elected to allocate the excess of the repurchase price over the par value of its common stock between additional paid-in capital and retained earnings. The allocation of the excess repurchase price to additional paid-in capital is limited to the amount of additional paid-in capital that was recorded at the time that the shares were initially issued, which is calculated on a last-in, first-out basis.

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 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 10. 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.

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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.
- 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 March 31, 2019 and 2018. The estimated fair value amounts for March 31, 2019 and 2018 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 14. 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.

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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, exchange-listed preferred stock, and certain corporate debt securities 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.

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.
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 12. 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. Beginning on October 1, 2018, interchange fees are being recorded net of customer rewards earned, which is more in line with current industry practice. Foreign currency income represents fees earned on the differential between purchases and sales of foreign currency on behalf of the Company’s clients. Income from bank owned life insurance is accounted for in accordance with ASC 325, Investments - Other. Lending related income includes fees earned from gains or losses on the sale of loans, SBA income, and letter of credit fees. Gains and losses on the sale of loans and SBA income are recognized pursuant to ASC 860, Transfers and Servicing. Net unrealized gains or losses on assets measured at fair value represent fair value changes in equity securities and are accounted for in accordance with ASC 321, Investments - Equity Securities. Fees related to standby letters of credit are accounted for in accordance with ASC 440, Commitments. Other income includes operating lease income, which is recognized on a straight-line basis over the lease term in accordance with ASC 840, Leases. Net gain or loss on sales / valuations of repossessed and other assets is presented as a component of non-interest expense, but may also be presented as a component of non-interest income in the event that a net gain is recognized. Net gain or loss on sales of repossessed and other assets are accounted for in accordance with ASC 610, Other Income - Gains and Losses from the

Derecognition of Nonfinancial Assets. See "Note 16. 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.

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Recent accounting pronouncements

In June 2016, the FASB issued guidance within ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The new standard significantly changes the impairment model for most financial assets that are measured at amortized cost, including off-balance sheet credit exposures, from an incurred loss model to an expected loss model. The amendments in ASU 2016-13 to Topic 326, Financial Instruments - Credit Losses, require that an organization measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU also requires enhanced disclosures, including qualitative and quantitative disclosures that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on AFS debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. 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 coordinate and facilitate all phases of planning and implementation of the new guidance. The Company has completed its loan portfolio stratification, with methodologies for measuring expected credit losses that include a combination of third-party vended models, internally-developed models, and simplified approaches. In addition, the Company has completed substantive pre-production runs and model validation activities, which encompass a majority of the Company’s loan portfolio. The implementation team is also updating the Company's accounting policies, designing key controls, and governance processes that are planned for implementation prior to adoption.

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

In August 2018, the FASB issued guidance within ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40). The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments in this Update require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in this Update also require that the capitalized implementation costs of a hosting arrangement that is a service contract be expensed over the term of the hosting arrangement. Presentation requirements include: expense related to the capitalized implementation costs should be presented in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement, payments for capitalized implementation costs in the statement of cash flows should be classified in the same manner as payments made for fees associated with the hosting element, and capitalized implementation costs in the statement of financial position should be presented in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Recently adopted accounting guidance

In 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 Company adopted the amendments to Topic 842 on January 1, 2019 using the modified retrospective approach. The Company elected the transition option issued under ASU 2018-11, Leases (Topic 842) Targeted Improvements, which allows entities to continue to apply the legacy guidance in ASC 840, Leases, to prior periods, including disclosure requirements. Accordingly, prior period financial results and disclosures have not been adjusted. The Company also elected to apply the package of practical expedients permitting entities to forgo reassessment of 1) expired or existing contracts that may contain leases; 2) lease classification of expired or existing

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leases; and 3) initial direct costs for any existing leases. The Company established internal controls and implemented lease accounting software to facilitate the preparation of financial information and disclosures related to leases. The most significant impact of the new standard on the Company’s consolidated financial statements was the recognition of a ROU asset and lease liability for operating leases for which the Company is the lessee. The accounting for finance and operating leases for which the Company is the lessor remains substantially unchanged. Upon adoption of this guidance, on January 1, 2019, the Company recorded a ROU asset and corresponding lease liability of $42.5 million and $46.1 million, respectively, on the consolidated balance sheet. No cumulative effect adjustment to retained earnings resulted from adoption of this guidance. The new standard did not have a material impact on the Company’s results of operations or cash flows.

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. As of March 31, 2019, the Company does not hold these types of securities, therefore, adoption of this guidance did not have an 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 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 adoption of this guidance did not have an impact 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, adoption of this amendment did not have an effect on the Company's accounting for excess tax benefits or tax deficiencies. For derivatives and hedging, previous guidance permits derivatives to be offset only when all four conditions (including the intent to set off) are met. This amendment clarifies that the intent to set off is not required to offset fair value amounts recognized for derivative instruments that are executed with the same counterparty under a master netting agreement. This amendment did not have an effect on the offsetting of the Company's derivative assets and liabilities.

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2. INVESTMENT SECURITIES

The carrying amounts and fair values of investment securities at March 31, 2019 and December 31, 2018 are summarized as follows:

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity debt securities				
Tax-exempt	$310,865	$ 20,218	$—	$331,083
Available-for-sale debt securities				
CDO	$50	$ 14,976	$—	$15,026
Commercial MBS issued by GSEs	104,227	104	(5,232)	99,099
Corporate debt securities	105,026	116	(8,100)	97,042
Private label residential MBS	946,757	2,861	(14,271)	935,347
Residential MBS issued by GSEs	1,509,590	2,408	(19,762)	1,492,236
Tax-exempt	526,899	11,666	(1,575)	536,990
Trust preferred securities	32,000	—	(3,383)	28,617
U.S. government sponsored agency securities	40,000	—	(1,099)	38,901
U.S. treasury securities	997	—	(8)	989
Total AFS debt securities	$3,265,546	$ 32,131	$(53,430)	$3,244,247
Equity securities				
CRA investments	$52,361	$ —	$(747)	$51,614
Preferred stock	65,913	954	(476)	66,391
Total equity securities	$118,274	$ 954	$(1,223)	$118,005

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity debt securities				
Tax-exempt	$302,905	$ 3,163	$(7,420)	$298,648
Available-for-sale debt securities				
CDO	$50	$ 15,277	$—	$15,327
Commercial MBS issued by GSEs	106,385	82	(6,361)	100,106
Corporate debt securities	105,029	—	(5,649)	99,380
Private label residential MBS	948,161	945	(24,512)	924,594
Residential MBS issued by GSEs	1,564,181	1,415	(35,472)	1,530,124
Tax-exempt	542,086	4,335	(7,753)	538,668
Trust preferred securities	32,000	—	(3,383)	28,617
U.S. government sponsored agency securities	40,000	—	(1,812)	38,188
U.S. treasury securities	1,996	—	(12)	1,984
Total AFS debt securities	$3,339,888	$ 22,054	$(84,954)	$3,276,988
Equity securities				
CRA investments	$52,210	$ —	$(1,068)	$51,142

Preferred stock	65,954	148	(2,183)	63,919
Total equity securities	$ 118,164	$ 148	$ (3,251)	$ 115,061

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The Company conducts an OTTI analysis on a quarterly basis. The initial indication of OTTI 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 debt securities, for the purpose of an OTTI analysis, the Company also considers the cause of the price decline (general level of interest rates, credit spreads, and industry and issuer-specific factors), whether downgrades by bond rating agencies have occurred, the issuer's financial condition, near-term prospects, and current ability to make future payments in a timely manner, as well as the issuer's ability to service debt, and any change in agencies' ratings at the evaluation date from the acquisition date and any likely imminent action.
At March 31, 2019 and December 31, 2018, the Company's unrealized losses relate primarily to market interest rate increases since the securities' original purchase date. The total number of AFS securities in an unrealized loss position at March 31, 2019 is 230, compared to 373 at December 31, 2018. 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 months ended March 31, 2019 and 2018. The Company does not consider any securities to be other-than-temporarily impaired as of March 31, 2019 and December 31, 2018. No assurance can be made that OTTI will not occur in future periods.
Information pertaining to securities with gross unrealized losses at March 31, 2019 and December 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	March 31, 2019					
	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)					
Available-for-sale debt securities						
Commercial MBS issued by GSEs	$—	$ —	$ 5,232	$ 97,264	$ 5,232	$ 97,264
Corporate debt securities	—	—	8,100	91,900	8,100	91,900
Private label residential MBS	—	—	14,271	703,525	14,271	703,525
Residential MBS issued by GSEs	2	265	19,760	1,184,558	19,762	1,184,823
Tax-exempt	—	—	1,575	80,676	1,575	80,676
Trust preferred securities	—	—	3,383	28,617	3,383	28,617
U.S. government sponsored agency securities	—	—	1,099	33,901	1,099	33,901
U.S. treasury securities	—	—	8	989	8	989
Total AFS securities	$ 2	$ 265	$ 53,428	$ 2,221,430	$ 53,430	$ 2,221,695

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	December 31, 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	$3,868	$91,095	$3,552	$69,991	$7,420	$161,086
Available-for-sale debt securities						
Commercial MBS issued by GSEs	$—	$—	$6,361	$98,275	$6,361	$98,275
Corporate debt securities	16	5,013	5,633	94,367	5,649	99,380
Private label residential MBS	5,173	217,982	19,339	537,316	24,512	755,298
Residential MBS issued by GSEs	1,363	141,493	34,109	1,215,490	35,472	1,356,983
Tax-exempt	3,562	209,767	4,191	72,382	7,753	282,149
Trust preferred securities	—	—	3,383	28,617	3,383	28,617
U.S. government sponsored agency securities	—	—	1,812	38,188	1,812	38,188
U.S. treasury securities	—	—	12	1,984	12	1,984
Total AFS securities	$10,114	$574,255	$74,840	$2,086,619	$84,954	$2,660,874

The amortized cost and fair value of securities as of March 31, 2019, 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.

	March 31, 2019	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held-to-maturity		
Due in one year or less	$10,100	$10,147
After five years through ten years	14,386	14,984
After ten years	286,379	305,952
Total HTM securities	$310,865	$331,083
Available-for-sale		
Due in one year or less	$2,296	$2,313
After one year through five years	12,036	12,206
After five years through ten years	211,149	203,258
After ten years	479,491	499,788
Mortgage-backed securities	2,560,574	2,526,682
Total AFS securities	$3,265,546	$3,244,247

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The following tables summarize the carrying amount of the Company's investment ratings position as of March 31, 2019 and December 31, 2018:

	March 31, 2019							
	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	$—	$—	$—	$—	$—	$—	$310,865	$310,865
Available-for-sale debt securities								
CDO	$—	$—	$—	$—	$—	$15,026	$—	$15,026
Commercial MBS issued by GSEs	—	99,099	—	—	—	—	—	99,099
Corporate debt securities	—	—	—	64,300	32,742	—	—	97,042
Private label residential MBS	911,689	—	21,079	297	898	1,384	—	935,347
Residential MBS issued by GSEs	—	1,492,236	—	—	—	—	—	1,492,236
Tax-exempt	68,227	8,875	294,830	163,391	—	—	1,667	536,990
Trust preferred securities	—	—	—	—	28,617	—	—	28,617
U.S. government sponsored agency securities	—	38,901	—	—	—	—	—	38,901
U.S. treasury securities	—	989	—	—	—	—	—	989
Total AFS securities	$979,916	$1,640,100	$315,909	$227,988	$62,257	$16,410	$1,667	$3,244,247
Equity securities								
CRA investments	$—	$25,375	$—	$—	$—	$—	$26,239	$51,614
Preferred stock	—	—	—	—	47,931	3,925	14,535	66,391
Total equity securities	$—	$25,375	$—	$—	$47,931	$3,925	$40,774	$118,005

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

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	December 31, 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	$—	$—	$—	$—	$—	$—	$302,905	$302,905
Available-for-sale debt securities								
CDO	$—	$—	$—	$—	$—	$15,327	$—	$15,327
Commercial MBS issued by GSEs	—	100,106	—	—	—	—	—	100,106
Corporate debt securities	—	—	—	66,515	32,865	—	—	99,380
Private label residential MBS	887,520	—	34,342	343	947	1,442	—	924,594
Residential MBS issued by GSEs	—	1,530,124	—	—	—	—	—	1,530,124
Tax-exempt	66,160	12,146	306,409	152,330	—	—	1,623	538,668
Trust preferred securities	—	—	—	—	28,617	—	—	28,617
U.S. government sponsored agency securities	—	38,188	—	—	—	—	—	38,188
U.S. treasury securities	—	1,984	—	—	—	—	—	1,984
Total AFS securities	$953,680	$1,682,548	$340,751	$219,188	$62,429	$16,769	$1,623	$3,276,988
Equity securities								
CRA investments	$—	$25,375	$—	$—	$—	$—	$25,767	$51,142
Preferred stock	—	—	—	—	45,771	3,693	14,455	63,919
Total equity securities	$—	$25,375	$—	$—	$45,771	$3,693	$40,222	$115,061

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

Securities with carrying amounts of approximately $940.0 million and $788.4 million at March 31, 2019 and December 31, 2018, respectively, were pledged for various purposes as required or permitted by law.

There were no gains and losses on sales of investment securities during the three months ended March 31, 2019 and March 31, 2018.

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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:

	March 31, 2019	December 31, 2018
	(in thousands)	
Commercial and industrial	$7,723,695	$7,762,642
Commercial real estate - non-owner occupied	4,304,261	4,213,428
Commercial real estate - owner occupied	2,285,340	2,325,380
Construction and land development	2,283,527	2,134,753
Residential real estate	1,461,561	1,204,355
Consumer	58,364	70,071
Loans, net of deferred loan fees and costs	18,116,748	17,710,629
Allowance for credit losses	(154,987)	(152,717)
Total loans HFI	$17,961,761	$17,557,912

Net deferred loan fees and costs as of March 31, 2019 and December 31, 2018 total $34.8 million and $36.3 million, respectively, which is a reduction in the carrying value of loans. Net unamortized purchase discounts on secondary market loan purchases total $8.2 million and $2.0 million as of March 31, 2019 and December 31, 2018, 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 $6.1 million and $7.1 million as of March 31, 2019 and December 31, 2018, respectively. Credit marks were $13.1 million and $14.6 million as of March 31, 2019 and December 31, 2018, respectively.

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

	March 31, 2019					
	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	$7,711,923	$193	$10,638	$941	$11,772	$7,723,695
Commercial real estate						
Owner occupied	2,281,389	2,630	1,321	—	3,951	2,285,340
Non-owner occupied	4,143,704	984	—	—	984	4,144,688
Multi-family	159,573	—	—	—	—	159,573
Construction and land development						
Construction	1,497,960	—	—	—	—	1,497,960
Land	784,146	945	—	476	1,421	785,567
Residential real estate	1,439,763	13,660	2,736	5,402	21,798	1,461,561
Consumer	58,248	—	—	116	116	58,364
Total loans	$18,076,706	$18,412	$14,695	$6,935	$40,042	$18,116,748

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	December 31, 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	$7,753,111	$ 3,187	$ 416	$ 5,928	$9,531	$7,762,642
Commercial real estate						
Owner occupied	2,320,321	4,441	—	618	5,059	2,325,380
Non-owner occupied	4,051,837	—	—	—	—	4,051,837
Multi-family	161,591	—	—	—	—	161,591
Construction and land development						
Construction	1,382,664	—	—	—	—	1,382,664
Land	751,613	—	476	—	476	752,089
Residential real estate	1,182,933	9,316	4,010	8,096	21,422	1,204,355
Consumer	69,830	—	—	241	241	70,071
Total loans	$17,673,900	$ 16,944	$ 4,902	$ 14,883	$36,729	$17,710,629

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:

	March 31, 2019				December 31, 2018			
	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	$19,438	$ 11,636	$ 31,074	$ —	$7,639	$ 7,451	$ 15,090	$ —
Commercial real estate								
Owner occupied	420	—	420	—	—	—	—	594
Non-owner occupied	—	580	580	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—	—
Construction and land development								
Construction	3,307	—	3,307	—	—	476	476	—
Land	—	476	476	—	—	—	—	—
Residential real estate	1,168	6,746	7,914	—	552	11,387	11,939	—
Consumer	—	116	116	—	—	241	241	—
Total	$24,333	$ 19,554	$ 43,887	$ —	$8,191	$ 19,555	$ 27,746	$ 594

The reduction in interest income associated with loans on non-accrual status was approximately $0.3 million and $0.6 million for the three months ended March 31, 2019 and 2018, respectively.

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:

	March 31, 2019					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial and industrial	$7,548,610	$70,708	$ 103,828	$ 549	$ —	$7,723,695
Commercial real estate						
Owner occupied	2,206,311	23,044	55,985	—	—	2,285,340
Non-owner occupied	4,095,492	36,114	13,082	—	—	4,144,688
Multi-family	159,573	—	—	—	—	159,573
Construction and land development						
Construction	1,470,710	4,088	23,162	—	—	1,497,960
Land	785,070	—	497	—	—	785,567
Residential real estate	1,452,919	365	8,277	—	—	1,461,561
Consumer	58,208	29	127	—	—	58,364
Total	$17,776,893	$134,348	$ 204,958	$ 549	$ —	$18,116,748

	March 31, 2019					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$17,760,118	$134,268	$ 181,862	$ 458	$ —	$18,076,706
Past due 30 - 59 days	14,947	35	3,339	91	—	18,412
Past due 60 - 89 days	1,494	45	13,156	—	—	14,695
Past due 90 days or more	334	—	6,601	—	—	6,935
Total	$17,776,893	$134,348	$ 204,958	$ 549	$ —	$18,116,748

	December 31, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial and industrial	$7,574,506	$61,202	$ 126,356	$ 578	$ —	$7,762,642
Commercial real estate						
Owner occupied	2,255,513	12,860	57,007	—	—	2,325,380
Non-owner occupied	4,030,350	12,982	8,505	—	—	4,051,837
Multi-family	161,591	—	—	—	—	161,591
Construction and land development						
Construction	1,378,624	1,210	2,830	—	—	1,382,664
Land	751,012	—	1,077	—	—	752,089
Residential real estate	1,191,571	527	12,257	—	—	1,204,355
Consumer	69,755	75	241	—	—	70,071
Total	$17,412,922	$88,856	$ 208,273	$ 578	$ —	$17,710,629

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	December 31, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$17,400,616	$87,264	$ 186,020	$ —	$ —	$17,673,900
Past due 30 - 59 days	11,255	1,580	4,109	—	—	16,944
Past due 60 - 89 days	719	12	3,767	404	—	4,902
Past due 90 days or more	332	—	14,377	174	—	14,883
Total	$17,412,922	$88,856	$ 208,273	$ 578	$ —	$17,710,629

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

	March 31, 2019	December 31, 2018
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310 (1)	$5,244	$986
Impaired loans without a specific valuation allowance under ASC 310 (2)	138,154	111,266
Total impaired loans	$143,398	$112,252
Valuation allowance related to impaired loans	$(1,357)	$(681)

(1) Includes no TDR loans as of each of the periods ended at March 31, 2019 and December 31, 2018.
(2) Includes TDR loans of $68.9 million and $44.5 million at March 31, 2019 and December 31, 2018, respectively.

The following table presents impaired loans by class:

	March 31, 2019	December 31, 2018
	(in thousands)	
Commercial and industrial	$78,768	$63,896
Commercial real estate		
Owner occupied	8,185	6,530
Non-owner occupied	12,268	12,407
Multi-family	—	—
Construction and land development		
Construction	20,329	—
Land	8,286	9,403
Residential real estate	15,417	19,744
Consumer	145	272
Total	$143,398	$112,252

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 March 31, 2019 and December 31, 2018.

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Average balance on impaired loans	$126,613	$93,081
Interest income recognized on impaired loans	1,493	873
Interest recognized on non-accrual loans, cash basis	309	438

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Commercial and industrial	$67,144	$36,849
Commercial real estate		
Owner occupied	7,569	9,043
Non-owner occupied	12,311	18,925
Multi-family	—	—
Construction and land development		
Construction	12,451	—
Land	8,632	10,281
Residential real estate	18,278	17,799
Consumer	228	184
Total	$126,613	$93,081

The average investment in TDR loans was $51.6 million and $48.3 million for the three months ended March 31, 2019 and 2018, respectively.

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Commercial and industrial	$769	$250
Commercial real estate		
Owner occupied	123	127
Non-owner occupied	187	262
Multi-family	—	—
Construction and land development		
Construction	180	—
Land	129	130
Residential real estate	105	104
Consumer	—	—
Total	$1,493	$873

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

The following table summarizes nonperforming assets:

	March 31, 2019	December 31, 2018
	(in thousands)	
Non-accrual loans (1)	$43,887	$ 27,746
Loans past due 90 days or more on accrual status	—	594
Accruing troubled debt restructured loans	52,488	36,458
Total nonperforming loans	96,375	64,798
Other assets acquired through foreclosure, net	17,707	17,924
Total nonperforming assets	$114,082	$ 82,722

(1)

Includes non-accrual TDR loans of $16.4 million and $8.0 million at March 31, 2019 and December 31, 2018, respectively.

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Loans Acquired with Deteriorated Credit Quality

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Balance, at beginning of period	$3,768	$9,324
Reclassifications from non-accretable to accretable yield (1)	—	683
Accretion to interest income	(161)	(313)
Reversal of fair value adjustments upon disposition of loans	(470)	(1,586)
Balance, at end of period	$3,137	$8,108

(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 March 31,					
	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
	(in thousands)					
2019						
Beginning Balance	$22,513	$ 34,829	$ 11,276	$ 83,118	$ 981	$152,717
Charge-offs	—	—	188	2,124	1	2,313
Recoveries	(55)	(453)	(93)	(477)	(5)	(1,083)
Provision	3,515	2,585	1,825	(4,217)	(208)	3,500
Ending balance	$26,083	$ 37,867	$ 13,006	$ 77,254	$ 777	$154,987
2018						
Beginning Balance	$19,511	$ 31,495	$ 5,478	$ 82,793	$ 773	$140,050
Charge-offs	—	—	107	3,517	—	3,624
Recoveries	(1,388)	(126)	(250)	(459)	(10)	(2,233)
Provision	1,695	1,247	(102)	3,143	17	6,000
Ending balance	$22,594	$ 32,868	$ 5,519	$ 82,878	$ 800	$144,659

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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 March 31, 2019;							
Recorded Investment							
Impaired loans with an allowance recorded	$—	$ —	$590	$1,347	$ 3,307	$—	$5,244
Impaired loans with no allowance recorded	8,185	12,268	78,178	14,070	25,308	145	138,154
Total loans individually evaluated for impairment	8,185	12,268	78,768	15,417	28,615	145	143,398
Loans collectively evaluated for impairment	2,273,235	4,232,710	7,644,927	1,446,125	2,254,912	58,219	17,910,128
Loans acquired with deteriorated credit quality	3,920	59,283	—	19	—	—	63,222
Total recorded investment	$2,285,340	$ 4,304,261	$7,723,695	$1,461,561	$ 2,283,527	$ 58,364	$18,116,748
Unpaid Principal Balance							
Impaired loans with an allowance recorded	$—	$ —	$1,463	$1,347	$ 3,307	$—	$6,117
Impaired loans with no allowance recorded	13,479	14,398	117,839	22,428	41,528	10,505	220,177
Total loans individually evaluated for impairment	13,479	14,398	119,302	23,775	44,835	10,505	226,294
Loans collectively evaluated for impairment	2,273,235	4,232,710	7,644,927	1,446,125	2,254,912	58,219	17,910,128
Loans acquired with deteriorated credit quality	5,257	74,453	4,347	72	—	—	84,129
Total unpaid principal balance	$2,291,971	$ 4,321,561	$7,768,576	$1,469,972	$ 2,299,747	$ 68,724	$18,220,551
Related Allowance for Credit Losses							
Impaired loans with an allowance recorded	$—	$ —	$297	$250	$ 810	$—	$1,357
Impaired loans with no allowance recorded	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	—	—	297	250	810	—	1,357
	14,746	23,020	76,949	12,756	25,273	777	153,521

Loans collectively evaluated for impairment							
Loans acquired with deteriorated credit quality	—	101	8	—	—	—	109
Total allowance for credit losses	$ 14,746	$ 23,121	$ 77,254	$ 13,006	$ 26,083	$ 777	$ 154,987

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	Commercial Real Estate-Owner Occupied (in thousands)	Commercial Real Estate-Non-Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Consumer	Total Loans
Loans as of December 31, 2018;							
Recorded Investment							
Impaired loans with an allowance recorded	$—	$ —	$623	$363	$—	$—	$986
Impaired loans with no allowance recorded	6,530	12,407	63,273	19,381	9,403	272	111,266
Total loans individually evaluated for impairment	6,530	12,407	63,896	19,744	9,403	272	112,252
Loans collectively evaluated for impairment	2,314,871	4,121,464	7,698,746	1,184,592	2,125,350	69,799	17,514,822
Loans acquired with deteriorated credit quality	3,979	79,557	—	19	—	—	83,555
Total recorded investment	$2,325,380	$ 4,213,428	$7,762,642	$1,204,355	$ 2,134,753	$ 70,071	$17,710,629
Unpaid Principal Balance							
Impaired loans with an allowance recorded	$—	$ —	$1,482	$363	$—	$—	$1,845
Impaired loans with no allowance recorded	11,852	18,155	103,992	27,979	25,624	10,632	198,234
Total loans individually evaluated for impairment	11,852	18,155	105,474	28,342	25,624	10,632	200,079
Loans collectively evaluated for impairment	2,314,871	4,121,464	7,698,746	1,184,592	2,125,350	69,799	17,514,822
Loans acquired with deteriorated credit quality	5,315	95,680	4,352	72	—	—	105,419
Total unpaid principal balance	$2,332,038	$ 4,235,299	$7,808,572	$1,213,006	$ 2,150,974	$ 80,431	$17,820,320
Related Allowance for Credit Losses							
Impaired loans with an allowance recorded	$—	$ —	$621	$60	$—	$—	$681
Impaired loans with no allowance recorded	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	—	—	621	60	—	—	681
Loans collectively evaluated for	14,286	20,456	82,488	11,216	22,513	981	151,940

impairment							
Loans acquired with deteriorated credit quality	—	87	9	—	—	—	96
Total allowance for credit losses	$14,286	$ 20,543	$83,118	$11,276	$22,513	$981	$152,717

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 March 31, 2019, the Company had two new TDR loans with a recorded investment of $27.1 million and five new TDR loans during the three months ended March 31, 2018 with a recorded investment of $15.0 million. No principal amounts were forgiven and there were no waived fees or other expenses resulting from these TDRs.

During the three months ended March 31, 2019 and 2018, there were no TDR loans for which there was a payment default.

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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 March 31, 2019 and December 31, 2018, commitments outstanding on TDR loans totaled $2.1 million and $1.5 million, respectively.

Loan Purchases and Sales

For the three months ended March 31, 2019 and 2018, secondary market loan purchases totaled $530.5 million and $141.5 million, respectively. For 2019, these purchased loans consisted of $312.5 million of residential real estate loans, $188.0 million of commercial and industrial loans, and $30.0 million of CRE, non-owner occupied loans. For 2018, these purchased loans consisted of $118.3 million of commercial and industrial loans and $23.2 million of residential real estate loans.

During the three months ended March 31, 2019, the Company sold commercial and industrial loans with carrying value of $15.5 million and recognized a net loss of $0.4 million. During the three months ended March 31, 2018, the Company sold loans which primarily consisted of commercial and industrial loans with a carrying value of $31.0 million and recognized a net gain of $0.7 million.

4. LEASES

Adoption of ASU 2016-02, Leases

On January 1, 2019, the Company adopted the amendments to ASC 842, Leases, which requires lessees to recognize lease assets and liabilities arising from operating leases on the balance sheet. The Company adopted the new lease guidance using the modified retrospective approach and elected the transition option issued under ASU 2018-11, Leases (Topic 842) Targeted Improvements, allowing entities to continue to apply the legacy guidance in ASC 840, Leases, to prior periods, including disclosure requirements. Accordingly, prior period financial results and disclosures have not been adjusted.

The Company has operating leases under which it leases its branch offices, corporate headquarters, other offices, and data facility centers. Upon adoption of the new lease guidance, on January 1, 2019, the Company recorded a ROU asset and corresponding lease liability of $42.5 million and $46.1 million, respectively, on the consolidated balance sheet. As of March 31, 2019, the Company's operating lease ROU asset and operating lease liability totaled $72.8 million and $77.8 million, respectively. The increase in the operating lease ROU asset and the operating lease liability from the adoption date is due to execution of a major office lease extension subsequent to the adoption date. A weighted average discount rate of 3.06% was used in the measurement of the ROU asset and lease liability as of March 31, 2019.

The Company's leases have remaining lease terms between one to twelve years, with a weighted average lease term of 9.03 years at March 31, 2019. Some leases include multiple five-year renewal options. The Company’s decision to exercise these renewal options is based on an assessment of its current business needs and market factors at the time of the renewal. Currently, the Company has no leases for which the option to renew is reasonably certain and therefore, options to renew were not factored into the calculation of its ROU asset and lease liability as of March 31, 2019.

The following is a schedule of the Company's operating lease liabilities by contractual maturity as of March 31, 2019:

	(in thousands)
2019	$ 9,099
2020	11,200
2021	9,186
2022	7,992
2023	8,002
Thereafter	45,503
Total lease payments	$ 90,982
Less: imputed interest	13,232
Total present value of lease liabilities	$ 77,750

The Company also has additional operating leases, primarily related to its branch offices and corporate headquarters, that have not yet commenced as of March 31, 2019. The aggregate future commitment related to these additional leases totals $5.0 million. These operating leases will commence in fiscal year 2019 and have lease terms between six to twelve years.

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Total operating lease costs of $3.3 million and other lease costs of $1.1 million, which include common area maintenance, parking, and taxes during the three months ended March 31, 2019 were included as part of occupancy expense. Short-term lease costs were not material during the three months ended March 31, 2019. For the three months ended March 31, 2018, rent expense associated with the Company's operating leases totaled $2.5 million.
The below table shows the supplemental cash flow information related to the Company's operating leases for the three months ended March 31, 2019:

	(in thousands)
Cash paid for amounts included in the measurement of operating lease liabilities	$ 3,039
Right-of-use assets obtained in exchange for new operating lease liabilities	32,905

Lease Obligations as of December 31, 2018

As previously disclosed in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2018, the following is a schedule of future minimum rental payments under its non-cancelable operating leases, expiring through 2030:

	(in thousands)
2019	$ 11,370
2020	10,322
2021	7,418
2022	6,294
2023	6,070
Thereafter	15,417
Total future minimum rental payments	$ 56,891

5. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

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

	Three Months Ended March 31,		
	2019		
	Gross Balance	Valuation Allowance	Net Balance
	(in thousands)		
Balance, beginning of period	$ 19,979	$ (2,055)	$ 17,924
Charitable contribution	(232)	114	(118)
Valuation adjustments, net	—	(99)	(99)
Balance, end of period	$ 19,747	$ (2,040)	$ 17,707
	2018		
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	(5,294)	9	(5,285)
Valuation adjustments, net	—	(47)	(47)
Gains (losses), net (1)	1,242	—	1,242
Balance, end of period	$ 34,244	$ (4,050)	$ 30,194

(1) There were zero and $1.0 million in net gains related to initial transfers to other assets during the three months ended March 31, 2019 and 2018, respectively.

At March 31, 2019 and 2018, the majority of the Company's repossessed assets consisted of properties located in Nevada. The Company held 10 properties at March 31, 2019, compared to 11 at December 31, 2018, and 18 at March 31, 2018.

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6. OTHER BORROWINGS

The following table summarizes the Company’s borrowings as of March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
	(in thousands)	
Short-Term:		
Federal funds purchased	$—	$ 256,000
FHLB advances	—	235,000
Total short-term borrowings	$—	$ 491,000

The Company maintains federal fund lines of credit totaling $955.0 million as of March 31, 2019, which have rates comparable to the federal funds effective rate plus 0.10% to 0.20%. As of March 31, 2019, there were no outstanding balances on the Company's lines of credit. As of December 31, 2018, outstanding balances on these federal fund lines of credit totaled $256.0 million.

The Company also 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 March 31, 2019, the Company had no FHLB overnight advances. At December 31, 2018, the Company had $235.0 million of FHLB overnight advances, with an interest rate of 2.56%.

Other short-term borrowing sources available to the Company include customer repurchase agreements, which have an average rate of 0.15%. At March 31, 2019 and December 31, 2018, customer repurchase agreements totaled $15.1 million and $22.4 million, respectively.

As of March 31, 2019 and December 31, 2018, the Company had additional available credit with the FHLB of approximately $2.97 billion and $2.52 billion, respectively, and with the FRB of approximately $1.32 billion and $1.31 billion, respectively.

7. QUALIFYING DEBT

Subordinated Debt

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

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

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

The carrying value of all subordinated debt issuances, which includes the fair value of the related hedges, totals $305.0 million and $299.4 million at March 31, 2019 and December 31, 2018, 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 $69.0 million and $61.1 million as of March 31, 2019 and December 31, 2018, respectively. The weighted average interest rate of all junior subordinated debt as of March 31, 2019 was 4.94%, which is three-month LIBOR plus the contractual spread of 2.34%, compared to a weighted average interest rate of 5.15% at December 31, 2018.

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8. 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 2019 will be fully vested on July 1, 2019. 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 months ended March 31, 2019 and 2018 was $20.7 million and $21.9 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 each of the three months ended March 31, 2019 and 2018, the Company recognized $4.3 million in stock-based compensation expense related to all restricted stock award grants.

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 months ended March 31, 2019 and 2018, however expense is still being recognized for the grants made in 2017 as they also have a three-year vesting period. For the three months ended March 31, 2019, the Company recognized $0.5 million in stock-based compensation expense related to these performance-based restricted stock grants, compared to $0.6 million for the three months ended March 31, 2018.

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 months ended March 31, 2019, the Company recognized $1.7 million in stock-based compensation expense related to these performance stock units, compared to $1.6 million for the three months ended March 31, 2018.

The three-year performance period for the 2016 grant ended on December 31, 2018, 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 202,776 shares, which was paid out in the first quarter of 2019.

Common Stock Repurchase

On December 12, 2018, the Company announced that it had adopted a common stock repurchase plan, pursuant to which the Company is authorized to repurchase up to $250.0 million of its shares of common stock. During the three months ended March 31, 2019, the Company repurchased 940,915 shares of its common stock, representing approximately 1% of the Company's outstanding shares, pursuant to the repurchase plan. The shares were repurchased at a weighted average price of $40.30, for a total payment of $37.9 million.

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. The Company purchased 173,007 treasury shares at a weighted average price of $45.66 per share and 180,867 treasury shares at a weighted average price of $59.02 per share during the three months ended March 31, 2019 and 2018, respectively.

9. 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 March 31,				
	Unrealized holding gains (losses) 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, 2018	$(47,591)	$ 392	$ 13,433	$ 144	$(33,622)
Other comprehensive income (loss) before reclassifications	31,377	(18)	(5,928)	—	25,431
Amounts reclassified from AOCI	—	—	—	—	—
Net current-period other comprehensive income (loss)	31,377	(18)	(5,928)	—	25,431
Balance, March 31, 2019	$(16,214)	$ 374	$ 7,505	$ 144	$(8,191)
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	(38,914)	(11)	1,466	—	(37,459)
Amounts reclassified from AOCI	—	—	—	—	—
Net current-period other comprehensive (loss) income	(38,914)	(11)	1,466	—	(37,459)
Balance, March 31, 2018	$(51,470)	$ 458	$ 9,206	$ 144	$(41,662)

(1) 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.

During the three months ended March 31, 2019 and 2018, there were no amounts reclassified out of accumulated other comprehensive loss.

10. 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 March 31, 2019, December 31, 2018, and March 31, 2018, the Company does not have any outstanding cash flow hedges.

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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 that the Company places, are both remeasured at fair value, and are referred to as economic hedges since they economically offset the Company's exposure. The Company's back-to-back interest rate swaps are used to manage long-term interest rate risk.

As of March 31, 2019, derivatives not designated as hedging instruments were in a net asset position of $0.2 million, compared to a net asset position of $0.3 million at December 31, 2018 and March 31, 2018. For the three months ended March 31, 2019 and 2018, net changes in the fair value related to these derivative contracts totaled $1.2 million and $0.5 million, respectively, and are included as part of Foreign currency income in the Consolidated Income Statements.

As of March 31, 2019 and December 31, 2018, the following amounts are reflected in the Consolidated Balance Sheet related to cumulative basis adjustments for fair value hedges:

	March 31, 2019		December 31, 2018	
	Carrying Value of Hedged Assets/(Liabilities)	Cumulative Fair Value Hedging Adjustment (1)	Carrying Value of Hedged Assets/(Liabilities)	Cumulative Fair Value Hedging Adjustment (1)
	(in thousands)			
Loans - HFI, net of deferred loan fees and costs	$656,346	$ 33,123	$650,428	$ 23,039
Qualifying debt	(305,002)	14,222	(299,401)	19,691

(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.

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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 March 31, 2019, December 31, 2018, and March 31, 2018. 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:

	March 31, 2019			December 31, 2018			March 31, 2018		
		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	$961,493	$987	$ 48,332	$965,705	$2,162	$ 44,892	$989,379	$3,533	$ 42,789
Total	961,493	987	48,332	965,705	2,162	44,892	989,379	3,533	42,789
Netting adjustments (1)	—	987	987	—	2,162	2,162	—	3,493	3,493
Net derivatives in the balance sheet	$961,493	$—	$ 47,345	$965,705	$—	$ 42,730	$989,379	$40	$ 39,296
Derivatives not designated as hedging instruments:									
Foreign currency contracts	$42,113	$715	$ 511	$49,690	$454	$ 201	$90,855	$684	$ 394
Interest rate swaps	2,348	12	12	2,378	27	27	36,840	1,170	1,170
Total	$44,461	$727	$ 523	$52,068	$481	$ 228	$127,695	$1,854	$ 1,564

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

Counterparty Credit Risk
Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. Management generally enters into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with the same counterparty. Additionally, management monitors counterparty credit risk exposure on each contract to determine appropriate limits on the Company's total credit exposure across all product types. In general, the Company has a zero credit threshold with regard to derivative exposure with counterparties. Management reviews the Company's collateral positions on a daily basis and exchanges collateral with counterparties in accordance with standard ISDA documentation and other related agreements. The Company generally holds collateral in the form of cash deposits or highly rated securities issued by the U.S. Treasury or government-sponsored enterprises, such as GNMA, FNMA, and FHLMC. The total collateral netted against net derivative liabilities totaled $48.3 million at March 31, 2019, $44.9 million at December 31, 2018, and $40.1 million at March 31, 2018.

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The following table summarizes the Company's largest exposure to an individual counterparty at the dates indicated:

	March 31, 2019	December 31, 2018	March 31, 2018
	(in thousands)		
Largest gross exposure (derivative asset) to an individual counterparty	$987	$ 1,411	$2,515
Collateral posted by this counterparty	—	—	—
Derivative liability with this counterparty	32,250	23,906	20,624
Collateral pledged to this counterparty	40,035	25,761	29,719
Net exposure after netting adjustments and collateral	$—	$ —	$—

Credit Risk Contingent Features

Management has entered into certain derivative contracts that require the Company to post collateral to the counterparties when these contracts are in a net liability position. Conversely, the counterparties may be required to post collateral when these contracts are in a net asset position. The amount of collateral to be posted is based on the amount of the net liability and exposure thresholds. As of March 31, 2019, December 31, 2018, and March 31, 2018 the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting provisions) held by the Company that were in a net liability position totaled $47.3 million, $42.7 million, and $39.3 million, respectively. As of March 31, 2019, the Company was in an over-collateralized net position of $14.2 million after considering $62.5 million of collateral held in the form of cash and securities. As of December 31, 2018 and March 31, 2018, the Company was in an over-collateralized position of $7.6 million and $12.1 million, respectively.

11. EARNINGS PER SHARE

Diluted EPS is based on the weighted average outstanding common shares during each period, including common stock equivalents. Basic EPS is based on the weighted average outstanding common shares during the period.

The following table presents the calculation of basic and diluted EPS:

	Three Months Ended March 31,	
	2019	2018
	(in thousands, except per share amounts)	
Weighted average shares - basic	104,033	104,530
Dilutive effect of stock awards	442	794
Weighted average shares - diluted	104,475	105,324
Net income	$ 120,796	$ 100,900
Earnings per share - basic	1.16	0.97
Earnings per share - diluted	1.16	0.96

The Company had no anti-dilutive stock options outstanding at each of the periods ended March 31, 2019 and 2018.

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12. INCOME TAXES
The effective tax rate was 17.45% and 17.10% for the three months ended March 31, 2019 and 2018, respectively. The increase in the effective tax rate from the three months ended March 31, 2018 is due primarily to an increase in pre-tax book income and a smaller benefit from the excess stock compensation deduction.
As of March 31, 2019, the net deferred tax asset was $22.3 million, a decrease of $9.7 million from December 31, 2018. This overall decrease in the net deferred tax asset was primarily the result of an increase in the fair market value of AFS securities.
Although realization is not assured, the Company believes that the realization of the recognized deferred tax asset of $22.3 million at March 31, 2019 is more-likely-than-not based on expectations as to future taxable income and based on available tax planning strategies that could be implemented if necessary to prevent a carryover from expiring.
At March 31, 2019 and December 31, 2018, the Company had a $2.4 million deferred tax valuation allowance related to net capital loss carryovers.
As of March 31, 2019, the Company's gross federal NOL carryovers after current year-to-date utilization, all of which are subject to limitations under Section 382 of the IRC, totaled approximately $47.4 million for which an ending deferred tax asset of $5.8 million has been recorded, reflecting the expected benefit of these federal NOL carryovers remaining. The Company also has varying gross amounts of state NOL carryovers, with the most significant in Arizona. The ending gross Arizona NOL carryovers totaled approximately $5.0 million after current year-to-date utilization. A deferred tax asset of $0.3 million has been recorded to reflect the expected benefit of all state NOL carryovers remaining.
Investments in LIHTC
The Company invests in LIHTC funds that are designed to generate a return primarily through the realization of federal tax credits.
Investments in LIHTC total $332.0 million and $342.4 million as of March 31, 2019 and December 31, 2018, respectively. Unfunded LIHTC obligations are included as part of other liabilities in the Consolidated Balance Sheets and total $147.3 million and $171.7 million as of March 31, 2019 and December 31, 2018, respectively. For the three months ended March 31, 2019 and 2018, $10.1 million and $8.1 million, respectively, of amortization related to LIHTC investments was recognized as a component of income tax expense.
13. COMMITMENTS AND CONTINGENCIES
Unfunded Commitments and Letters of Credit
The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheets.
Lines of credit are obligations to lend money to a borrower. Credit risk arises when the borrower's current financial condition may indicate less ability to pay than when the commitment was originally made. In the case of standby letters of credit, the risk arises from the potential failure of the customer to perform according to the terms of a contract. In such a situation, the third party might draw on the standby letter of credit to pay for completion of the contract and the Company would look to its customer to repay these funds with interest. To minimize the risk, the Company uses the same credit policies in making commitments and conditional obligations as it would for a loan to that customer.
Standby letters of credit and financial guarantees are commitments issued by the Company to guarantee the performance of a customer to a third party in borrowing arrangements. The Company generally has recourse to recover from the customer any amounts paid under the guarantees. Typically, letters of credit issued have expiration dates within one year.

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

	March 31, 2019	December 31, 2018
	(in thousands)	
Commitments to extend credit, including unsecured loan commitments of $864,740 at March 31, 2019 and $770,114 at December 31, 2018	$ 8,197,452	$ 7,556,741
Credit card commitments and financial guarantees	251,675	237,312
Standby letters of credit, including unsecured letters of credit of $16,336 at March 31, 2019 and $21,879 at December 31, 2018	262,320	390,161
Total	$ 8,711,447	$ 8,184,214

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

The Company has exposure to credit losses from unfunded commitments and letters of credit. As funds have not been disbursed on these commitments, they are not reported as loans outstanding. Credit losses related to these commitments are included in other liabilities as a separate loss contingency and are not included in the allowance for credit losses reported in "Note 3. Loans, Leases and Allowance for Credit Losses" of these Unaudited Consolidated Financial Statements. This loss contingency for unfunded loan commitments and letters of credit was $9.2 million and $8.2 million as of March 31, 2019 and December 31, 2018, respectively. Changes to this liability are adjusted through other expense in the Consolidated Income Statement.

Concentrations of Lending Activities

The Company’s lending activities are driven in large part by the customers served in the market areas where the Company has branch offices in the states of Arizona, Nevada, and California. Despite the geographic concentration of lending activities, the Company does not have a single external customer from which it derives 10% or more of its revenues. The Company monitors concentrations within four broad categories: geography, industry, product, and collateral. The Company's loan portfolio includes significant credit exposure to the CRE market. As of each of the periods ended March 31, 2019 and December 31, 2018, CRE related loans accounted for approximately 49% of total loans. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 35% and 36% of these CRE loans, excluding construction and land loans, were owner-occupied at March 31, 2019 and December 31, 2018, respectively.

Contingencies

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

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14. FAIR VALUE ACCOUNTING

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC 825 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 825 are described in "Note 1. Summary of Significant Accounting Policies" of these Notes to Unaudited Consolidated Financial Statements.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally-developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company’s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company’s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below. Transfers between levels in the fair value hierarchy are recognized as of the end of the month following the event or change in circumstances that caused the transfer.

Under ASC 825, the Company elected the FVO treatment for junior subordinated debt issued by WAL. This election is irrevocable and results in the recognition of unrealized gains and losses on these items at each reporting date. These unrealized gains and losses are recognized as part of other comprehensive income rather than earnings. The Company did not elect FVO treatment for the junior subordinated debt assumed in the Bridge Capital Holdings acquisition.

For the three months ended March 31, 2019 and 2018, unrealized gains and losses from fair value changes on junior subordinated debt were as follows:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Unrealized gains/(losses)	$(7,862)	$1,944
Changes included in OCI, net of tax	(5,928)	1,466

Fair value on a recurring basis

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

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

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

Independent pricing service: The Company's independent pricing service provides pricing information on the majority of the Company's Level 1 and 2 AFS securities. For a small subset of securities, other pricing sources are used, including observed prices on publicly-traded securities and dealer quotes. Management independently evaluates the fair value measurements received from the Company's third party pricing service through multiple review steps. First, management reviews what has transpired in the marketplace with respect to interest rates, credit spreads, volatility, and mortgage rates, among other things, and develops an expectation of changes to the securities' valuations from the previous quarter. Then, management selects a sample of investment securities and compares the values provided by its primary third party pricing service to the market values obtained from secondary sources, including other pricing services and safekeeping statements, and evaluates those with notable variances. In instances where there are discrepancies in pricing from various sources and management expectations, management may manually price

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securities using currently observed market data to determine whether they can develop similar prices or may utilize bid information from broker dealers. Any remaining discrepancies between management’s review and the prices provided by the vendor are discussed with the vendor and/or the Company’s other valuation advisors.

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

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

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

	Fair Value Measurements at the End of the Reporting Period Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in thousands)			
March 31, 2019				
Assets:				
Available-for-sale debt securities				
CDO	$—	$15,026	$ —	$15,026
Commercial MBS issued by GSEs	—	99,099	—	99,099
Corporate debt securities	5,142	91,900	—	97,042
Private label residential MBS	—	935,347	—	935,347
Residential MBS issued by GSEs	—	1,492,236	—	1,492,236
Tax-exempt	—	536,990	—	536,990
Trust preferred securities	—	28,617	—	28,617
U.S. government sponsored agency securities	—	38,901	—	38,901
U.S. treasury securities	—	989	—	989
Total AFS debt securities	$5,142	$3,239,105	$ —	$3,244,247
Equity securities				
CRA investments	$51,614	$—	$ —	$51,614
Preferred stock	66,391	—	—	66,391
Total equity securities	$118,005	$—	$ —	$118,005
Derivative assets (1)	$—	$1,714	$ —	$1,714
Liabilities:				
Junior subordinated debt (2)	$—	$—	$ 56,546	$56,546
Derivative liabilities (1)	—	48,855	—	48,855

(1) Derivative assets and liabilities relate to interest rate swaps, see "Note 10. Derivatives and Hedging Activities." In addition, the carrying value of loans is decreased by $33,123 and the net carrying value of subordinated debt is increased by $14,222 as of March 31, 2019 for the effective portion of the hedge, which relates to the fair value of the hedges put in place to mitigate against fluctuations in interest rates.

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

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	Fair Value Measurements at the End of the Reporting Period Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in thousands)			
December 31, 2018				
Assets:				
Available-for-sale debt securities				
CDO	$—	$15,327	$ —	$15,327
Commercial MBS issued by GSEs	—	100,106	—	100,106
Corporate debt securities	—	99,380	—	99,380
Private label residential MBS	—	924,594	—	924,594
Residential MBS issued by GSEs	—	1,530,124	—	1,530,124
Tax-exempt	—	538,668	—	538,668
Trust preferred securities	—	28,617	—	28,617
U.S. government sponsored agency securities	—	38,188	—	38,188
U.S. treasury securities	—	1,984	—	1,984
Total AFS debt securities	$—	$3,276,988	$ —	$3,276,988
Equity securities				
CRA investments	$51,142	$—	$ —	$51,142
Preferred stock	63,919	—	—	63,919
Total equity securities	$115,061	$—	$ —	$115,061
Derivative assets (1)	$—	$2,643	$ —	$2,643
Liabilities:				
Junior subordinated debt (2)	$—	$—	$ 48,684	$48,684
Derivative liabilities (1)	—	45,120	—	45,120

(1) Derivative assets and liabilities relate to interest rate swaps, see "Note 10. Derivatives and Hedging Activities." In addition, the carrying value of loans is increased by $23,039 and the net carrying value of subordinated debt is decreased by $19,691 as of December 31, 2018 for the effective portion of the hedge, which relates to the fair value of the hedges put in place to mitigate against fluctuations in interest rates.

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

For the three months ended March 31, 2019 and 2018, the change in Level 3 liabilities measured at fair value on a recurring basis was as follows:

	Junior Subordinated Debt	
	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Beginning balance	$(48,684)	$(56,234)
Change in fair value (1)	(7,862)	1,944
Ending balance	$(56,546)	$(54,290)

(1) Unrealized gains/(losses) attributable to changes in the fair value of junior subordinated debt are recorded as part of OCI, net of tax, and totaled $(5.9) million and $1.5 million for three months ended March 31, 2019 and 2018, respectively.

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For Level 3 liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

	March 31, 2019	Valuation Technique	Significant Unobservable Inputs	Input Value
	(in thousands)			
Junior subordinated debt	$ 56,546	Discounted cash flow	Implied credit rating of the Company	6.65 %

	December 31, 2018	Valuation Technique	Significant Unobservable Inputs	Input Value
	(in thousands)			
Junior subordinated debt	$ 48,684	Discounted cash flow	Implied credit rating of the Company	7.82 %

The significant unobservable inputs used in the fair value measurement of the Company's junior subordinated debt as of March 31, 2019 and December 31, 2018 was the implied credit risk for the Company, calculated as the difference between the 20-year 'BB' rated financial index over the corresponding swap index.

As of March 31, 2019, the Company estimates the discount rate at 6.65%, which represents an implied credit spread of 4.05% plus three-month LIBOR (2.60%). As of December 31, 2018, the Company estimated the discount rate at 7.82%, which was a 5.01% credit spread plus three-month LIBOR (2.81%).

Fair value on a nonrecurring basis

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

	Fair Value Measurements at the End of the Reporting Period Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)			
As of March 31, 2019;				
Impaired loans with specific valuation allowance	$ 3,887	$ —	$ —	$ 3,887
Impaired loans without specific valuation allowance (1)	122,723	—	—	122,723
Other assets acquired through foreclosure	17,707	—	—	17,707
As of December 31, 2018:				
Impaired loans with specific valuation allowance	$ 305	$ —	$ —	$ 305
Impaired loans without specific valuation allowance (1)	91,821	—	—	91,821
Other assets acquired through foreclosure	17,924	—	—	17,924

(1) Net of loan balances with charge-offs of $15.4 million and $19.4 million as of March 31, 2019 and December 31, 2018, respectively.

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For Level 3 assets measured at fair value on a nonrecurring basis as of March 31, 2019 and December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

	March 31, 2019 (in thousands)	Valuation Technique(s)		Significant Unobservable Inputs	Range
Impaired loans	$ 126,610	Collateral method	Third party appraisal	Costs to sell	4.0% to 10.0%
		Discounted cash flow method	Discount rate	Contractual loan rate	4.0% to 7.0%
			Scheduled cash collections	Probability of default	0% to 20.0%
			Proceeds from non-real estate collateral	Loss given default	0% to 70.0%
Other assets acquired through foreclosure	17,707	Collateral method	Third party appraisal	Costs to sell	4.0% to 10.0%

	December 31, 2018 (in thousands)	Valuation Technique(s)		Significant Unobservable Inputs	Range
Impaired loans	$ 92,126	Collateral method	Third party appraisal	Costs to sell	4.0% to 10.0%
		Discounted cash flow method	Discount rate	Contractual loan rate	4.0% to 7.0%
			Scheduled cash collections	Probability of default	0% to 20.0%
			Proceeds from non-real estate collateral	Loss given default	0% to 70.0%
Other assets acquired through foreclosure	17,924	Collateral method	Third party appraisal	Costs to sell	4.0% to 10.0%

Impaired loans: The specific reserves for collateral dependent impaired loans are based on collateral value, net of estimated disposition costs and other identified quantitative inputs. Collateral value is determined based on independent third-party appraisals or internally-developed discounted cash flow analyses. Appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2. However, certain assumptions and unobservable inputs are often used by the appraiser, therefore qualifying the assets as Level 3 in the fair value hierarchy. In addition, when adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. Internal discounted cash flow analyses are also utilized to estimate the fair value of impaired loans, which considers internally-developed, unobservable inputs such as discount rates, default rates, and loss severity.
Total Level 3 impaired loans had an estimated fair value of $126.6 million and $92.1 million at March 31, 2019 and December 31, 2018, respectively. Impaired loans with a specific valuation allowance had a gross estimated fair value of $5.2 million and $1.0 million at March 31, 2019 and December 31, 2018, respectively, which was reduced by a specific valuation allowance of $1.4 million and $0.7 million, respectively.
Other assets acquired through foreclosure: Other assets acquired through foreclosure consist of properties acquired as a result of, or in-lieu-of, foreclosure. These assets are initially reported at the fair value determined by independent appraisals using appraised value less estimated cost to sell. Such properties are generally re-appraised every twelve months. There is risk for subsequent volatility. Costs relating to the development or improvement of the assets are

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

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

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there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement. The Company had $17.7 million and $17.9 million of such assets at March 31, 2019 and December 31, 2018, respectively.

Credit vs. non-credit losses

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

For the three months ended March 31, 2019 and 2018, the Company determined that no securities experienced credit losses.

There is no OTTI balance recognized in comprehensive income as of March 31, 2019 and 2018.

Fair Value of Financial Instruments

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

	March 31, 2019				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
	(in thousands)				
Financial assets:					
Federal funds sold	$290,000	$—	$290,000	$—	$290,000
Investment securities:					
HTM	310,865	—	331,083	—	331,083
AFS	3,244,247	5,142	3,239,105	—	3,244,247
Equity	118,005	118,005	—	—	118,005
Derivative assets	1,714	—	1,714	—	1,714
Loans, net	17,961,761	—	17,344,300	126,610	17,470,910
Accrued interest receivable	98,128	—	98,128	—	98,128
Financial liabilities:					
Deposits	$20,208,740	$—	$20,225,997	$—	$20,225,997
Customer repurchase agreements	15,141	—	15,141	—	15,141
Qualifying debt	373,996	—	332,988	67,730	400,718
Derivative liabilities	48,855	—	48,855	—	48,855
Accrued interest payable	15,853	—	15,853	—	15,853

	December 31, 2018				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
	(in thousands)				
Financial assets:					
Investment securities:					
HTM	$302,905	$—	$298,648	$—	$298,648
AFS	3,276,988	—	3,276,988	—	3,276,988
Equity securities	115,061	115,061	—	—	115,061
Derivative assets	2,643	—	2,643	—	2,643
Loans, net	17,557,912	—	16,857,852	92,126	16,949,978
Accrued interest receivable	101,275	—	101,275	—	101,275
Financial liabilities:					
Deposits	$19,177,447	$—	$19,188,216	$—	$19,188,216
Customer repurchase agreements	22,411	—	22,411	—	22,411

Other borrowings	491,000	—	491,000	—	491,000
Qualifying debt	360,458	—	323,572	57,924	381,496
Derivative liabilities	45,120	—	45,120	—	45,120
Accrued interest payable	20,463	—	20,463	—	20,463

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Interest rate risk

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

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

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

Fair value of commitments

The estimated fair value of standby letters of credit outstanding at March 31, 2019 and December 31, 2018 is insignificant. Loan commitments on which the committed interest rates are less than the current market rate are also insignificant at March 31, 2019 and December 31, 2018.

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15. SEGMENTS

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

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

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

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

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

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

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

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

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

		Regional Segments			
Balance Sheet:	Consolidated Company	Arizona	Nevada	Southern California	Northern California
At March 31, 2019	(in millions)				
Assets:					
Cash, cash equivalents, and investment securities	$4,525.0	$2.3	$9.1	$2.0	$1.9
Loans, net of deferred loan fees and costs	18,116.7	3,653.9	2,069.4	2,249.8	1,197.2
Less: allowance for credit losses	(155.0)	(31.9)	(18.3)	(20.1)	(9.4)
Total loans	17,961.7	3,622.0	2,051.1	2,229.7	1,187.8
Other assets acquired through foreclosure, net	17.7	0.7	13.9	—	—
Goodwill and other intangible assets, net	298.8	—	23.2	—	155.3
Other assets	989.6	47.6	58.4	15.2	24.3
Total assets	$23,792.8	$3,672.6	$2,155.7	$2,246.9	$1,369.3
Liabilities:					
Deposits	$20,208.7	$5,319.9	$4,006.8	$2,793.8	$2,008.7
Borrowings and qualifying debt	374.0	—	—	—	—
Other liabilities	489.5	11.6	12.0	0.5	13.4
Total liabilities	21,072.2	5,331.5	4,018.8	2,794.3	2,022.1
Allocated equity:	2,720.6	447.7	283.1	260.5	298.9
Total liabilities and stockholders' equity	$23,792.8	$5,779.2	$4,301.9	$3,054.8	$2,321.0
Excess funds provided (used)	—	2,106.6	2,146.2	807.9	951.7
Income Statement:					
Three Months Ended March 31, 2019	(in thousands)				
Net interest income	$247,336	$55,226	$39,096	$30,477	$23,033
Provision for (recovery of) credit losses	3,500	161	533	733	(719)
Net interest income after provision for credit losses	243,836	55,065	38,563	29,744	23,752
Non-interest income	15,410	1,521	2,573	1,001	2,220
Non-interest expense	(112,914)	(22,248)	(15,781)	(14,583)	(13,490)
Income (loss) before income taxes	146,332	34,338	25,355	16,162	12,482
Income tax expense (benefit)	25,536	8,584	5,325	4,525	3,495
Net income	$120,796	$25,754	$20,030	$11,637	$8,987

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	National Business Lines					
Balance Sheet:	HOA Services	Public & Nonprofit Finance	Technology & Innovation	Hotel Franchise Finance	Other NBLs	Corporate & Other
At March 31, 2019						
Assets:	(in millions)					
Cash, cash equivalents, and investment securities	$—	$—	$ —	$—	$—	$4,509.7
Loans, net of deferred loan fees and costs	209.4	1,561.7	1,057.3	1,564.9	4,549.0	4.1
Less: allowance for credit losses	(1.9)	(14.8)	(8.4)	(9.5)	(40.7)	—
Total loans	207.5	1,546.9	1,048.9	1,555.4	4,508.3	4.1
Other assets acquired through foreclosure, net	—	—	—	—	—	3.1
Goodwill and other intangible assets, net	—	—	120.2	0.1	—	—
Other assets	0.9	12.5	6.4	7.7	58.8	757.8
Total assets	$208.4	$1,559.4	$ 1,175.5	$1,563.2	$4,567.1	$5,274.7
Liabilities:						
Deposits	$2,963.0	$—	$ 2,404.7	$—	$5.3	$706.5
Borrowings and qualifying debt	—	—	—	—	—	374.0
Other liabilities	2.0	34.0	—	(0.3)	60.9	355.4
Total liabilities	2,965.0	34.0	2,404.7	(0.3)	66.2	1,435.9
Allocated equity:	77.7	126.0	253.3	130.3	374.3	468.8
Total liabilities and stockholders' equity	$3,042.7	$160.0	$ 2,658.0	$130.0	$440.5	$1,904.7
Excess funds provided (used)	2,834.3	(1,399.4)	1,482.5	(1,433.2)	(4,126.6)	(3,370.0)

Income Statement:						
Three Months Ended March 31, 2019	(in thousands)					
Net interest income	$20,641	$3,423	$29,403	$12,944	$25,691	$7,402
Provision for (recovery of) credit losses	(27)	(41)	(917)	799	2,978	—
Net interest income after provision for credit losses	20,668	3,464	30,320	12,145	22,713	7,402
Non-interest income	96	—				