WESTERN ALLIANCE BANCORPORATION
Form 10-Q
October 27, 2017

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

FORM 10-Q

(Mark One)

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2017
or

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

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

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

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

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

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

As of October 20, 2017, Western Alliance Bancorporation had 105,490,079 shares of common stock outstanding.

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PART I
GLOSSARY OF ENTITIES AND TERMS

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

ENTITIES / DIVISIONS:

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

TERMS:

AFS	Available-for-Sale	HFS	Held for Sale
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
BOD	Board of Directors	LIBOR	London Interbank Offered Rate
CDARS	Certificate Deposit Account Registry Service	LIHTC	Low-Income Housing Tax Credit
CDO	Collateralized Debt Obligation	MBS	Mortgage-Backed Securities
CECL	Current Expected Credit Losses	NBL	National Business Lines
CEO	Chief Executive Officer	NOL	Net Operating Loss
CFO	Chief Financial Officer	NPV	Net Present Value
CRA	Community Reinvestment Act	NUBILs	Net Unrealized Built In Losses
CRE	Commercial Real Estate	OCI	Other Comprehensive Income
EPS	Earnings per share	OREO	Other Real Estate Owned
EVE	Economic Value of Equity	OTTI	Other-than-Temporary Impairment
Exchange Act	Securities Exchange Act of 1934, as amended	PCI	Purchased Credit Impaired
FASB	Financial Accounting Standards Board	SBA	Small Business Administration
FDIC	Federal Deposit Insurance Corporation	SBIC	Small Business Investment Company
FHLB	Federal Home Loan Bank	SEC	Securities and Exchange Commission
FRB	Federal Reserve Bank	SERP	Supplemental Executive Retirement Plan
FVO	Fair Value Option	TDR	Troubled Debt Restructuring
GAAP	U.S. Generally Accepted Accounting Principles	TEB	Tax Equivalent Basis
GSE	Government-Sponsored Enterprise	XBRL	eXtensible Business Reporting Language
HFI	Held for Investment		

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

	September 30, 2017	December 31, 2016
	(Unaudited)	
	(in thousands, except shares and per share amounts)	
Assets:		
Cash and due from banks	$131,130	$168,066
Interest-bearing deposits in other financial institutions	519,224	116,425
Cash and cash equivalents	650,354	284,491
Money market investments	175	—
Investment securities - measured at fair value; amortized cost of $0 at September 30, 2017 and $1,055 at December 31, 2016	—	1,053
Investment securities - AFS, at fair value; amortized cost of $3,551,770 at September 30, 2017 and $2,633,298 at December 31, 2016	3,552,844	2,609,380
Investment securities - HTM, at amortized cost; fair value of $160,582 at September 30, 2017 and $91,966 at December 31, 2016	154,920	92,079
Investments in restricted stock, at cost	65,680	65,249
Loans - HFS	16,347	18,909
Loans - HFI, net	14,505,689	13,189,527
Less: allowance for credit losses	(136,421)	(124,704)
Net loans held for investment	14,369,268	13,064,823
Premises and equipment, net	120,063	119,833
Other assets acquired through foreclosure, net	28,992	47,815
Bank owned life insurance	166,798	164,510
Goodwill	289,895	289,967
Other intangible assets, net	11,262	12,927
Deferred tax assets, net	83,772	95,194
Other assets	411,851	334,612
Total assets	$19,922,221	$17,200,842
Liabilities:		
Deposits:		
Non-interest-bearing demand	$7,608,671	$5,632,926
Interest-bearing	9,296,112	8,916,937
Total deposits	16,904,783	14,549,863
Customer repurchase agreements	26,066	41,728
Other borrowings	—	80,000
Qualifying debt, net	372,851	367,937
Other liabilities	472,894	269,785
Total liabilities	17,776,594	15,309,313
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock - par value $0.0001; 200,000,000 authorized; 107,060,702 shares issued at September 30, 2017 and 106,371,093 at December 31, 2016	10	10
Treasury stock, at cost (1,567,203 shares at September 30, 2017 and 1,300,232 shares at December 31, 2016)	(40,004)	(26,362)

Additional paid in capital	1,418,835	1,400,140
Accumulated other comprehensive income (loss)	8,164	(4,695)
Retained earnings	758,622	522,436
Total stockholders' equity	2,145,627	1,891,529
Total liabilities and stockholders' equity	$19,922,221	$17,200,842

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	$191,096	$167,914	$547,306	$467,715
Investment securities	22,152	13,797	58,010	37,278
Dividends	2,005	2,209	6,154	6,217
Other	2,583	830	5,584	1,885
Total interest income	217,836	184,750	617,054	513,095
Interest expense:				
Deposits	11,449	8,072	29,506	21,993
Qualifying debt	4,708	4,048	13,539	8,746
Other borrowings	84	68	333	366
Other	12	15	41	46
Total interest expense	16,253	12,203	43,419	31,151
Net interest income	201,583	172,547	573,635	481,944
Provision for credit losses	5,000	2,000	12,250	7,000
Net interest income after provision for credit losses	196,583	170,547	561,385	474,944
Non-interest income:				
Service charges and fees	5,248	4,916	15,189	13,958
Card income	1,344	1,381	4,146	3,844
Income from bank owned life insurance	975	899	2,896	2,858
Income from equity investments	950	1,208	2,933	1,610
Foreign currency income	756	888	2,630	2,672
Lending related income and gains (losses) on sale of loans, net	97	708	746	4,509
Gain (loss) on sales of investment securities, net	319	—	907	1,001
Other income	599	683	1,834	1,923
Total non-interest income	10,288	10,683	31,281	32,375
Non-interest expense:				
Salaries and employee benefits	52,730	49,542	156,596	139,108
Occupancy	7,507	6,856	21,328	20,359
Legal, professional, and directors' fees	6,038	5,691	23,324	17,010
Data processing	4,524	5,266	14,163	15,028
Insurance	3,538	3,144	10,355	9,430
Deposit costs	2,904	1,363	6,778	3,121
Loan and repossessed asset expenses	1,263	788	3,639	2,522
Card expense	801	252	2,187	1,376
Marketing	776	678	2,628	2,432
Intangible amortization	489	697	1,666	2,091
Net loss (gain) on sales / valuations of repossessed and other assets	266	(146)	(46)	(91)
Acquisition / restructure expense	—	2,729	—	6,391
Other expense	8,278	8,147	22,510	23,527
Total non-interest expense	89,114	85,007	265,128	242,304
Income before provision for income taxes	117,757	96,223	327,538	265,015
Income tax expense	34,899	29,171	91,352	75,017
Net income	$82,858	$67,052	$236,186	$189,998

Earnings per share				
Basic	$0.80	$0.65	$2.27	$1.85
Diluted	0.79	0.64	2.25	1.84
Weighted average number of shares outstanding:				
Basic	104,221	103,768	104,124	102,791
Diluted	104,942	104,564	104,941	103,532

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income	$82,858	$67,052	$236,186	$189,998
Other comprehensive income (loss), net:				
Unrealized gain (loss) on AFS securities, net of tax effect of $(689), $4,671, $(9,894), and $(7,837), respectively	1,116	(7,415)	15,947	16,316
Unrealized gain (loss) on SERP, net of tax effect of $(71), $(4), $(93), and $(10)	114	6	150	18
Unrealized gain (loss) on junior subordinated debt, net of tax effect of $(394), $1,779, $1,649, and $895	641	(2,825)	(2,677)	(1,491)
Realized (gain) loss on sale of AFS securities included in income, net of tax effect of $122, $0, $346 and $290, respectively	(197)	—	(561)	(711)
Net other comprehensive income (loss)	1,674	(10,234)	12,859	14,132
Comprehensive income	$84,532	$56,818	$249,045	$204,130

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 Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
	(in thousands)						
Balance, December 31, 2015	103,087	$ 10	$1,323,473	$(16,879)	$ 22,260	$262,638	$1,591,502
Net income	—	—	—	—	—	189,998	189,998
Exercise of stock options	62	—	755	—	—	—	755
Restricted stock, performance stock units, and other grants	673	—	14,513	—	—	—	14,513
Restricted stock surrendered (1)	(301)	—	—	(9,331)	—	—	(9,331)
Issuance of common stock under ATM offering, net of offering costs	1,550	—	55,785	—	—		55,785
Other comprehensive income, net	—	—	—	—	14,132	—	14,132
Balance, September 30, 2016	105,071	$ 10	$1,394,526	$(26,210)	$ 36,392	$452,636	$1,857,354
Balance, December 31, 2016	105,071	$ 10	$1,400,140	$(26,362)	$ (4,695)	$522,436	$1,891,529
Net income	—	—	—	—	—	236,186	236,186
Exercise of stock options	36	—	786	—	—	—	786
Restricted stock, performance stock unit, and other grants	653	—	17,909	—	—	—	17,909
Restricted stock surrendered (1)	(267)	—	—	(13,642)	—	—	(13,642)
Other comprehensive income, net	—	—	—	—	12,859	—	12,859
Balance, September 30, 2017	105,493	$ 10	$1,418,835	$(40,004)	$ 8,164	$758,622	$2,145,627

(1) 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

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Cash flows from operating activities:		
Net income	$236,186	$189,998
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	12,250	7,000
Depreciation and amortization	9,956	9,272
Stock-based compensation	17,909	15,039
Excess tax benefit of stock-based compensation	(5,170)	(4,064)
Deferred income taxes	3,371	4,191
Amortization of net premiums for investment securities	14,926	9,659
Accretion of fair market value adjustments on loans acquired from business combinations	(20,994)	(22,278)
Accretion and amortization of fair market value adjustments on other assets and liabilities acquired from business combinations	1,898	2,323
Income from bank owned life insurance	(2,896)	(2,858)
(Gains) / Losses on:		
Sales of investment securities	(907)	(1,001)
Sale of loans	117	(2,258)
Other assets acquired through foreclosure, net	(233)	304
Valuation adjustments of other repossessed assets, net	120	(127)
Sale of premises, equipment, and other assets, net	67	(268)
Changes in, net of acquisitions:		
Other assets	11,696	20,498
Other liabilities	(7,213)	(10,948)
Net cash provided by operating activities	$271,083	$214,482
Cash flows from investing activities:		
Investment securities - measured at fair value		
Principal pay downs and maturities	$—	$256
Proceeds from sales	994	—
Investment securities - AFS		
Purchases	(1,361,908)	(1,017,250)
Principal pay downs and maturities	370,231	323,426
Proceeds from sales	87,853	34,304
Investment securities - HTM		
Purchases	(62,489)	(52,607)
Purchase of investment tax credits	(19,916)	(23,672)
(Purchase) sale of money market investments, net	(175)	(126)
Proceeds from bank owned life insurance	607	1,710
(Purchase) liquidation of restricted stock	(430)	(6,902)
Loan fundings and principal collections, net	(1,179,494)	(551,931)
Purchase of premises, equipment, and other assets, net	(7,644)	(9,324)
Proceeds from sale of other real estate owned and repossessed assets, net	20,748	6,034
Cash and cash equivalents (used) acquired in acquisitions, net	—	(1,272,187)
Net cash used in investing activities	$(2,151,623)	$(2,568,269)

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	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Cash flows from financing activities:		
Net increase (decrease) in deposits	$2,354,920	$2,412,537
Proceeds from issuance of subordinated debt	—	169,268
Net (decrease) increase in borrowings	(95,661)	(143,784)
Proceeds from exercise of common stock options	786	755
Purchases of treasury stock	(13,642)	(9,331)
Proceeds from issuance of stock in offerings, net	—	55,785
Net cash provided by financing activities	$2,246,403	$2,485,230
Net increase (decrease) in cash and cash equivalents	365,863	131,443
Cash and cash equivalents at beginning of period	284,491	224,640
Cash and cash equivalents at end of period	$650,354	$356,083
Supplemental disclosure:		
Cash paid (returned) during the period for:		
Interest	$47,815	$35,056
Income taxes	79,522	46,863
Non-cash investing and financing activities during the period for:		
Transfers to other assets acquired through foreclosure, net	1,812	11,888
Unfunded commitments originated	(47,217)	12,366
Changes in unrealized gain (loss) on AFS securities, net of tax	15,386	15,605
Changes in unrealized (loss) gain on junior subordinated debt, net of tax	(2,677)	(1,491)
Non-cash assets acquired in acquisition	—	1,284,557
Non-cash liabilities acquired in acquisition	—	12,559

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of operation
WAL is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, international banking, and online banking products and services through its wholly-owned banking subsidiary, WAB.
WAB operates the following full-service banking divisions: ABA, BON, FIB, Bridge, and TPB. The Company also serves business customers through a national platform of specialized financial services including AAB, Corporate Finance, Equity Fund Resources, HFF, Life Sciences Group, Mortgage Warehouse Lending, Public and Nonprofit Finance, Renewable Resource Group, Resort Finance, and Technology Finance. In addition, the Company has one non-bank subsidiary, LVSP, which holds and manages certain non-performing loans and OREO.
Basis of presentation
The accounting and reporting policies of the Company are in accordance with GAAP and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in the Consolidated Financial Statements.
Use of estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates and judgments are ongoing and are based on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from those estimates and assumptions used in the Consolidated Financial Statements and related notes. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; estimated cash flows related to PCI loans; fair value determinations related to acquisitions and certain assets and liabilities carried at fair value; and accounting for income taxes.
Principles of consolidation
As of September 30, 2017, WAL has ten wholly-owned subsidiaries: WAB, LVSP, and eight unconsolidated subsidiaries used as business trusts in connection with the issuance of trust-preferred securities.
The Bank has the following significant wholly-owned subsidiaries: WABT, which holds certain investment securities, municipal and nonprofit loans, and leases; WA PWI, LLC, which holds certain limited partnerships invested primarily in low income housing tax credits and small business investment corporations; and BW Real Estate, Inc., which operates as a real estate investment trust and holds certain of WAB's real estate loans and related securities.
The Company does not have any other significant entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.
Reclassifications
Certain amounts reported in prior periods may have been reclassified in the Consolidated Financial Statements to conform to the current presentation. The reclassifications have no effect on net income or stockholders’ equity as previously reported.

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Interim financial information

The accompanying Unaudited Consolidated Financial Statements as of and for the three and nine months ended September 30, 2017 and 2016 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, 2016.

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.

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.

Investment securities

Investment 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 a 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 measured at fair value are reported as an asset in the Consolidated Balance Sheet at their estimated fair value. As the fair value of AFS securities changes, the changes are reported net of income tax as an element of OCI, except for other-than-temporarily-impaired securities. When AFS 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 both equity and debt 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 debt 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.

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For individual debt securities where the Company either intends to sell the security or more likely than not will not recover all of its amortized cost, the OTTI is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date. For individual debt securities for which a credit loss has been recognized in earnings, interest accruals and amortization and accretion of premiums and discounts are suspended when the credit loss is recognized. Interest received after accruals have been suspended is recognized on a cash basis.

Restricted stock

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

Loans, held for sale

Loans, held for sale consist of SBA loans that the Company originates (or acquires) and intends to sell. These loans are carried at the lower of aggregate cost or fair value. Fair value is determined based on available market data for similar assets, expected cash flows, and appraisals of underlying collateral or the credit quality of the borrower. Gains and losses on the sale of loans are recognized pursuant to ASC 860, Transfers and Servicing. Interest income of these loans is accrued daily and loan origination fees and costs are deferred and included in the cost basis of the loan. The Company issues various representations and warranties associated with these loan sales. The Company has not experienced any losses as a result of these representations and warranties.

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 value of loans that are subject to a fair value hedge is 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 the 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 the loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer's unused line of credit and fees related to standby letters of credit are recognized over the commitment period. When loans are repaid, any remaining unamortized balances of premiums, discounts, or net deferred fees are recognized as interest income.

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

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

Impaired loans: A loan is identified as impaired when it is no longer probable that interest and principal will be collected according to the contractual terms of the original loan agreement. Generally, impaired loans are classified as non-accrual. However, in certain instances, impaired loans may continue on an accrual basis, if full repayment of all principal and interest is expected and the loan is both well secured and in the process of collection. Impaired loans are measured for reserve requirements in accordance with ASC 310, Receivables, based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral less applicable disposition costs if the loan is collateral dependent. The amount of an impairment reserve, if any, and any subsequent changes are recorded as a provision for credit losses. Losses are recorded as a charge-off when losses are confirmed. In addition to management's internal loan review process, regulators may from time to time direct the Company to modify loan grades, loan impairment calculations, or loan impairment methodology.

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

Allowance for credit losses

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

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

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

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

Goodwill and other intangible assets

The Company records as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. The Company performs its annual goodwill and intangibles impairment tests as of October 1 each year, or more often if events or circumstances indicate that the carrying value may not be recoverable. The Company can first elect to assess, through qualitative factors, whether it is more likely than not that goodwill is impaired. If the qualitative assessment indicates potential impairment, the Company will proceed with a two-step process. The first step tests for impairment, while the second step, if necessary, measures the impairment. The resulting impairment amount, if any, is charged 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 and nine months ended September 30, 2017 and 2016.

Other assets acquired through foreclosure

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

Treasury Shares

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

Derivative financial instruments

The Company uses interest-rate swaps to mitigate interest-rate risk associated with changes to 1) the fair value of certain fixed-rate financial instruments (fair value hedges) and 2) certain cash flows related to future interest payments on variable rate financial instruments (cash flow 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. On the date the derivative contract is entered into, the Company designates the derivative as a fair value hedge or cash flow hedge. 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. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow 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. For a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the change in fair value of a cash flow hedge is recognized immediately in non-interest income in the Consolidated Income Statement. Under both the fair value and cash flow hedge scenarios, changes in the fair value of derivatives not considered to be highly effective in hedging the change in fair value or the expected cash flows 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 at the time the derivative contract is executed. Both at inception and at least quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in either the fair value or cash flows of the hedged item. Retroactive effectiveness is assessed, as well as the continued expectation that the hedge will remain effective prospectively. 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.

Income taxes

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

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

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

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

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

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basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

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

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

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

September 30, 2017 and 2016. The estimated fair value amounts for September 30, 2017 and 2016 have been measured as of period-end, and have not been re-evaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

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

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

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

Cash and cash equivalents

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 other investment 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.

During the year ended December 31, 2016, the Company's CDO securities were transferred from Level 3 to Level 2 as a result of an increase in the availability and reliability of the observable inputs utilized in the securities' fair value measurement. Previously, quoted prices and quoted prices for similar assets were not available. Therefore, the Company would engage a third party to estimate the future cash flows and discount rate using third party quotes adjusted based on assumptions a market participant would assume necessary for each specific security, which resulted in fair values for these securities being categorized as Level 3 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.
Recent accounting pronouncements
In May 2014, the FASB issued guidance within ASU 2014-09, Revenue from Contracts with Customers. The amendments in ASU 2014-09 to Topic 606, Revenue from Contracts with Customers, creates a common revenue standard and clarifies the principles for recognizing revenue that can be applied consistently across various transactions, industries, and capital markets. The amendments in the ASU clarify that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As part of that principle, the entity should identify the contract(s) with the customer, identify the performance obligation(s) of the contract, determine the transaction price, allocate that transaction price to the performance obligation(s) of the contract, and then recognize revenue when or as the entity satisfies the performance obligation(s). In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date, which deferred the original effective date of ASU No. 2014-09 by one year. Accordingly, the amendments in ASU No. 2014-09 will be effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that annual reporting period. The amendments will be applied through the election of one of two retrospective methods. Substantially all of the Company's revenue is generated from interest income related to loans and investment securities, which are not within the scope of this guidance. The contracts that are within the scope of this guidance include service charges and fees on deposit accounts and warrant related income. The Company has completed its review of contracts and other agreements that are within the scope of this guidance and did not identify any material changes to the timing of revenue recognition. The Company will adopt the amendments beginning January 1, 2018 through use of the modified retrospective transition method and expects to expand its qualitative and quantitative disclosures of revenue recognition upon adoption.

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In January 2016, the FASB issued guidance within ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 to Subtopic 825-10, Financial Instruments, contain the following elements: 1) requires equity investments to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5) requires an entity to present separately in OCI the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements; 7) clarifies that the entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. The amendments are effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Except for the early application of the amendment noted in item 5) above, which the Company elected to early adopt effective January 1, 2015 as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, early adoption of the amendments in this Update is not permitted. As discussed in item 1) above, changes in the fair value of the Company's equity investments, which consist of preferred stock of $96.1 million at September 30, 2017, will be recognized in net income, rather than in AOCI. As a result, there may be greater volatility in earnings each reporting period related to fair value changes. However, as preferred stock is less than 3% of the Company's total AFS portfolio, the adoption of this amendment and the other amendments in this guidance are not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued guidance within ASU 2016-02, Leases. The amendments in ASU 2016-02 to Topic 842, Leases, require lessees to recognize the lease assets and lease liabilities arising from operating leases in the statement of financial position. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Management is in the early stages of its implementation assessment, which includes identifying the population of the Company's leases that are within the scope of the new guidance, gathering all key lease data, and considering new lease software options that will facilitate application of the new accounting requirements.

In June 2016, the FASB issued guidance within ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments in ASU 2016-13 to Topic 326, Financial Instruments - Credit Losses, require that an organization measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU also requires enhanced disclosures, including qualitative and quantitative disclosures that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on AFS debt securities and purchased financial assets with credit deterioration. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management has formed a Steering Committee and established an implementation team made up of subject matter experts across different functions within the Company, including Finance, Risk, Credit, and IT, that will facilitate all phases of planning and implementation of the new guidance. The team is working with certain external consultants and is in the final stages of completing its gap assessment. The team has also evaluated numerous modeling packages and has made preliminary decisions on various model approaches. Further, the team is also in the process of evaluating its control framework to identify risks resulting from new processes, judgments, and data.

In August 2016, the FASB issued guidance within ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in ASU 2016-15 to Topic 230, Statement of Cash Flows, provide guidance on eight specific cash flow classification issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investments; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and the application of the predominance principle. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. However, an entity is required to adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The adoption of this guidance is not expected to have a significant impact on the Company's Consolidated Statement of Cash Flows.

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

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businesses. The amendments in this Update should be applied prospectively and are effective for annual periods beginning after December 31, 2017, including interim periods within those periods. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued guidance within ASU 2017-04, Simplifying the Test for Goodwill Impairment. The amendments in ASU 2017-04 to Topic 350, Intangibles - Goodwill and Other, modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Accordingly, the amendments eliminate Step 2 from the goodwill impairment test because goodwill impairment will no longer be determined by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this Update should be applied on a prospective basis and are effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2017, the FASB issued guidance within ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in ASU 2017-05 to Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets, clarify the scope of Subtopic 610-20 and add guidance for partial sales of nonfinancial assets, including partial sales of real estate. Under current GAAP, there are several different accounting models to evaluate whether the transfer of certain assets qualify for sale treatment. The new standard reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. An entity may elect to apply the amendments in this Update either retrospectively to each period presented in the financial statements or, retrospectively with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

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

In May 2017, the FASB issued guidance within ASU 2017-09, Scope of Modification Accounting. The amendments in ASU 2017-09 to Topic 718, Compensation - Stock Compensation, provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all of the following conditions are met: the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The amendments in this Update are effective for annual periods, and interim periods within those annual periods, beginning after December 31, 2017. Early adoption is permitted, including adoption in any interim period. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2017, the FASB issued guidance within ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities. The amendments in ASU 2017-12 to Topic 815, Derivatives and Hedging, is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance also amends the presentation and disclosure requirements and changes how companies assess effectiveness. Under the new guidance, public companies will have until the end of the first quarter in which a hedge is designated to perform an initial assessment of a hedge's effectiveness. After initial qualification, the new

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guidance permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test if the company can reasonably support an expectation of high effectiveness throughout the term of the hedge. Additional disclosures include cumulative basis adjustments for fair value hedges and the effect of hedging on individual income statement line items. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim period within those fiscal years. Early adoption is permitted in any interim period after issuance of the Update. Management is in the process of evaluating the effects that the standard is expected to have on the Company's Consolidated Financial Statements and related disclosures.

Recently adopted accounting guidance

In November 2015, the FASB issued guidance within ASU 2015-17, Income Taxes. The amendments in ASU 2015-17 to Topic 740, Income Taxes, changes the presentation of deferred income tax liabilities and assets, from previously bifurcated current and noncurrent, to a single noncurrent amount on the classified statement of financial position. The amendment was effective for the annual period ending after December 15, 2016, and for and interim periods within those annual periods. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued guidance within ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendments in ASU 2016-05 to Topic 815, Derivatives and Hedging, clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this Update were effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

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2. INVESTMENT SECURITIES

The carrying amounts and fair values of investment securities at September 30, 2017 and December 31, 2016 are summarized as follows:

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity				
Tax-exempt	$154,920	$ 5,791	$ (129)	$160,582
Available-for-sale				
CDO	$50	$ 15,503	$ —	$15,553
Commercial MBS issued by GSEs	116,910	55	(3,171)	113,794
Corporate debt securities	105,047	404	(1,437)	104,014
CRA investments	50,997	—	(349)	50,648
Preferred stock	91,926	4,174	—	96,100
Private label residential MBS	800,171	2,090	(4,646)	797,615
Residential MBS issued by GSEs	1,831,411	3,484	(15,889)	1,819,006
Tax-exempt	456,762	10,796	(4,785)	462,773
Trust preferred securities	32,000	—	(2,792)	29,208
U.S. government sponsored agency securities	64,000	—	(2,364)	61,636
U.S. treasury securities	2,496	3	(2)	2,497
Total AFS securities	$3,551,770	$ 36,509	$ (35,435)	$3,552,844

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity				
Tax-exempt	$92,079	$ 433	$ (546)	$91,966
Available-for-sale				
CDO	$50	$ 13,440	$ —	$13,490
Commercial MBS issued by GSEs	121,742	—	(3,950)	117,792
Corporate debt securities	65,058	371	(1,285)	64,144
CRA investments	37,627	—	(514)	37,113
Preferred stock	96,071	833	(2,242)	94,662
Private label residential MBS	440,272	182	(6,769)	433,685
Residential MBS issued by GSEs	1,369,289	3,046	(17,130)	1,355,205
Tax-exempt	409,693	8,477	(9,937)	408,233
Trust preferred securities	32,000	—	(5,468)	26,532
U.S. government sponsored agency securities	59,000	—	(2,978)	56,022
U.S. treasury securities	2,496	6	—	2,502
Total AFS securities	$2,633,298	$ 26,355	$ (50,273)	$2,609,380
Securities measured at fair value				
Residential MBS issued by GSEs				$1,053

During the nine months ended September 30, 2017, the Company sold all of its investment securities measured at fair value. No significant gain or loss was recognized upon sale of these securities. For additional information on the fair value changes of securities measured at fair value, see the trading securities table in "Note 13. Fair Value Accounting" of these Notes to Unaudited Consolidated Financial Statements.

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

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

The Company has reviewed securities for which there is an unrealized loss in accordance with its accounting policy for OTTI described above and determined that there are no impairment charges for the three and nine months ended September 30, 2017 and 2016. The Company does not consider any securities to be other-than-temporarily impaired as of September 30, 2017 and December 31, 2016. No assurance can be made that OTTI will not occur in future periods.

Information pertaining to securities with gross unrealized losses at September 30, 2017 and December 31, 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	September 30, 2017					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity						
Tax-exempt	$129	$9,471	$—	$—	$129	$9,471
Available-for-sale						
Commercial MBS issued by GSEs	$796	$35,545	$2,375	$76,349	$3,171	$111,894
Corporate debt securities	1,437	78,563	—	—	1,437	78,563
CRA investments	349	50,648	—	—	349	50,648
Private label residential MBS	2,295	327,580	2,351	134,429	4,646	462,009
Residential MBS issued by GSEs	11,994	1,005,130	3,895	184,589	15,889	1,189,719
Tax-exempt	1,121	120,904	3,664	68,248	4,785	189,152
Trust preferred securities	—	—	2,792	29,208	2,792	29,208
U.S. government sponsored agency securities	1,624	42,376	740	14,260	2,364	56,636
U.S. treasury securities	2	1,502	—	—	2	1,502
Total AFS securities	$19,618	$1,662,248	$15,817	$507,083	$35,435	$2,169,331

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	December 31, 2016					
	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						
Tax-exempt	$546	$30,364	$—	$—	$546	$30,364
Available-for-sale						
Commercial MBS issued by GSEs	$3,950	$117,792	$—	$—	$3,950	$117,792
Corporate debt securities	1,285	38,716	—	—	1,285	38,716
CRA investments	514	37,113	—	—	514	37,113
Preferred stock	2,188	63,151	54	1,471	2,242	64,622
Private label residential MBS	6,170	377,638	599	16,969	6,769	394,607
Residential MBS issued by GSEs	16,990	950,480	140	5,326	17,130	955,806
Tax-exempt	9,937	148,780	—	—	9,937	148,780
Trust preferred securities	—	—	5,468	26,532	5,468	26,532
U.S. government sponsored agency securities	2,978	56,022	—	—	2,978	56,022
Total AFS securities	$44,012	$1,789,692	$6,261	$50,298	$50,273	$1,839,990

At September 30, 2017 and December 31, 2016, the Company’s unrealized losses relate primarily to market interest rate increases since the securities' original purchase date. The total number of securities in an unrealized loss position at September 30, 2017 is 248, compared to 244 at December 31, 2016. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysis reports. Since material downgrades have not occurred and management does not intend to sell the debt securities in an unrealized loss position in the foreseeable future, none of the securities described in the above table or in this paragraph are deemed to be OTTI.

The trust preferred securities have yields based on floating rate LIBOR, which are highly correlated to the federal funds rate. The low rate environment has had a negative effect on the market value of these securities, however, as the federal funds rate has increased since December 31, 2016, the unrealized losses on these securities have decreased.

The amortized cost and fair value of securities as of September 30, 2017, by contractual maturities, are shown below. MBS are shown separately as individual MBS are comprised of pools of loans with varying maturities. Therefore, these securities are listed separately in the maturity summary.

	September 30, 2017	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held-to-maturity		
After one year through five years	$100	$101
After five years through ten years	15,116	15,503
After ten years	139,704	144,978
Total HTM securities	$154,920	$160,582
Available-for-sale		
Due in one year or less	$50,997	$50,648
After one year through five years	74,409	77,268
After five years through ten years	289,847	292,086
After ten years	388,025	402,427
Mortgage-backed securities	2,748,492	2,730,415

Total AFS securities	$3,551,770	$3,552,844

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The following tables summarize the carrying amount of the Company's investment ratings position as of September 30, 2017 and December 31, 2016:

	September 30, 2017							
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Held-to-maturity								
Tax-exempt	$—	$—	$—	$—	$—	$—	$154,920	$154,920
Available-for-sale								
CDO	$—	$—	$—	$—	$—	$15,553	$—	$15,553
Commercial MBS issued by GSEs	—	113,794	—	—	—	—	—	113,794
Corporate debt securities	—	—	—	74,819	29,195	—	—	104,014
CRA investments	—	25,381	—	—	—	—	25,267	50,648
Preferred stock	—	—	—	10,575	66,193	4,315	15,017	96,100
Private label residential MBS	736,937	—	56,171	1,509	1,025	1,973	—	797,615
Residential MBS issued by GSEs	—	1,819,006	—	—	—	—	—	1,819,006
Tax-exempt	63,991	25,264	224,235	147,407	—	—	1,876	462,773
Trust preferred securities	—	—	—	—	29,208	—	—	29,208
U.S. government sponsored agency securities	—	61,636	—	—	—	—	—	61,636
U.S. treasury securities	—	2,497	—	—	—	—	—	2,497
Total AFS securities (1)	$800,928	$2,047,578	$280,406	$234,310	$125,621	$21,841	$42,160	$3,552,844

(1) Where ratings differ, the Company uses an average of the available ratings by S&P, Moody's, and/or Fitch.

	December 31, 2016							
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Held-to-maturity								
Tax-exempt	$—	$—	$—	$—	$—	$—	$92,079	$92,079
Available-for-sale								
CDO	$—	$—	$—	$—	$—	$13,490	$—	$13,490
Commercial MBS issued by GSEs	—	117,792	—	—	—	—	—	117,792
Corporate debt securities	—	—	5,429	38,715	20,000	—	—	64,144
CRA investments	—	—	—	—	—	—	37,113	37,113
Preferred stock	—	—	—	—	64,486	14,658	15,518	94,662
Private label residential MBS	399,013	—	29,921	2,117	2,634	—	—	433,685
Residential MBS issued by GSEs	—	1,355,205	—	—	—	—	—	1,355,205
Tax-exempt	80,862	—	268,249	59,122	—	—	—	408,233
Trust preferred securities	—	—	—	—	26,532	—	—	26,532
U.S. government sponsored agency securities	—	56,022	—	—	—	—	—	56,022
U.S. treasury securities	—	2,502	—	—	—	—	—	2,502

Total AFS securities (1)	$479,875	$1,531,521	$303,599	$99,954	$113,652	$28,148	$52,631	$2,609,380
Securities measured at fair value								
Residential MBS issued by GSEs	$—	$1,053	$—	$—	$—	$—	$—	$1,053

(1) Where ratings differ, the Company uses an average of the available ratings by S&P, Moody's, and/or Fitch.

Securities with carrying amounts of approximately $975.1 million and $763.0 million at September 30, 2017 and December 31, 2016, respectively, were pledged for various purposes as required or permitted by law.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Gross gains	$468	$ —	$1,181	$2,057
Gross losses	(149)	—	(274)	(1,056)
Net gains (losses) on sales of investment securities	$319	$ —	$907	$1,001

3. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

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

	September 30, 2017	December 31, 2016
	(in thousands)	
Commercial and industrial	$6,661,152	$5,755,021
Commercial real estate - non-owner occupied	3,628,415	3,543,956
Commercial real estate - owner occupied	2,042,262	2,013,276
Construction and land development	1,671,552	1,478,114
Residential real estate	376,716	259,432
Commercial leases	74,850	100,765
Consumer	50,742	38,963
Loans, net	14,505,689	13,189,527
Allowance for credit losses	(136,421)	(124,704)
Total loans HFI	$14,369,268	$13,064,823

Net deferred loan fees and costs as of September 30, 2017 and December 31, 2016 total $21.6 million and $22.3 million, respectively, which is a reduction in the carrying value of loans. Net unamortized purchase discounts on secondary market loan purchases total $8.4 million and $5.2 million as of September 30, 2017 and December 31, 2016, 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 $17.0 million and $22.2 million as of September 30, 2017 and December 31, 2016, respectively. Credit marks were $32.8 million and $47.3 million as of September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017 and December 31, 2016, the Company has $16.3 million and $18.9 million of HFS loans, respectively.

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

	September 30, 2017					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$2,039,314	$1,687	$—	$1,261	$2,948	$2,042,262
Non-owner occupied	3,431,099	—	—	585	585	3,431,684
Multi-family	196,731	—	—	—	—	196,731
Commercial and industrial						
Commercial	6,657,204	1,066	162	2,720	3,948	6,661,152

Leases	74,850	—	—	—	—	74,850
Construction and land development						
Construction	1,136,205	2,230	—	—	2,230	1,138,435
Land	533,117	—	—	—	—	533,117
Residential real estate	370,733	—	—	5,983	5,983	376,716
Consumer	50,553	7	27	155	189	50,742
Total loans	$14,489,806	$4,990	$189	$10,704	$15,883	$14,505,689

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	December 31, 2016					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$2,009,728	$ 71	$ —	$ 3,477	$3,548	$2,013,276
Non-owner occupied	3,339,121	672	2	—	674	3,339,795
Multi-family	204,161	—	—	—	—	204,161
Commercial and industrial						
Commercial	5,747,368	549	584	6,520	7,653	5,755,021
Leases	100,761	—	—	4	4	100,765
Construction and land development						
Construction	973,242	—	—	—	—	973,242
Land	503,588	—	—	1,284	1,284	504,872
Residential real estate	249,726	4,333	281	5,092	9,706	259,432
Consumer	38,765	26	2	170	198	38,963
Total loans	$13,166,460	$ 5,651	$ 869	$ 16,547	$23,067	$13,189,527

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

	September 30, 2017				December 31, 2016			
	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 real estate								
Owner occupied	$5,102	$ 1,261	$ 6,363	$ —	$5,084	$ 3,264	$ 8,348	$ 285
Non-owner occupied	—	—	—	—	8,317	1	8,318	—
Multi-family	—	—	—	—	—	—	—	—
Commercial and industrial								
Commercial	38,875	2,677	41,552	44	10,893	6,043	16,936	775
Leases	15	—	15	—	28	3	31	—
Construction and land development								
Construction	—	—	—	—	—	—	—	—
Land	887	—	887	—	—	1,284	1,284	—
Residential real estate	39	5,983	6,022	—	99	5,093	5,192	—
Consumer	—	155	155	—	—	163	163	7
Total	$44,918	$ 10,076	$ 54,994	$ 44	$24,421	$ 15,851	$ 40,272	$ 1,067

The reduction in interest income associated with loans on non-accrual status was approximately $0.7 million and $0.6 million for the three months ended September 30, 2017 and 2016, respectively, and $1.8 million and $1.5 million for the nine months ended September 30, 2017 and 2016, 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:

	September 30, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$1,951,070	$40,730	$ 48,847	$1,615	$ —	$2,042,262
Non-owner occupied	3,372,861	42,619	16,204	—	—	3,431,684
Multi-family	196,731	—	—	—	—	196,731
Commercial and industrial						
Commercial	6,474,756	100,449	62,585	23,362	—	6,661,152
Leases	73,128	—	1,722	—	—	74,850
Construction and land development						
Construction	1,116,667	9,496	12,272	—	—	1,138,435
Land	526,473	4,637	2,007	—	—	533,117
Residential real estate	368,722	1,350	6,644	—	—	376,716
Consumer	50,505	80	157	—	—	50,742
Total	$14,130,913	$199,361	$ 150,438	$24,977	$ —	$14,505,689

	September 30, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$14,129,815	$197,067	$ 137,947	$24,977	$ —	$14,489,806
Past due 30 - 59 days	946	2,257	1,787	—	—	4,990
Past due 60 - 89 days	152	37	—	—	—	189
Past due 90 days or more	—	—	10,704	—	—	10,704
Total	$14,130,913	$199,361	$ 150,438	$24,977	$ —	$14,505,689

Included in the $25.0 million balance of loans rated Doubtful as of September 30, 2017, is one loan with a net balance of $23.4 million that was sold subsequent to quarter-end. For additional information related to the loan sale, see page 35 of these Notes to Unaudited Consolidated Financial Statements.

	December 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$1,935,322	$53,634	$ 22,090	$ 2,230	$ —	$2,013,276
Non-owner occupied	3,278,090	22,972	38,733	—	—	3,339,795
Multi-family	203,964	197	—	—	—	204,161
Commercial and industrial						
Commercial	5,621,448	70,011	58,562	5,000	—	5,755,021
Leases	100,737	—	28	—	—	100,765
Construction and land development						
Construction	961,290	—	11,952	—	—	973,242
Land	501,569	337	2,966	—	—	504,872
Residential real estate	252,304	929	6,199	—	—	259,432
Consumer	38,698	64	201	—	—	38,963
Total	$12,893,422	$148,144	$ 140,731	$ 7,230	$ —	$13,189,527

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	December 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$12,887,308	$147,838	$124,084	$7,230	$—	$13,166,460
Past due 30 - 59 days	5,433	96	122	—	—	5,651
Past due 60 - 89 days	410	210	249	—	—	869
Past due 90 days or more	271	—	16,276	—	—	16,547
Total	$12,893,422	$148,144	$140,731	$7,230	$—	$13,189,527

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

	September 30, 2017	December 31, 2016
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310 (1)	$8,773	$10,909
Impaired loans without a specific valuation allowance under ASC 310 (2)	112,583	88,300
Total impaired loans	$121,356	$99,209
Valuation allowance related to impaired loans (3)	$(4,394)	$(4,239)

(1) Includes TDR loans of $2.1 million and $2.5 million at September 30, 2017 and December 31, 2016, respectively.

(2) Includes TDR loans of $47.8 million and $58.3 million at September 30, 2017 and December 31, 2016, respectively.

(3) Includes valuation allowance related to TDR loans of $1.3 million and $0.6 million at September 30, 2017 and December 31, 2016, respectively.

The following table presents impaired loans by class:

	September 30, 2017	December 31, 2016
	(in thousands)	
Commercial real estate		
Owner occupied	$16,937	$20,748
Non-owner occupied	19,010	25,524
Multi-family	—	—
Commercial and industrial		
Commercial	57,581	21,107
Leases	336	355
Construction and land development		
Construction	—	—
Land	11,503	14,838
Residential real estate	15,794	16,391
Consumer	195	246
Total	$121,356	$99,209

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable, in the table above as "Impaired loans without a specific valuation allowance under ASC 310." However, before concluding that an impaired loan needs no associated valuation allowance, an assessment is made to consider all available and relevant information for the method used to evaluate impairment and the type of loan being assessed. The valuation allowance disclosed above is included in the allowance for credit losses reported in the Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Average investment in impaired loans	$108,033	$106,357	$106,456	$112,901
Interest income recognized on impaired loans				