EAST WEST BANCORP INC
Form 10-Q
November 07, 2018

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

Commission file number 000-24939

EAST WEST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4703316
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

135 North Los Robles Ave., 7th Floor, Pasadena, California 91101
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code:
(626) 768-6000

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes x 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 x	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 x

Number of shares outstanding of the issuer’s common stock on the latest practicable date: 144,959,368 shares as of October 31, 2018.

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
($ in thousands, except shares)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$408,049	$457,181
Interest-bearing cash with banks	1,810,738	1,717,411
Cash and cash equivalents	2,218,787	2,174,592
Interest-bearing deposits with banks	400,900	398,422
Securities purchased under resale agreements (“resale agreements”)	1,035,000	1,050,000
Securities:		
Available-for-sale investment securities, at fair value (includes assets pledged as collateral of $429,823 in 2018 and $534,327 in 2017)	2,676,510	3,016,752
Restricted equity securities, at cost	73,729	73,521
Loans held-for-sale	3,114	85
Loans held-for-investment (net of allowance for loan losses of $310,041 in 2018 and $287,128 in 2017; includes assets pledged as collateral of $20,387,387 in 2018 and $18,880,598 in 2017)	30,900,144	28,688,590
Investments in qualified affordable housing partnerships, net	148,097	162,824
Investments in tax credit and other investments, net	232,194	224,551
Premises and equipment (net of accumulated depreciation of $115,919 in 2018 and $111,898 in 2017)	120,265	121,209
Goodwill	465,547	469,433
Branch assets held-for-sale	—	91,318
Other assets	798,819	678,952
TOTAL	$39,073,106	$37,150,249
LIABILITIES		
Deposits:		
Noninterest-bearing	$10,794,370	$10,887,306
Interest-bearing	22,834,754	20,727,757
Total deposits	33,629,124	31,615,063
Branch liability held-for-sale	—	605,111
Short-term borrowings	56,411	—
Federal Home Loan Bank (“FHLB”) advances	325,596	323,891
Securities sold under repurchase agreements (“repurchase agreements”)	50,000	50,000
Long-term debt	156,770	171,577
Accrued expenses and other liabilities	610,355	542,656
Total liabilities	34,828,256	33,308,298
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS’ EQUITY		
	166	165

Common stock, $0.001 par value, 200,000,000 shares authorized; 165,601,141 and 165,214,770 shares issued in 2018 and 2017, respectively		
Additional paid-in capital	1,766,055	1,755,330
Retained earnings	3,020,792	2,576,302
Treasury stock, at cost — 20,671,710 shares as of both 2018 and 2017	(452,327)	(452,327)
Accumulated other comprehensive loss (“AOCI”), net of tax	(89,836)	(37,519)
Total stockholders’ equity	4,244,850	3,841,951
TOTAL	$39,073,106	$37,150,249

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
($ and shares in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$385,538	$306,939	$1,088,997	$872,039
Investment securities	15,180	14,828	45,695	43,936
Resale agreements	7,393	7,901	21,509	25,222
Restricted equity securities	721	612	2,155	1,859
Interest-bearing cash and deposits with banks	13,353	9,630	36,013	22,298
Total interest and dividend income	422,185	339,910	1,194,369	965,354
INTEREST EXPENSE				
Deposits	65,032	31,086	155,433	81,803
Federal funds purchased and other short-term borrowings	643	212	774	877
FHLB advances	2,732	1,947	7,544	5,738
Repurchase agreements	3,366	2,122	8,714	7,538
Long-term debt	1,692	1,388	4,812	4,030
Total interest expense	73,465	36,755	177,277	99,986
Net interest income before provision for credit losses	348,720	303,155	1,017,092	865,368
Provision for credit losses	10,542	12,996	46,296	30,749
Net interest income after provision for credit losses	338,178	290,159	970,796	834,619
NONINTEREST INCOME				
Branch fees	9,777	10,393	30,347	30,638
Letters of credit fees and foreign exchange income	14,649	10,564	39,924	34,370
Ancillary loan fees and other income	6,795	5,987	18,217	16,876
Wealth management fees	3,535	3,461	10,989	11,177
Derivative fees and other income	4,595	6,663	17,855	12,934
Net gains on sales of loans	1,145	2,360	5,081	6,660
Net gains on sales of available-for-sale investment securities	35	1,539	2,374	6,733
Net gains on sales of fixed assets	3,402	1,043	5,602	74,092
Net gain on sale of business	—	3,807	31,470	3,807
Other fees and operating income	2,569	3,653	7,355	15,255
Total noninterest income	46,502	49,470	169,214	212,542
NONINTEREST EXPENSE				
Compensation and employee benefits	96,733	79,583	285,832	244,930
Occupancy and equipment expense	17,292	16,635	50,879	47,829
Deposit insurance premiums and regulatory assessments	6,013	5,676	18,118	17,384
Legal expense	1,544	3,316	6,636	8,930
Data processing	3,289	3,004	10,017	9,009
Consulting expense	2,683	4,087	10,155	10,775
Deposit related expense	2,600	2,413	8,201	7,283
Computer software expense	5,478	4,393	16,081	13,823
Other operating expense	23,394	21,411	61,780	60,166
Amortization of tax credit and other investments	20,789	23,827	58,670	66,059

Total noninterest expense	179,815	164,345	526,369	486,188
INCOME BEFORE INCOME TAXES	204,865	175,284	613,641	560,973
INCOME TAX EXPENSE	33,563	42,624	82,958	140,247
NET INCOME	$171,302	$132,660	$530,683	$420,726
EARNINGS PER SHARE (“EPS”)				
BASIC	$1.18	$0.92	$3.66	$2.91
DILUTED	$1.17	$0.91	$3.63	$2.88
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC	144,921	144,498	144,829	144,412
DILUTED	146,173	145,882	146,158	145,849

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
($ in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$171,302	$132,660	$530,683	$420,726
Other comprehensive (loss) income, net of tax:				
Net changes in unrealized (losses) gains on available-for-sale investment securities	(13,608)	(1,906)	(41,261)	7,916
Foreign currency translation adjustments	(4,761)	3,870	(4,785)	8,013
Other comprehensive (loss) income	(18,369)	1,964	(46,046)	15,929
COMPREHENSIVE INCOME	$152,933	$134,624	$484,637	$436,655

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
($ in thousands, except shares)
(Unaudited)

	Common Stock and Additional Paid-in Capital		Retained Earnings	Treasury Stock	AOCI, Net of Tax	Total Stockholders' Equity
	Shares	Amount				
BALANCE, JULY 1, 2018	144,904,629	$1,754,877	$2,883,201	$(452,327)	$(71,467)	$4,114,284
Net income	—	—	171,302	—	—	171,302
Other comprehensive loss	—	—	—	—	(18,369)	(18,369)
Stock compensation costs	—	10,986	—	—	—	10,986
Net activity of common stock pursuant to various stock compensation plans and agreements	24,802	358	—	—	—	358
Cash dividends on common stock ($0.23 per share)	—	—	(33,711)	—	—	(33,711)
BALANCE, SEPTEMBER 30, 2018	144,929,431	$1,766,221	$3,020,792	$(452,327)	$(89,836)	$4,244,850
BALANCE, JULY 1, 2017	144,486,326	$1,738,721	$2,417,367	$(451,646)	$(34,181)	$3,670,261
Net income	—	—	132,660	—	—	132,660
Other comprehensive income	—	—	—	—	1,964	1,964
Stock compensation costs	—	5,665	—	—	—	5,665
Net activity of common stock pursuant to various stock compensation plans and agreements	24,617	960	—	(404)	—	556
Cash dividends on common stock ($0.20 per share)	—	—	(29,210)	—	—	(29,210)
BALANCE, SEPTEMBER 30, 2017	144,510,943	$1,745,346	$2,520,817	$(452,050)	$(32,217)	$3,781,896

	Common Stock and Additional Paid-in Capital		Retained Earnings	Treasury Stock	AOCI, Net of Tax	Total Stockholders' Equity
	Shares	Amount				
BALANCE, JANUARY 1, 2018	144,543,060	$1,755,495	$2,576,302	$(452,327)	$(37,519)	$3,841,951
Cumulative effect of change in accounting principle related to marketable equity securities (1)	—	—	(545)	—	385	(160)
Reclassification of tax effects in AOCI resulting from the new federal corporate income tax rate (2)	—	—	6,656	—	(6,656)	—
Net income	—	—	530,683	—	—	530,683
Other comprehensive loss	—	—	—	—	(46,046)	(46,046)
Stock compensation costs	—	24,201	—	—	—	24,201
Net activity of common stock pursuant to various stock compensation plans and agreements	386,371	(13,475)	—	—	—	(13,475)
	—	—	(92,304)	—	—	(92,304)

Cash dividends on common stock ($0.63 per share)						
BALANCE, SEPTEMBER 30, 2018	144,929,431	$1,766,221	$3,020,792	$(452,327)	$(89,836)	$4,244,850
BALANCE, JANUARY 1, 2017	144,167,451	$1,727,598	$2,187,676	$(439,387)	$(48,146)	$3,427,741
Net income	—	—	420,726	—	—	420,726
Other comprehensive income	—	—	—	—	15,929	15,929
Stock compensation costs	—	15,780	—	—	—	15,780
Net activity of common stock pursuant to various stock compensation plans and agreements	343,492	1,968	—	(12,663)	—	(10,695)
Cash dividends on common stock ($0.60 per share)	—	—	(87,585)	—	—	(87,585)
BALANCE, SEPTEMBER 30, 2017	144,510,943	$1,745,346	$2,520,817	$(452,050)	$(32,217)	$3,781,896

(1) Represents the impact of the adoption of Accounting Standards Update ("ASU") 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities in the first quarter of 2018. Refer to Note 2 — Current Accounting Developments to the Consolidated Financial Statements for additional information.

(2) Represents amounts reclassified from AOCI to retained earnings due to the early adoption of ASU 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income in the first quarter of 2018. Refer to Note 2 — Current Accounting Developments to the Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
($ in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$530,683	$420,726
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95,777	123,008
Accretion of discount and amortization of premiums, net	(14,471)	(19,237)
Stock compensation costs	24,201	15,780
Deferred income tax expense (benefit)	1,371	(14,500)
Provision for credit losses	46,296	30,749
Net gains on sales of loans	(5,081)	(6,660)
Net gains on sales of available-for-sale investment securities	(2,374)	(6,733)
Net gains on sales of premises and equipment	(5,602)	(74,092)
Net gain on sale of business	(31,470)	(3,807)
Originations and purchases of loans held-for-sale	(17,642)	(15,069)
Proceeds from sales and paydowns/payoffs in loans held-for-sale	16,652	15,792
Proceeds from distributions received from equity method investees	2,670	2,329
Net change in accrued interest receivable and other assets	(38,164)	105,350
Net change in accrued expenses and other liabilities	92,036	95,432
Other net operating activities	(1,566)	385
Total adjustments	162,633	248,727
Net cash provided by operating activities	693,316	669,453
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in:		
Loans held-for-investment	(2,160,858)	(2,967,873)
Interest-bearing deposits with banks	(24,925)	(74,254)
Investments in qualified affordable housing partnerships, tax credit and other investments	(72,983)	(130,061)
Payment for sale of business, net of cash transferred	(503,687)	—
Purchases of:		
Resale agreements	(160,000)	(550,000)
Available-for-sale investment securities	(514,622)	(501,669)
Loans held-for-investment	(451,037)	(441,141)
Premises and equipment	(9,418)	(11,598)
Proceeds from sale of:		
Available-for-sale investment securities	296,252	676,776
Loans held-for-investment	363,209	448,679
Other real estate owned (“OREO”)	3,602	5,431
Premises and equipment	—	116,021
Business, net of cash transferred	—	3,633
Paydowns and maturities of resale agreements	175,000	1,000,000
Proceeds from distributions received from equity method investees	4,264	6,142
Repayments, maturities and redemptions of available-for-sale investment securities	404,070	323,463
Other net investing activities	(3,002)	25,773

Net cash used in investing activities	(2,654,135)	(2,070,678)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in:		
Deposits	2,092,022	1,385,625
Short-term borrowings	63,131	(36,604)
Proceeds from:		
Issuance of common stock pursuant to various stock compensation plans and agreements	1,328	1,008
Payments for:		
Repayment of long-term debt	(15,000)	(10,000)
Withholding taxes paid related to net share settlement of equity awards	(15,502)	(12,663)
Cash dividends on common stock	(92,632)	(87,880)
Net cash provided by financing activities	2,033,347	1,239,486
Effect of exchange rate changes on cash and cash equivalents	(28,333)	19,985
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	44,195	(141,754)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,174,592	1,878,503
CASH AND CASH EQUIVALENTS, END OF PERIOD	$2,218,787	$1,736,749

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
($ in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$166,422	$98,409
Income taxes, net	$71,064	$11,800
Noncash investing and financing activities:		
Loans transferred from held-for-investment to held-for-sale	$363,591	$418,489
Loans transferred from held-for-sale to held-for-investment	$2,306	$—
Investment security transferred from held-to-maturity to available-for-sale	$—	$115,615

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Basis of Presentation

East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company”) is a registered bank holding company that offers a full range of banking services to individuals and businesses through its subsidiary bank, East West Bank and its subsidiaries (“East West Bank” or the “Bank”). The unaudited interim Consolidated Financial Statements in this Form 10-Q include the accounts of East West, East West Bank and East West’s subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. As of September 30, 2018, East West also has six wholly-owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, the Trusts are not included on the Consolidated Financial Statements.

The unaudited interim Consolidated Financial Statements are presented in accordance with United States Generally Accepted Accounting Principles (“GAAP”), applicable guidelines prescribed by regulatory authorities, and general practices in the banking industry. They reflect all adjustments that, in the opinion of management, are necessary for fair statement of the interim period Consolidated Financial Statements. Certain items on the Consolidated Financial Statements and notes for the prior periods have been reclassified to conform to the current period presentation.

The current period’s results of operations are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Events subsequent to the Consolidated Balance Sheet date have been evaluated through the date the Consolidated Financial Statements are issued for inclusion in the accompanying Consolidated Financial Statements. The unaudited interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission on February 27, 2018 (the “Company’s 2017 Form 10-K”).

Note 2 — Current Accounting Developments

New Accounting Pronouncements Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which clarifies the principles for recognizing revenue for contracts to provide goods or services to customers. The guidance also requires new quantitative and qualitative disclosures including the disaggregation of revenues and descriptions of performance obligations. The Company’s revenue is comprised of net interest income and noninterest income. The scope of this new guidance explicitly excludes net interest income, as well as other revenues from financial instruments including loans, leases, securities and derivatives. Accordingly, the majority of the Company’s revenues are not affected. In addition, the new guidance does not materially impact the timing or measurement of the Company’s revenue recognition as it is consistent with the Company’s previously existing accounting for contracts within the scope of the new standard. The Company adopted this guidance as of January 1, 2018 using the modified retrospective method where there was no cumulative effect adjustment to retained earnings as a result of adopting this new guidance. Overall, the guidance did not have a material impact on the Company’s consolidated financial statements. The Company has provided a disaggregation of the significant categories of revenues within the scope of this guidance and expanded the qualitative disclosures of the Company’s noninterest income. See Note 12 — Revenue from Contracts with Customers for additional information.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. With the exception of the amendments related to equity investments without readily determinable fair values and the use of exit price to measure the fair value of financial instruments for disclosure purposes that were adopted prospectively, the Company adopted all other amendments of the standard effective January 1, 2018 on a modified retrospective basis. The guidance requires investments in marketable equity securities to be accounted for at fair value with unrealized gains or losses reflected in earnings. As of the date of adoption, the Company reclassified approximately $31.9 million of marketable equity securities that were previously classified as Available-for-sale investment securities, at fair value to Investments in tax credits and other investments, net. In addition, the Company recorded a cumulative-effect adjustment as of January 1, 2018 that reduced retained earnings by $545 thousand and increased AOCI by $385 thousand. The guidance also provides a measurement alternative for equity securities without readily determinable fair values to be measured at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer. Such price changes (if any) are reflected in earnings beginning in the period of adoption. As of January 1, 2018, the Company elected the measurement alternative for its privately held cost method investments, which was not a material amount. The Company's investments in the Federal Reserve Bank of San Francisco ("FRB") and FHLB stock are not subject to this guidance and continue to be accounted for at cost. In addition, the guidance eliminates the requirement to disclose methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the Consolidated Balance Sheet. Furthermore, for purposes of disclosing the fair value of financial instruments carried at amortized cost, the Company has updated its valuation methods as necessary to conform to an exit price concept as required by the guidance as of January 1, 2018.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on eight specific issues related to classification on the Consolidated Statement of Cash Flows. The specific issues cover cash payments for debt prepayment or debt extinguishment costs; cash outflows for settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowings; contingent consideration payments that are not made soon after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; and beneficial interests received in securitization transactions. The guidance also clarifies that in instances of cash flows with multiple aspects that cannot be separately identified, the classification should be based on the activity that is likely to be the predominant source or use of the cash flows. The Company adopted this guidance in the first quarter of 2018 on a retrospective basis. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires those amounts that are deemed to be restricted cash and restricted cash equivalents to be included in cash and cash equivalents balances on the Consolidated Statement of Cash Flows. In addition, the Company is required to explain the changes in the combined total of restricted and unrestricted balances on the Consolidated Statement of Cash Flows. The Company adopted this guidance in the first quarter of 2018 on a retrospective basis. The adoption of this guidance did not have an impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which narrows the definition of a business by adding an initial screen to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets (a "set"). If the screen is met, the set is not a business. ASU 2017-01 also specifies the minimum inputs and processes required for a set to be considered a business, and it removes the requirement to evaluate a market participant's ability to replace missing elements when all of the inputs or processes that the seller used in operating a business were not obtained. The Company adopted this guidance in the first quarter of 2018 prospectively. The adoption of this guidance did not have an impact on the Company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The guidance does not require any accounting changes for debt securities held at a discount. The discount continues to be amortized as an adjustment of yield over the contractual life (to maturity) of the instrument. ASU 2017-08 is effective on January 1, 2019, with early adoption permitted. The guidance should be applied using a modified retrospective transition method, with the cumulative-effect adjustment recognized to retained earnings as of the beginning of the period of adoption. The Company early adopted this guidance in the first quarter of 2018. The adoption of this guidance did not have an impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued ASU 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. The Company adopted the guidance in the first quarter of 2018 prospectively. The adoption of this guidance did not have an impact on the Company's Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which better aligns the Company's risk management activities and financial reporting for hedging relationships through changes to both the description and measurement guidance for qualifying hedging relationships. The guidance also changes the presentation of hedge results, expands and refines hedge accounting for both nonfinancial and financial risk components, and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item on the Consolidated Financial Statements. ASU 2017-12 is effective on January 1, 2019, with early adoption permitted. The guidance should be applied using a modified retrospective transition method. The Company early adopted this guidance in the first quarter of 2018, and the adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. Under current GAAP, deferred tax assets and liabilities are to be adjusted for the effect of a change in tax laws or rates in net income of the reporting period that includes the enactment date. This accounting treatment resulted in the tax effect of items within AOCI not reflecting the appropriate tax rate. This guidance permits companies to reclassify the stranded tax effects resulting from the Tax Act from AOCI to retained earnings. The guidance is effective on January 1, 2019, with early adoption permitted. The Company early adopted this guidance in the first quarter of 2018 retrospectively. The Company has identified the unrealized losses for available-for-sale securities to be the only item in AOCI with stranded tax effects, and made a policy election to reclassify the related stranded tax effects using the "investment-by-investment" approach. The adoption of the guidance resulted in a cumulative-effect adjustment as of January 1, 2018 that increased retained earnings by $6.7 million and reduced AOCI by the same amount.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability in the accounting for lease transactions. The guidance requires lessees to recognize right-of-use assets and related lease liabilities for all leases with lease terms of more than 12 months on the Consolidated Balance Sheet, and provide quantitative and qualitative disclosures regarding key information about the leasing arrangements. For short-term leases with a term of 12 months or less, lessees can make a policy election not to recognize lease assets and lease liabilities. Lessor accounting is largely unchanged. ASU 2016-02 is effective on January 1, 2019, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides companies the option to continue to apply the legacy guidance in ASC 840, Leases, including its disclosure requirements, in the comparative periods presented in the year they adopt ASU 2016-02. Companies that elect this transition option recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The Company expects to adopt this guidance in the first quarter of 2019 using the optional transition method with a cumulative effect adjustment to retained earnings without restating prior period financial statements for comparable amounts. The Company has completed its review of its existing lease contracts and service contracts that may include embedded leases, and is in the process of implementing a new system to address this guidance and updating processes and internal controls for leasing activities. Based on current estimates, the Company expects to recognize right-of-use lease assets and liabilities within a range of approximately $95.0 million and $105.0 million at the date of adoption. The final financial statement impacts will depend on the Company's lease portfolio at the time of adoption. The Company does not expect material changes to the recognition of operating lease expense on its Consolidated Statement of Income.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new current expected credit loss (“CECL”) impairment model applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loan receivables, available-for-sale and held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. The CECL model utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted in each period for changes in expected lifetime credit losses. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models and methods for estimating the allowance for loan and lease losses, and requires disclosure of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). ASU 2016-13 is effective on January 1, 2020, with early adoption permitted on January 1, 2019. The guidance should be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. While the Company is still evaluating the impact on its Consolidated Financial Statements, the Company expects that ASU 2016-13 may result in an increase in the allowance for credit losses due to the following factors: 1) the allowance for credit losses provides for expected credit losses over the remaining expected life of the loan portfolio, and will consider expected future changes in macroeconomic conditions; 2) the nonaccretable difference on the purchased credit-impaired (“PCI”) loans will be recognized as an allowance, offset by an increase in the carrying value of the PCI loans; and 3) an allowance may be established for estimated credit losses on available-for-sale debt securities. The Company’s implementation efforts include, but are not limited to, identifying key interpretive issues, assessing its processes, identifying the system requirements against the new guidance to determine what modifications may be required, evaluating modeling methodologies for its portfolio segments and assessing potential macroeconomic factors that will be used to determine the reasonable and supportable forecast period.

In January 2017, the FASB issued ASU 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, to simplify the accounting for goodwill impairment. Under this guidance, an entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, an impairment loss will be recognized when the carrying amount of a reporting unit exceeds its fair value. The guidance also eliminates the requirement to perform a qualitative assessment for any reporting units with a zero or negative carrying amount. ASU 2017-04 is effective on January 1, 2020 and should be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017. The Company does not expect the adoption of this guidance to have a material impact on the Company’s Consolidated Financial Statements.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, to make improvements to various Codification Topics. Some of the improvements include: 1) clarifying that the excess tax benefits for share-based compensation awards should be recognized in the period in which the amount of the deduction is determined; 2) one of the criteria “the intent to set off” under ASC 210-20-45-1 is not required to offset derivative assets and liabilities for certain amounts arising from derivative instruments recognized at fair value and executed with the same counterparty under a master netting agreement; and 3) clarifying the measurement of certain financial instruments. ASU 2018-09 is effective immediately upon issuance for amendments that do not require transition guidance. For the changes that have transitional guidance, the amendments are effective January 1, 2019. For the amendments that are effective immediately, there is no material impact on the Company’s Consolidated Financial Statements. The Company is in the process of evaluating the impact of the other amendments that are effective on January 1, 2019 on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosures Framework - Changes to the Disclosure Requirements for Fair Value Measurement, that eliminates, adds and modifies certain fair value measurement disclosure requirements. ASU 2018-13 is effective on January 1, 2020 with early adoption permitted. The guidance on changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 measurements, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty are to be applied prospectively. All other amendments should be applied retrospectively. The Company will adopt this guidance on January 1, 2020 prospectively.

Note 3 — Dispositions and Held-for-Sale

In the first quarter of 2017, the Company completed the sale and leaseback of a commercial property in San Francisco, California for cash consideration of $120.6 million, and entered into a leaseback with the buyer for part of the property, consisting of a retail branch and office facilities. The net book value of the property was $31.6 million at the time of the sale, resulting in a pre-tax gain of $85.4 million after considering $3.6 million in selling costs. As the leaseback is an operating lease, $71.7 million of the gain was recognized on the closing date, and $13.7 million was deferred and will be recognized over the term of the lease agreement.

In the third quarter of 2017, the Company sold the insurance brokerage business of its subsidiary, East West Insurance Services, Inc. ("EWIS"), for $4.3 million, and recorded a pre-tax gain of $3.8 million. EWIS remains a subsidiary of East West and continues to maintain its insurance broker license.

The Company reports a business as held-for-sale when management has approved or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the next 12 months and certain other specific criteria are met. A business classified as held-for-sale is recorded at the lower of its carrying amount or estimated fair value less costs to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. Depreciation and amortization expense are not recorded with respect to the assets of a business after it is classified as held-for-sale.

On November 11, 2017, the Bank entered into a Purchase and Assumption Agreement to sell all of its eight Desert Community Bank ("DCB") branches located in the High Desert area of Southern California, and related assets and liability to Flagstar Bank, a wholly-owned subsidiary of Flagstar Bancorp, Inc. The Company determined that this transaction met the criteria for held-for-sale as of December 31, 2017. Branch assets held-for-sale as of December 31, 2017 were largely comprised of $78.1 million in loans held-for-sale and $8.0 million in premises and equipment, net. Branch liability held-for-sale as of December 31, 2017 was comprised of $605.1 million in deposits.

The sale of the Bank's eight DCB branches was completed on March 17, 2018. The assets and liability of the DCB branches that were sold in this transaction primarily consisted of $613.7 million of deposits, $59.1 million of loans, $9.0 million of cash and cash equivalents and $7.9 million of premises and equipment. The transaction resulted in a net cash payment of $499.9 million by the Company to Flagstar Bank. After transaction costs, the sale resulted in a pre-tax gain of $31.5 million during the nine months ended September 30, 2018, which was reported as Net gain on sale of business on the Consolidated Statement of Income.

Note 4 — Fair Value Measurement and Fair Value of Financial Instruments

Fair Value Determination

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining the fair value of financial instruments, the Company uses various methods including market and income approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing an asset or a liability. These inputs can be readily observable, market corroborated or generally unobservable. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy noted below is based on the quality and reliability of the information used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. The fair value of the Company's assets and liabilities is classified and disclosed in one of the following three categories:

- Level 1 — Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 — Valuation is based on quoted prices for similar instruments traded in active markets; quoted prices for identical or similar instruments traded in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data.
- Level 3 — Valuation is based on significant unobservable inputs for determining the fair value of assets or liabilities. These significant unobservable inputs reflect assumptions that market participants may use in pricing the assets or liabilities.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used are observable or unobservable, and the significance of those inputs in the fair value measurement. The Company's assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurements.

Level 3 Assets and Liabilities Valuation Process

The Company generally determines the fair value of Level 3 assets and liabilities by using internal valuation methodologies, which primarily include discounted cash flows techniques that require both observable and unobservable inputs. Unobservable inputs (such as volatility and liquidity discount) are generally derived from historic performance of similar instruments or determined from previous market trades in similar instruments. Such inputs can be derived from similar portfolios with known historic experience or recent trades where particular unobservable inputs may be implied. The Company compares each unobservable input to historic experience and other third-party data where available. The models developed under internal valuation methodologies are subject to review according to the Company’s risk management policies and procedures, which include model validation. Model validation includes review of supporting documentation and key components such as inputs, logic, processing components and output results. Validation also includes ensuring significant unobservable model inputs are appropriate given observable market transactions or other market data within the same or similar asset classes. The Company has ongoing monitoring procedures in place for Level 3 assets and liabilities that use internal valuation methodologies, which include but are not limited to the following:

- review of valuation results against expectations, including review of significant or unusual value fluctuations; and
- quarterly analysis related to market data, where available.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following section describes the valuation methodologies used by the Company to measure financial assets and liabilities on a recurring basis, as well as the general classification of these instruments pursuant to the fair value hierarchy.

Available-for-Sale Investment Securities — When available, the Company uses quoted market prices to determine the fair value of available-for-sale investment securities, which are classified as Level 1. Level 1 available-for-sale investment securities are primarily comprised of United States (“U.S.”) Treasury securities. The fair value of other available-for-sale investment securities is generally determined by independent external pricing service providers who have experience in valuing these securities or by the average quoted market prices obtained from independent external brokers. In obtaining such valuation information from third parties, the Company reviewed the methodologies used to develop the resulting fair value. The available-for-sale investment securities valued using such methods are classified as Level 2.

Equity Securities — Equity securities were comprised of mutual funds as of both September 30, 2018 and December 31, 2017. The Company uses Net Asset Value (“NAV”) information to determine the fair value of these equity securities. When NAV is available periodically and the equity securities can be put back to the transfer agents at the publicly available NAV, the fair value of the equity securities is classified as Level 1. When NAV is available periodically but the equity securities may not be readily marketable at its periodic NAV in the secondary market, the fair value of these equity securities is classified as Level 2.

Interest Rate Contracts — The Company enters into interest rate swap and option contracts with its borrowers to lock in attractive intermediate and long-term interest rates, resulting in the customer obtaining a synthetic fixed rate loan. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored offsetting interest rate contracts with third-party financial institutions. The Company also enters into interest rate swap contracts with institutional counterparties to hedge against certificates of deposit issued. This product allows the Company to lock in attractive floating rate funding. The fair value of the interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The fair value of the interest rate options, which consist of floors and caps, is determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fall below (rise above) the strike rate of the floors (caps). In addition, to comply with the provisions of ASC 820, Fair Value Measurement, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of its derivatives. The credit valuation adjustments associated with the Company's derivatives utilize model-derived credit spreads are Level 3 inputs. As of September 30, 2018 and December 31, 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of these interest rate contracts and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative portfolios. As a result, the Company classifies these derivative instruments as Level 2 due to the observable nature of the significant inputs utilized.

Foreign Exchange Contracts — The Company enters into foreign exchange contracts to accommodate the business needs of its customers. For a majority of the foreign exchange contracts entered into with its customers, the Company entered into offsetting foreign exchange contracts with third-party financial institutions to manage its exposure. The Company also utilizes foreign exchange contracts that are not designated as hedging instruments to mitigate the economic effect of fluctuations in certain foreign currency on-balance sheet assets and liabilities, primarily foreign currency denominated deposits that it offers to its customers. The fair value is determined at each reporting period based on changes in the foreign exchange rates. These are over-the-counter contracts where quoted market prices are not readily available. Valuation is measured using conventional valuation methodologies with observable market data. Due to the short-term nature of the majority of these contracts, the counterparties' credit risks are considered nominal and result in no adjustments to the valuation of the foreign exchange contracts. Due to the observable nature of the inputs used in deriving the fair value of these contracts, the valuation of foreign exchange contracts are classified as Level 2. During the nine months ended September 30, 2018, the Company entered into foreign currency swap contracts to hedge its net investment in its China subsidiary, East West Bank (China) Limited, a non-U.S. Dollar ("USD") functional currency subsidiary in China. These foreign currency swap contracts were designated as net investment hedges. As of December 31, 2017, foreign exchange forward contracts were used to economically hedge the Company's net investment in East West Bank (China) Limited. The fair value of foreign currency contracts is valued by comparing the contracted foreign exchange rate to the current market foreign exchange rate. Key inputs of the current market exchange rate include forward rates and the interest rate curves of the domestic and foreign currency. Interest rate forward curves are used to determine which forward rate pertains to a specific maturity. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Credit Contracts — The Company may periodically enter into credit risk participation agreement ("RPA") contracts to manage the credit exposure on interest rate contracts associated with syndicated loans. The Company may enter into protection sold or protection purchased RPAs with institutional counterparties. The fair value of RPAs is calculated by determining the total expected asset or liability exposure of the derivatives to the borrowers and applying the borrowers' credit spread to that exposure. Total expected exposure incorporates both the current and potential future exposure of the derivatives, derived from using observable inputs, such as yield curves and volatilities. Accordingly, RPAs fall within Level 2.

Equity Contracts — The Company obtained equity warrants to purchase preferred and common stock of technology and life sciences companies, as part of the loan origination process. As of September 30, 2018 and December 31, 2017, the warrants included on the Consolidated Financial Statements were from both public and private companies. The Company valued these warrants based on the Black-Scholes option pricing model. For equity warrants from public companies, the model uses the underlying stock price, stated strike price, warrant expiration date, risk-free interest rate based on a duration-matched U.S. Treasury rate and market-observable company-specific option volatility as inputs to value the warrants. Due to the observable nature of the inputs used in deriving the estimated fair value, warrants from public companies are classified as Level 2. For warrants from private companies, the model uses inputs such as the offering price observed in the most recent round of funding, stated strike price, warrant expiration date, risk-free interest rate based on duration-matched U.S. Treasury rate and option volatility. The model values are then adjusted for a general lack of liquidity due to the private nature of the underlying companies. Due to the unobservable nature of the option volatility and liquidity discount assumptions used in deriving the estimated fair value, warrants from private companies are classified as Level 3. On a quarterly basis, the changes in the fair value of warrants from private companies are reviewed for reasonableness, and a sensitivity analysis on the option volatility and liquidity discount assumptions is performed.

Commodity Contracts — In 2018, the Company entered into energy commodity contracts in the form of swaps and options with its commercial loan customers to allow them to hedge against the risk of fluctuation in energy commodity prices. The fair value of the commodity option contracts is determined using the Black's model and assumptions that include expectations of future commodity price and volatility. The future commodity contract price is derived from observable inputs such as the market price of the commodity. Commodity swaps are structured as an exchange of fixed cash flows for floating cash flows. The fixed cash flows are predetermined based on the known volumes and fixed price as specified in the swap agreement. The floating cash flows are correlated with the change of forward commodity prices, which is derived from market corroborated futures settlement prices. The fair value of the commodity swaps is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments) based on the market prices of the commodity. As a result, the Company classifies these derivative instruments as Level 2 due to the observable nature of the significant inputs utilized.

The following tables present financial assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

($ in thousands)	Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2018			
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$ 603,926	$ 603,926	$ —	$ —
U.S. government agency and U.S. government sponsored enterprise debt securities	228,656	—	228,656	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	365,070	—	365,070	—
Residential mortgage-backed securities	903,449	—	903,449	—
Municipal securities	72,824	—	72,824	—
Non-agency mortgage-backed securities:				
Commercial mortgage-backed securities:				
Investment grade	15,926	—	15,926	—
Residential mortgage-backed securities:				
Investment grade	10,362	—	10,362	—
Corporate debt securities:				
Investment grade	10,942	—	10,942	—
Foreign bonds:				
Investment grade	452,843	—	452,843	—
Asset-backed securities:				
Investment grade	12,512	—	12,512	—
Total available-for-sale investment securities	$ 2,676,510	$ 603,926	$ 2,072,584	$ —
Investments in tax credit and other investments:				
Equity securities with readily determinable fair value [(1)]	$ 30,849	$ 20,373	$ 10,476	$ —
Total investments in tax credit and other investments	$ 30,849	$ 20,373	$ 10,476	$ —
Derivative assets:				
Interest rate contracts	$ 72,618	$ —	$ 72,618	$ —
Foreign exchange contracts	11,095	—	11,095	—
Credit contracts	1	—	1	—
Equity contracts	2,409	—	1,737	672
Commodity contracts	12,980	—	12,980	—
Total derivative assets	$ 99,103	$ —	$ 98,431	$ 672
Derivative liabilities:				
Interest rate contracts	$ 114,658	$ —	$ 114,658	$ —
Foreign exchange contracts	11,075	—	11,075	—
Credit contracts	57	—	57	—

Commodity contracts	7,912	—	7,912	—
Total derivative liabilities	$ 133,702	$ —	$ 133,702	$ —

(1) Equity securities with readily determinable fair value were comprised of mutual funds as of September 30, 2018.

($ in thousands)	Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2017			
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$ 640,280	$ 640,280	$ —	$ —
U.S. government agency and U.S. government sponsored enterprise debt securities	203,392	—	203,392	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	318,957	—	318,957	—
Residential mortgage-backed securities	1,190,271	—	1,190,271	—
Municipal securities	99,982	—	99,982	—
Non-agency mortgage-backed securities:				
Residential mortgage-backed securities:				
Investment grade	9,117	—	9,117	—
Corporate debt securities:				
Investment grade	37,003	—	37,003	—
Foreign bonds:				
Investment grade	486,408	—	486,408	—
Other securities	31,342	20,735	10,607	—
Total available-for-sale investment securities	$ 3,016,752	$ 661,015	$ 2,355,737	$ —
Derivative assets:				
Interest rate contracts	$ 58,633	$ —	$ 58,633	$ —
Foreign exchange contracts	5,840	—	5,840	—
Credit contracts	1	—	1	—
Equity contracts	1,672	—	993	679
Total derivative assets	$ 66,146	$ —	$ 65,467	$ 679
Derivative liabilities:				
Interest rate contracts	$ 64,757	$ —	$ 64,757	$ —
Foreign exchange contracts	10,170	—	10,170	—
Credit contracts	8	—	8	—
Total derivative liabilities	$ 74,935	$ —	$ 74,935	$ —

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. As of September 30, 2018 and December 31, 2017, the only assets measured on a recurring basis that were classified as Level 3 were equity warrants issued by private companies. The following table presents a reconciliation of the beginning and ending balances of these warrants for the three and nine months ended September 30, 2018:

($ in thousands)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Equity warrants		
Beginning balance	$ 648	$ 679
Total (losses) gains included in earnings [(1)]	(7)	161
Issuances	31	65
Settlements	—	(233)
Ending balance	$ 672	$ 672

(1) Includes unrealized (losses) gains of $(7) thousand and $224 thousand for the three and nine months ended September 30, 2018, respectively. The realized/unrealized (losses) gains are included in Ancillary loan fees and other income on the Consolidated Statement of Income.

Transfers into or out of fair value hierarchy classifications are made if the significant inputs used in the financial models measuring the fair value of the assets and liabilities become observable or unobservable in the current marketplace. The Company's policy, with respect to transfers between levels of the fair value hierarchy, is to recognize transfers into and out of each level as of the end of the reporting period. There were no transfers of assets and liabilities measured on a recurring basis into and out of Level 1, Level 2 or Level 3 during the three and nine months ended September 30, 2018 and 2017.

The following table presents quantitative information about the significant unobservable inputs used in the valuation of assets measured on a recurring basis classified as Level 3 as of September 30, 2018. The significant unobservable inputs presented in the table below are those that the Company considers significant to the fair value of the Level 3 assets. The Company considers unobservable inputs to be significant if, by their exclusion, the fair value of the Level 3 assets would be impacted by a predetermined percentage change.

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique	Unobservable Input(s)	Weighted-Average
Derivative assets:				
Equity warrants	$ 672	Black-Scholes option pricing model	Volatility	48%
			Liquidity discount	47%

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

From time to time, the Company may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally require the assets to be recorded at the lower of cost or fair value, or assessed for impairment.

Assets measured at fair value on a nonrecurring basis include certain non-PCI loans that are impaired, OREO and loans held-for-sale. These fair value adjustments result from impairment on certain non-PCI loans, application of fair value less costs to sell on OREO, or application of lower of cost or fair value on loans held-for-sale.

Non-PCI Impaired Loans — The Company typically adjusts the carrying amount of impaired loans when there is evidence of probable loss and when the expected fair value of the loan is less than its carrying amount. Impaired loans with specific reserves are classified as Level 3 assets. The following two methods are used to derive the fair value of impaired loans:

- Discounted cash flows valuation techniques generally consist of developing an expected stream of cash flows over the life of the loans and then valuing the loans at the present value by discounting the expected cash flows at a designated discount rate.
- A specific reserve is established for an impaired loan based on the fair value of the underlying collateral, which may take the form of real estate, inventory, equipment, contracts or guarantees. The fair value of the underlying collateral is generally based on third-party appraisals, or an internal evaluation if a third-party appraisal is not required by regulations, which utilize one or more valuation techniques such as income, market and/or cost approaches.

Other Real Estate Owned — The Company's OREO represents properties acquired through foreclosure, or through full or partial satisfaction of loans held-for-investment. These OREO properties are recorded at estimated fair value less the costs to sell at the time of foreclosure or at the lower of cost or estimated fair value less the costs to sell subsequent to acquisition. On a monthly basis, the current fair market value of each OREO property is reviewed to ensure that the current carrying value is appropriate. OREO properties are classified as Level 3.

The following tables present the carrying amounts of assets included on the Consolidated Balance Sheet that had fair value changes measured on a nonrecurring basis as of September 30, 2018 and December 31, 2017:

	Assets Measured at Fair Value on a Nonrecurring Basis as of September 30, 2018			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
Commercial lending:				
Commercial and industrial ("C&I")	$ 37,453	$ —	$ —	$ 37,453
Commercial real estate ("CRE")	4,726	—	—	4,726
Consumer lending:				
Single-family residential	2,567	—	—	2,567
Home equity lines of credit ("HELOCs")	735	—	—	735
Total non-PCI impaired loans	$ 45,481	$ —	$ —	$ 45,481

	Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2017			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
Commercial lending:				
C&I	$ 31,404	$ —	$ —	$ 31,404
CRE	2,667	—	—	2,667
Construction and land	3,973	—	—	3,973
Consumer lending:				
Single-family residential	144	—	—	144
Total non-PCI impaired loans	$ 38,188	$ —	$ —	$ 38,188
OREO	$ 9	$ —	$ —	$ 9

The following table presents the total change in value of assets for which a fair value adjustment has been included on the Consolidated Statement of Income for the three and nine months ended September 30, 2018 and 2017 and held as of those dates:

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Non-PCI impaired loans:				
Commercial lending:				
C&I	$(8,508)	$(16,954)	$(7,204)	$(17,648)
CRE	50	6	61	81
Multifamily residential	—	(6)	—	(112)
Construction and land	—	—	—	(147)
Consumer lending:				
Single-family residential	—	3	15	161
HELOCs	(188)	—	(262)	25
Total non-PCI impaired loans nonrecurring fair value losses	$(8,646)	$(16,951)	$(7,390)	$(17,640)
OREO nonrecurring fair value losses	$—	$(285)	$—	$(286)

The following table presents the quantitative information about the significant unobservable inputs used in the valuation of assets measured on a nonrecurring basis classified as Level 3 as of September 30, 2018 and December 31, 2017:

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique(s)	Unobservable Input(s)	Range(s) of Input(s)	Weighted-Average
September 30, 2018					
Non-PCI impaired loans	$ 19,814	Discounted cash flows	Discount	4% — 7%	6%
	$ 4,453	Fair value of property	Selling cost	8%	8%
	$ 2,132	Fair value of collateral	Discount	100%	100%
	$ 19,082	Fair value of collateral	Contract value	NM	NM
December 31, 2017					
Non-PCI impaired loans	$ 22,802	Discounted cash flows	Discount	4% — 10%	6%
	$ 9,773	Fair value of property	Selling cost	8%	8%
	$ 3,207	Fair value of collateral	Discount	20% — 32%	29%
	$ 2,406	Fair value of collateral	Contract value	NM	NM
OREO	$ 9	Fair value of property	Selling cost	8%	8%

NM — Not meaningful.

Disclosures about Fair Value of Financial Instruments

The following tables present the fair value estimates for financial instruments as of September 30, 2018 and December 31, 2017, excluding financial instruments recorded at fair value on a recurring basis as they are included in the tables presented elsewhere in Note 4 — Fair Value Measurement and Fair Value of Financial Instruments. The carrying amounts in the following tables are recorded on the Consolidated Balance Sheet under the indicated captions, except for accrued interest receivable and mortgage servicing rights that are included in Other assets, and accrued interest payable that is included in Accrued expenses and other liabilities. These financial assets and liabilities are measured at amortized cost basis on the Company's Consolidated Balance Sheet. During the first quarter of 2018, the Company adopted ASU 2016-01 and has updated its valuation methods as necessary to conform to an "exit price" concept as required by ASU 2016-01.

($ in thousands)	September 30, 2018				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$2,218,787	$2,218,787	$—	$—	$2,218,787
Interest-bearing deposits with banks	$400,900	$—	$400,900	$—	$400,900
Resale agreements (1)	$1,035,000	$—	$1,002,552	$—	$1,002,552
Restricted equity securities, at cost	$73,729	$—	$73,729	$—	$73,729
Loans held-for-sale	$3,114	$—	$3,114	$—	$3,114
Loans held-for-investment, net	$30,900,144	$—	$—	$31,003,048	$31,003,048
Mortgage servicing rights	$7,861	$—	$—	$12,077	$12,077
Accrued interest receivable	$136,932	$—	$136,932	$—	$136,932
Financial liabilities:					
Demand, checking, savings and money market deposits	$24,928,338	$—	$24,928,338	$—	$24,928,338
Time deposits	$8,700,786	$—	$8,730,602	$—	$8,730,602
Short-term borrowings	$56,411	$—	$56,411	$—	$56,411
FHLB advances	$325,596	$—	$335,800	$—	$335,800
Repurchase agreements (1)	$50,000	$—	$89,106	$—	$89,106
Long-term debt	$156,770	$—	$162,566	$—	$162,566
Accrued interest payable	$21,579	$—	$21,579	$—	$21,579

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45-11, Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements. As of September 30, 2018, $400.0 million out of $450.0 million of repurchase agreements were eligible for netting against resale agreements.

($ in thousands)	December 31, 2017 Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$2,174,592	$2,174,592	$—	$—	$2,174,592
Interest-bearing deposits with banks	$398,422	$—	$398,422	$—	$398,422
Resale agreements [(1)]	$1,050,000	$—	$1,035,158	$—	$1,035,158
Restricted equity securities, at cost	$73,521	$—	$73,521	$—	$73,521
Loans held-for-sale	$85	$—	$85	$—	$85
Loans held-for-investment, net	$28,688,590	$—	$—	$28,956,349	$28,956,349
Branch assets held-for-sale	$91,318	$5,143	$10,970	$78,132	$94,245
Mortgage servicing rights	$7,771	$—	$—	$11,324	$11,324
Accrued interest receivable	$121,719	$—	$121,719	$—	$121,719
Financial liabilities:					
Demand, checking, savings and money market deposits	$25,974,314	$—	$25,974,314	$—	$25,974,314
Time deposits	$5,640,749	$—	$5,626,855	$—	$5,626,855
Branch liability held-for-sale	$605,111	$—	$—	$643,937	$643,937
FHLB advances	$323,891	$—	$335,901	$—	$335,901
Repurchase agreements [(1)]	$50,000	$—	$104,830	$—	$104,830
Long-term debt	$171,577	$—	$171,673	$—	$171,673
Accrued interest payable	$10,724	$—	$10,724	$—	$10,724

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45-11, Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements. As of December 31, 2017, $400.0 million out of $450.0 million of repurchase agreements were eligible for netting against resale agreements.

Note 5 — Securities Purchased under Resale Agreements and Sold under Repurchase Agreements

Resale Agreements

Resale agreements are recorded based on the values at which the securities are acquired. The market values of the underlying securities collateralizing the related receivables of the resale agreements, including accrued interest, are monitored. Additional collateral may be requested by the Company from the counterparty when deemed appropriate. Gross resale agreements were $1.44 billion and $1.45 billion as of September 30, 2018 and December 31, 2017, respectively. The weighted-average yields were 2.63% and 2.29% for the three months ended September 30, 2018 and 2017, respectively, and 2.59% and 2.13% for the nine months ended September 30, 2018 and 2017, respectively.

Repurchase Agreements

Long-term repurchase agreements are accounted for as collateralized financing transactions and recorded at the values at which the securities are sold. As of September 30, 2018, the collateral for the repurchase agreements was comprised of U.S. Treasury securities and U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities. The Company may have to provide additional collateral for the repurchase agreements, as necessary. Gross repurchase agreements were $450.0 million as of both September 30, 2018 and December 31, 2017. The weighted-average interest rates were 4.65% and 3.56% for the three months ended September 30, 2018 and 2017, respectively, and 4.36% and 3.42% for the nine months ended September 30, 2018 and 2017, respectively.

22

Balance Sheet Offsetting

The Company's resale and repurchase agreements are transacted under legally enforceable master repurchase agreements that provide the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Company nets resale and repurchase transactions with the same counterparty on the Consolidated Balance Sheet when it has a legally enforceable master netting agreement and the transactions are eligible for netting under ASC 210-20-45-11. Collateral received includes securities that are not recognized on the Consolidated Balance Sheet. Collateral pledged consists of securities that are not netted on the Consolidated Balance Sheet against the related collateralized liability. Collateral received or pledged in resale and repurchase agreements with other financial institutions may also be sold or re-pledged by the secured party, but is usually delivered to and held by the third-party trustees. The collateral amounts received/pledged are limited for presentation purposes to the related recognized asset/liability balance for each counterparty, and accordingly, do not include excess collateral received/pledged.

The following tables present the resale and repurchase agreements included on the Consolidated Balance Sheet as of September 30, 2018 and December 31, 2017:

($ in thousands)	September 30, 2018					
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Received	Net Amount
Resale agreements	$1,435,000	$(400,000)	$1,035,000	$ —	$(1,016,727) (1)	$18,273
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Pledged	Net Amount
Repurchase agreements	$450,000	$(400,000)	$50,000	$ —	$(50,000) (2)	$—

($ in thousands)	December 31, 2017					
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Received	Net Amount
Resale agreements	$1,450,000	$(400,000)	$1,050,000	$ —	$(1,045,696) (1)	$4,304

Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset on the Consolidated Balance Sheet: Collateral Pledged	Net Amount
Repurchase agreements	$450,000	$(400,000)	$50,000	$—	$(50,000) [2]	$—

(1) Represents the fair value of securities the Company has received under resale agreements, limited for table presentation purposes to the amount of the recognized asset due from each counterparty.
(2) Represents the fair value of securities the Company has pledged under repurchase agreements, limited for table presentation purposes to the amount of the recognized liability owed to each counterparty.

In addition to the amounts included in the tables above, the Company also has balance sheet netting related to derivatives, refer to Note 7 — Derivatives to the Consolidated Financial Statements for additional information.

Note 6 — Securities

The following tables present the amortized cost, gross unrealized gains and losses, and fair value by major categories of available-for-sale investment securities carried at fair value, as of September 30, 2018 and December 31, 2017:

	September 30, 2018			
($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$625,449	$ 18	$(21,541)	$603,926
U.S. government agency and U.S. government sponsored enterprise debt securities	235,165	—	(6,509)	228,656
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	382,048	—	(16,978)	365,070
Residential mortgage-backed securities	931,107	1,530	(29,188)	903,449
Municipal securities	74,261	61	(1,498)	72,824
Non-agency mortgage-backed securities:				
Commercial mortgage-backed securities:				
Investment grade [(1)]	16,030	—	(104)	15,926
Residential mortgage-backed securities:				
Investment grade [(1)]	10,606	—	(244)	10,362
Corporate debt securities:				
Investment grade [(1)]	11,250	—	(308)	10,942
Foreign bonds:				
Investment grade [(1)] [(2)]	489,367	—	(36,524)	452,843
Asset-backed securities:				
Investment grade [(1)]	12,610	—	(98)	12,512
Total available-for-sale investment securities	$2,787,893	$ 1,609	$(112,992)	$2,676,510

	December 31, 2017			
($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$651,395	$ —	$(11,115)	$640,280
U.S. government agency and U.S. government sponsored enterprise debt securities	206,815	62	(3,485)	203,392
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	328,348	141	(9,532)	318,957
Residential mortgage-backed securities	1,199,869	3,964	(13,562)	1,190,271
Municipal securities	99,636	655	(309)	99,982
Non-agency mortgage-backed securities:				
Residential mortgage-backed securities:				
Investment grade [(1)]	9,136	3	(22)	9,117

Corporate debt securities:				
Investment grade [(1)]	37,585	164	(746)	37,003
Foreign bonds:				
Investment grade [(1) (2)]	505,396	24	(19,012)	486,408
Other securities [(3)]	31,887	—	(545)	31,342
Total available-for-sale investment securities	$3,070,067	$ 5,013	$(58,328)	$3,016,752

(1) Available-for-sale investment securities rated BBB- or higher by Standard and Poor's ("S&P") or Baa3 or higher by Moody's are considered investment grade. Conversely, available-for-sale investment securities rated lower than BBB- by S&P or Baa3 by Moody's are considered non-investment grade. Classifications are based on the lower of the credit ratings by S&P or Moody's.

(2) Fair value of foreign bonds include $438.4 million and $456.1 million of multilateral development bank bonds as of September 30, 2018 and December 31, 2017, respectively.

(3) Other securities are comprised of mutual funds, which are equity securities with readily determinable fair value. Prior to the adoption of ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, these securities were reported as available-for-sale investment securities with changes in fair value recorded in other comprehensive income. Upon adoption of ASU 2016-01, which became effective January 1, 2018, these securities were reclassified from Available-for-sale investment securities to Investments in tax credit and other investments, net, with changes in fair value recorded in net income.

Unrealized Losses

The following tables present the fair value and the associated gross unrealized losses of the Company's investment security portfolio, aggregated by investment category and the length of time that individual security has been in a continuous unrealized loss position, as of September 30, 2018 and December 31, 2017:

($ in thousands)	September 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale investment securities:						
U.S. Treasury securities	$143,663	$(3,890)	$412,691	$(17,651)	$556,354	$(21,541)
U.S. government agency and U.S. government sponsored enterprise debt securities	108,267	(2,531)	120,389	(3,978)	228,656	(6,509)
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	105,717	(1,690)	259,353	(15,288)	365,070	(16,978)
Residential mortgage-backed securities	347,135	(7,135)	460,718	(22,053)	807,853	(29,188)
Municipal securities	23,881	(729)	16,389	(769)	40,270	(1,498)
Non-agency mortgage-backed securities:						
Commercial mortgage-backed securities:						
Investment grade	15,926	(104)	—	—	15,926	(104)
Residential mortgage-backed securities:						
Investment grade	6,366	(12)	3,996	(232)	10,362	(244)
Corporate debt securities:						
Investment grade	10,942	(308)	—	—	10,942	(308)
Foreign bonds:						
Investment grade	65,783	(3,666)	387,060	(32,858)	452,843	(36,524)
Asset-backed securities:						
Investment grade	12,512	(98)	—	—	12,512	(98)
Total available-for-sale investment securities	$840,192	$(20,163)	$1,660,596	$(92,829)	$2,500,788	$(112,992)

($ in thousands)	December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale investment securities:						
U.S. Treasury securities	$168,061	$(1,005)	$472,219	$(10,110)	$640,280	$(11,115)
U.S. government agency and U.S. government sponsored enterprise debt securities	99,935	(623)	85,281	(2,862)	185,216	(3,485)
U.S. government agency and U.S. government sponsored enterprise						

mortgage-backed securities:						
Commercial mortgage-backed securities	113,775	(2,071)	191,827	(7,461)	305,602	(9,532)
Residential mortgage-backed securities	413,621	(4,205)	361,809	(9,357)	775,430	(13,562)
Municipal securities	8,490	(123)	8,588	(186)	17,078	(309)
Non-agency mortgage-backed securities:						
Residential mortgage-backed securities:						
Investment grade	4,599	(22)	—	—	4,599	(22)
Corporate debt securities:						
Investment grade	—	—	11,905	(746)	11,905	(746)
Foreign bonds:						
Investment grade	103,149	(1,325)	352,239	(17,687)	455,388	(19,012)
Other securities [(1)]	31,215	(545)	—	—	31,215	(545)
Total available-for-sale investment securities	$942,845	$(9,919)	$1,483,868	$(48,409)	$2,426,713	$(58,328)

(1) Other securities are comprised of mutual funds, which are equity securities with readily determinable fair value. Prior to the adoption of ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, these securities were reported as available-for-sale investment securities with changes in fair value recorded in other comprehensive income. Upon adoption of ASU 2016-01, which became effective January 1, 2018, these securities were reclassified from Available-for-sale investment securities, at fair value to Investments in tax credit and other investments, net, with changes in fair value recorded in net income.

Other-Than-Temporary Impairment

For each reporting period, the Company examines all individual securities that are in an unrealized loss position for Other-Than-Temporary-Impairment ("OTTI"). For a discussion of the factors and criteria the Company uses in analyzing securities for OTTI, see Note 1 — Summary of Significant Accounting Policies — Securities to the Consolidated Financial Statements of the Company's 2017 Form 10-K.

The unrealized losses were primarily attributable to the movement in the yield curve, in addition to widened liquidity and credit spreads. The issuers of these securities have not, to the Company's knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company believes that the gross unrealized losses presented in the previous tables are temporary and no credit losses are expected. As a result, the Company expects to recover the entire amortized cost basis of these securities. Accordingly, no impairment losses were recorded on the Company's Consolidated Statement of Income for each of the three and nine months ended September 30, 2018 and 2017. As of September 30, 2018, the Company had 215 available-for-sale investment securities in a gross unrealized loss position with no credit impairment, primarily consisting of 127 U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, 16 investment grade foreign bonds and 21 U.S. Treasury securities. In comparison, as of December 31, 2017, the Company had 165 available-for-sale investment securities in a gross unrealized loss position with no credit impairment, primarily consisting of 98 U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, 25 U.S. Treasury securities and 16 investment grade foreign bonds. No OTTI credit losses were recognized for each of the three and nine months ended September 30, 2018 and 2017.

Realized Gains and Losses

The following table presents the proceeds, gross realized gains and tax expense related to the sales of available-for-sale investment securities for the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Proceeds from sales	$39,377	$124,887	$296,252	$676,776
Gross realized gains	$35	$1,539	$2,374	$6,733
Related tax expense	$11	$647	$701	$2,831

Scheduled Maturities of Investment Securities

The following table presents the scheduled maturities of available-for-sale investment securities as of September 30, 2018:

($ in thousands)	Amortized Cost	Fair Value
Due within one year	$555,390	$519,115
Due after one year through five years	684,781	659,431
Due after five years through ten years	248,519	242,054
Due after ten years	1,299,203	1,255,910
Total available-for-sale investment securities	$2,787,893	$2,676,510

Actual maturities of mortgage-backed securities can differ from contractual maturities as the borrowers have the right to prepay obligations. In addition, factors such as prepayments and interest rates may affect the yields on the carrying values of mortgage-backed securities.

As of September 30, 2018 and December 31, 2017, available-for-sale investment securities with fair value of $429.8 million and $534.3 million, respectively, were primarily pledged to secure public deposits, repurchase agreements and for other purposes required or permitted by law.

Restricted Equity Securities

Restricted equity securities include the FRB and the FHLB stock. Restricted equity securities are carried at cost as these securities do not have a readily determinable fair value. The following table presents the restricted equity securities as of September 30, 2018 and December 31, 2017:

($ in thousands)	September 30, 2018	December 31, 2017
FRB stock	$ 56,479	$ 56,271
FHLB stock	17,250	17,250
Total restricted equity securities	$ 73,729	$ 73,521

Note 7 — Derivatives

The Company uses derivatives to manage exposure to market risk, primarily interest rate risk and foreign currency risk, and to assist customers with their risk management objectives. The Company's goal is to manage interest rate sensitivity and volatility so that movements in interest rates are not significant to earnings or capital. The Company also uses foreign exchange contracts to manage the foreign exchange rate risk associated with certain foreign currency-denominated assets and liabilities, as well as the Company's investment in its China subsidiary, East West Bank (China) Limited. The Company recognizes all derivatives on the Consolidated Balance Sheet at fair value. While the Company designates certain derivatives as hedging instruments in a qualifying hedge accounting relationship, other derivatives consist of economic hedges. For additional information on the Company's derivatives and hedging activities, see Note 1 — Summary of Significant Accounting Policies — Derivatives to the Consolidated Financial Statements of the Company's 2017 Form 10-K.

The following table presents the total notional amounts and gross fair values of the Company's derivatives as of September 30, 2018 and December 31, 2017. The derivative asset and liability fair values are presented on a gross basis, prior to the application of master netting arrangements, and are included in Other assets and Accrued expenses and other liabilities, respectively, on the Consolidated Balance Sheet.

($ in thousands)	September 30, 2018			December 31, 2017		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Derivative Assets	Derivative Liabilities		Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Fair value hedges:						
Interest rate contracts	$31,026	$—	$ 7,696	$35,811	$—	$ 6,799
Net investment hedges:						
Foreign exchange contracts	89,621	61	—	—	—	—
Total derivatives designated as hedging instruments	$120,647	$61	$ 7,696	$35,811	$—	$ 6,799
Derivatives not designated as hedging instruments:						
Interest rate contracts	$11,729,334	$72,618	$ 106,962	$9,333,860	$58,633	$ 57,958
Foreign exchange contracts	1,405,339	11,034	11,075	770,215	5,840	10,170
Credit contracts	120,058	1	57	49,033	1	8

Equity contracts	—	(1) 2,409	—	—	(1) 1,672	—
Commodity contracts	—	(2) 12,980	7,912	—	—	—
Total derivatives not designated as hedging instruments	$13,254,731	$99,042	$126,006	$10,153,108	$66,146	$68,136

(1) The Company held equity contracts in four public companies and 17 private companies as of September 30, 2018. In comparison, the Company held equity contracts in four public companies and 11 private companies as of December 31, 2017.

(2) The notional amount of the Company's commodity contracts entered with its customers totaled 2,667 thousand barrels of oil and 9,860 thousand units of natural gas, measured in million British thermal units ("MMBTUs") as of September 30, 2018. The Company entered into the same notional amounts of commodity contracts with mirrored terms with third-party financial institutions to mitigate its exposure.

Derivatives Designated as Hedging Instruments

Fair Value Hedges — The Company is exposed to changes in the fair value of certain certificates of deposit due to changes in the benchmark interest rates. The Company entered into interest rate swaps, which were designated as fair value hedges. The interest rate swaps involve the exchange of variable rate payments over the life of the agreements without the exchange of the underlying notional amounts.

The following table presents the net (losses) gains recognized on the Consolidated Statement of Income related to the derivatives designated as fair value hedges for the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Losses) gains recorded in interest expense:				
Recognized on interest rate swaps	$(241)	$37	$(2,089)	$(1,486)
Recognized on certificates of deposit	$520	$(116)	$2,239	$1,236

The following table presents the carrying amount and associated cumulative basis adjustment related to the application of fair value hedge accounting that is included in the carrying amount of the hedged certificates of deposit as of September 30, 2018:

($ in thousands)	September 30, 2018 Hedged Items Currently Designated	
	Carrying Amount of the Hedged Assets (Liabilities) (1)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)
Certificates of deposit	$(24,953)	$ 6,065

(1) Represents the full carrying amount of the hedged certificates of deposit as of September 30, 2018.

Net Investment Hedges — ASC 830-20, Foreign Currency Matters — Foreign Currency Transactions, and ASC 815, Derivatives and Hedging, allows hedging of the foreign currency risk of a net investment in a foreign operation. The Company enters into foreign currency swap contracts to hedge its investment in East West Bank (China) Limited, a non-USD functional currency subsidiary of the Company in China. The hedging instruments designated as net investment hedges, involve hedging the risk of changes in the USD equivalent value of a designated monetary amount of the Company’s net investment in East West Bank (China) Limited, against the risk of adverse changes in the foreign currency exchange rate. The Company may de-designate the net investment hedges when the Company expects the hedge will cease to be highly effective. The portion of the net investment hedges recorded through the point of de-designation is included in the Foreign Currency Translation Adjustments within AOCI and will be reclassified into earnings only upon the sale or liquidation of the China subsidiary. During the first quarter of 2018, the Company entered into new foreign currency swap contracts designated as net investment hedges to hedge against the foreign currency exchange rate risk in connection with its investment in East West Bank (China) Limited. As of December 31, 2017, the Company economically hedged its foreign currency exposure in its China subsidiary through foreign exchange forward contracts, which were included as part of the Derivatives Not Designated as Hedging Instruments — Foreign Exchange Contracts caption as of December 31, 2017, as discussed below.

The following table presents the gains (losses) recorded on net investment hedges on a pre-tax basis for the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gains (losses) recognized in AOCI	$2,960	$ —	$6,745	$(648)
Gains (losses) recognized in Letters of credit fees and foreign exchange income [1]	$—	$ —	$—	$(1,953)

(1) Represents the gains (losses) recorded in the Consolidated Statement of Income related to the ineffective portion of net investment hedges prior to the adoption of ASU 2017-12, effective as of January 1, 2018. After the adoption, the fair value gains (losses) are recorded in the Foreign Currency Translation Adjustments within AOCI.

Derivatives Not Designated as Hedging Instruments

Interest Rate Contracts — The Company enters into interest rate contracts, which include interest rate swaps and options with its customers to allow them to hedge against the risk of rising interest rates on their variable rate loans. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored offsetting interest rate contracts with third-party financial institutions. Beginning in January 2018, the London Clearing House ("LCH") amended its rulebook to legally characterize variation margin payments made to and received from LCH as settlements of derivatives and not as collateral against derivatives. Applying variation margin payments as settlement to LCH cleared derivative transactions resulted in a reduction in derivative asset and liability fair values of $38.7 million and $1.8 million, respectively, as of September 30, 2018. Included in the total notional amount of $5.87 billion of interest rates contracts entered with financial counterparties was a notional amount of $1.67 billion of interest rate swaps that cleared through LCH as of September 30, 2018. The following tables present the notional amounts and the gross fair values of interest rate derivative contracts outstanding as of September 30, 2018 and December 31, 2017, respectively:

($ in thousands)	September 30, 2018 Customer Counterparties			($ in thousands)	Financial Counterparties		
	Notional Amount	Fair Value Assets	Liabilities		Notional Amount	Fair Value Assets	Liabilities
Written options	$907,651	$—	$782	Purchased options	$907,651	$795	$ —
Sold collars and corridors	379,257	169	1,343	Collars and corridors	379,257	1,354	172
Swaps	4,574,216	8,520	97,897	Swaps	4,581,302	61,780	6,768
Total	$5,861,124	$8,689	$100,022	Total	$5,868,210	$63,929	$ 6,940

($ in thousands)	December 31, 2017 Customer Counterparties			($ in thousands)	Financial Counterparties		
	Notional Amount	Fair Value Assets	Liabilities		Notional Amount	Fair Value Assets	Liabilities
Written options	$691,548	$—	$ 223	Purchased options	$691,548	$233	$ —
Sold collars and corridors	247,542	204	267	Collars and corridors	247,542	271	211
Swaps	3,724,295	32,241	24,879	Swaps	3,731,385	25,684	32,378
Total	$4,663,385	$32,445	$ 25,369	Total	$4,670,475	$26,188	$ 32,589

Foreign Exchange Contracts — The Company enters into foreign exchange contracts with its customers, consisting of forwards, spot, swap and option contracts to accommodate the business needs of its customers. For a majority of the foreign exchange contracts entered into with its customers, the Company entered into offsetting foreign exchange contracts with third-party financial institutions to manage its exposure. The Company also utilizes foreign exchange contracts that are not designated as hedging instruments to mitigate the economic effect of fluctuations on certain foreign currency denominated on-balance sheet assets and liabilities, primarily foreign currency denominated deposits that it offers to its customers. As of December 31, 2017, the Company economically hedged its foreign currency exposure in its China subsidiary through foreign exchange forward contracts comprising $95.2 million and $7.2 million in notional value and fair value liability, respectively. A majority of the foreign exchange contracts have original maturities of one year or less. The following tables present the notional amounts and the gross fair values of foreign exchange derivative contracts outstanding as of September 30, 2018 and December 31, 2017, respectively:

($ in thousands)	September 30, 2018					
	Customer Counterparty			Financial Counterparty		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Forwards and spot	$648,305	$6,780	$ 4,815	$115,547	$127	$ 213
Swaps	15,683	—	90	624,644	4,125	5,955
Collars	580	2	—	580	—	2
Total	$664,568	$6,782	$ 4,905	$740,771	$4,252	$ 6,170

($ in thousands)	December 31, 2017					
	Customer Counterparty			Financial Counterparty		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Forwards and spot	$163,389	$2,189	$ 752	$155,872	$662	$ 7,800
Swaps	4,318	—	98	446,636	2,989	1,520
Total	$167,707	$2,189	$ 850	$602,508	$3,651	$ 9,320

Credit Contracts — The Company may periodically enter into RPA contracts to manage the credit exposure on interest rate contracts associated with syndicated loans. The Company may enter into protection sold or protection purchased RPAs with institutional counterparties. Under the RPA, the Company will receive or make a payment if a borrower defaults on the related interest rate contract. The Company manages its credit risk on RPAs by monitoring the creditworthiness of the borrowers and institutional counterparties, which is based on the normal credit review process. The referenced entities of the RPAs were investment grade as of both September 30, 2018 and December 31, 2017. The notional amount of the RPAs reflects the Company's pro-rata share of the derivative instrument. The following table presents the notional amounts and the gross fair values of RPAs sold and purchased outstanding as of September 30, 2018 and December 31, 2017, respectively:

($ in thousands)	September 30, 2018			December 31, 2017		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
RPAs - protection sold	$109,344	$—	$ 57	$35,208	$—	$ 8
RPAs - protection purchased	10,714	1	—	13,825	1	—
Total RPAs	$120,058	$1	$ 57	$49,033	$1	$ 8

30

Assuming all underlying borrowers referenced in the interest rate contracts defaulted as of September 30, 2018 and December 31, 2017, the exposure from the RPAs with protections sold would be $1.3 million and $419 thousand, respectively. As of September 30, 2018 and December 31, 2017, the weighted-average remaining maturities of the outstanding RPAs were 6.9 years and 6.0 years, respectively.

Equity Contracts — The Company has obtained equity warrants to purchase preferred and common stock of technology and life sciences companies, as part of the loan origination process with these companies. The Company's equity warrants grant the Company the right to buy a certain class of the underlying company's equity at a certain price before expiration. The Company held warrants in four public companies and 17 private companies as of September 30, 2018, and held warrants in four public companies and 11 private companies as of December 31, 2017. The fair value of the warrants held in public and private companies was a $2.4 million asset and a $1.7 million asset as of September 30, 2018 and December 31, 2017, respectively.

Commodity Contracts — In 2018, the Company entered into energy commodity contracts in the form of swaps and options with its commercial loan customers to allow them to hedge against the risk of fluctuation in energy commodity prices. To economically hedge against the risk of fluctuation in commodity prices in the products offered to its customers, the Company entered into offsetting commodity contracts with third-party financial institutions. Beginning in January 2017, the Chicago Mercantile Exchange ("CME") amended its rulebook to legally characterize variation margin payments made to and received from CME as settlements of derivatives and not as collateral against derivatives. Applying variation margin payments as settlement to CME cleared derivative transactions resulted in a reduction in gross derivative asset and liability fair values of $127 thousand and $5.5 million, respectively, and a remaining net liability fair value of $855 thousand as of September 30, 2018. The notional quantities that cleared through CME totaled 965 thousand barrels of oil and 6,825 thousand MMBTUs of natural gas. The following table presents the notional amounts and fair values of the commodity derivative positions outstanding as of September 30, 2018. The Company did not have any commodity contracts in 2017.

	September 30, 2018								
($ and units in thousands)	Customer Counterparties				($ and units in thousands)	Financial Counterparties			
	Notional		Fair Value			Notional		Fair Value	
	Unit	Amount	Assets	Liabilities		Unit	Amount	Assets	Liabilities
Crude oil:					Crude oil:				
Written options	Barrels	725	$842	$ 128	Purchased options	Barrels	725	$—	$ 767
Collars	Barrels	802	3,363	—	Collars	Barrels	802	—	3,067
Swaps	Barrels	1,140	8,128	—	Swaps	Barrels	1,140	—	3,716
Total		2,667	$12,333	$ 128	Total		2,667	$—	$ 7,550
Natural gas:					Natural gas:				
Collars	MMBTUs	1,360	$65	$ —	Collars	MMBTUs	1,360	$—	$ 10
Swaps	MMBTUs	8,500	517	4	Swaps	MMBTUs	8,500	65	220
Total		9,860	$582	$ 4	Total		9,860	$65	$ 230
Total			$12,915	$ 132	Total			$65	$ 7,780

31

The following table presents the net gains (losses) recognized on the Company's Consolidated Statement of Income related to derivatives not designated as hedging instruments for the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Location in Consolidated Statement of Income	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Derivatives not designated as hedging instruments:					
Interest rate contracts	Derivative fees and other income	$653	$(94)	$1,847	$(1,838)
Foreign exchange contracts	Letters of credit fees and foreign exchange income	4,612	3,720	11,115	17,936
Credit contracts	Derivative fees and other income	20	—	(49)	1
Equity contracts	Ancillary loan fees and other income	531	669	970	1,455
Commodity contracts	Derivative fees and other income	(45)	—	(5)	—
Net gains		$5,771	$4,295	$13,878	$17,554

Credit-Risk-Related Contingent Features — Certain over-the-counter derivative contracts of the Company contain early termination provisions that may require the Company to settle any outstanding balances upon the occurrence of a specified credit-risk-related event. These events, which are defined by the existing derivative contracts, primarily relate to a downgrade in the credit rating of East West Bank to below investment grade. As of September 30, 2018 and December 31, 2017, the aggregate fair values of all derivative instruments with such credit-risk-related contingent features that were in a net liability position were $8.1 million and $14.4 million, respectively, with collateral posted of $7.6 million and $14.6 million, respectively. In the event that the credit rating of East West Bank had been downgraded to below investment grade, the additional collateral that would have been required to be posted as of September 30, 2018 and December 31, 2017 would have been minimal.

Offsetting of Derivatives

The Company enters into International Swaps and Derivatives Association, Inc. (“ISDA”) master netting arrangements or similar agreements with a portion of the Company’s derivative counterparties. Where legally enforceable, these master netting agreements give the Company, in the event of default by the counterparty, the right to liquidate securities and offset cash with the same counterparty. Under ASC 815-10-45, payables and receivables with respect to cash collateral received from or paid to a given counterparty can be offset against derivative fair values under a master netting arrangement or similar agreement. GAAP does not permit similar offsetting for security collateral. The Company presents derivative fair values on a gross basis on its Consolidated Balance Sheets, prior to the application of counterparty and cash collateral netting. The following tables present gross derivatives on the Consolidated Balance Sheet and the respective collateral received or pledged in the form of other financial instruments, which are generally marketable securities and/or cash. The collateral amounts in these tables are limited to the outstanding balances of the related asset or liability (after netting is applied); thus instances of overcollateralization are not shown. In addition, the following tables reflect rule changes adopted by clearing organizations that require or allow entities to elect to treat derivative assets, liabilities and the related variation margin as settlement of the related derivative fair values for legal and accounting purposes, as opposed to presenting gross derivative assets and liabilities that are subject to collateral, whereby the counterparties would record a related collateral payable or receivable.

($ in thousands)	As of September 30, 2018							
	Total	Contracts Not Subject to Master Netting Arrangements	Contracts Subject to Master Netting Arrangements					
	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		
						Derivative Amount	Collateral Received	Net Amount
Derivative Assets	$99,103	$ 2,751	$96,352	$ —	$ 96,352	$(19,470)(1)	$(52,262)(2)	$24,620
	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		
						Derivative Amount	Collateral Pledged	Net Amount
Derivative Liabilities	$133,702	$ 88	$133,614	$ —	$ 133,614	$(19,470)(1)	$(10,931)(3)	$103,213

($ in thousands)	As of December 31, 2017		
	Total	Contracts Not Subject to Master Netting	Contracts Subject to Master Netting Arrangements

	Gross Amounts Recognized	Arrangements Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet Derivative Amounts	Collateral Received	Net Amount
Derivative Assets	$66,146	$ 2,322	$63,824	$ —	$ 63,824	$(20,242)(1)	$(9,839)(2)	$33,743

	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet Derivative Amounts	Collateral Pledged	Net Amount
Derivative Liabilities	$74,935	$ 523	$74,412	$ —	$ 74,412	$(20,242)(1)	$(28,796)(3)	$25,374

(1) Represents the netting of derivative receivable and payable balances for the same counterparty under enforceable master netting arrangements if the Company has elected to net.

(2) Represents cash and securities received against derivative assets with the same counterparty that are subject to enforceable master netting arrangements, including $10.9 million and $8.6 million of cash collateral received as of September 30, 2018 and December 31, 2017, respectively.

(3) Represents cash and securities pledged against derivative liabilities with the same counterparty that are subject to enforceable master netting arrangements, including $3.4 million and $10.7 million of cash collateral pledged as of September 30, 2018 and December 31, 2017, respectively.

In addition to the amounts included in the tables above, the Company also has balance sheet netting related to resale and repurchase agreements. Refer to Note 5 — Securities Purchased under Resale Agreements and Sold under Repurchase Agreements to the Consolidated Financial Statements for additional information. Refer to Note 4 — Fair Value Measurement and Fair Value of Financial Instruments to the Consolidated Financial Statements for fair value measurement disclosures on derivatives.

Note 8 — Loans Receivable and Allowance for Credit Losses

The Company's held-for-investment loan portfolio includes originated and purchased loans. Originated and purchased loans with no evidence of credit deterioration at their acquisition date are referred to collectively as non-PCI loans. PCI loans are loans acquired with evidence of credit deterioration since their origination and for which it is probable at the acquisition date that the Company would be unable to collect all contractually required payments. PCI loans are accounted for under ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The Company has elected to account for PCI loans on a pool level basis under ASC 310-30 at the time of acquisition.

The following table presents the composition of the Company's non-PCI and PCI loans as of September 30, 2018 and December 31, 2017:

($ in thousands)	September 30, 2018			December 31, 2017		
	Non-PCI Loans (1)	PCI Loans (2)	Total (1)(2)	Non-PCI Loans (1)	PCI Loans (2)	Total (1)(2)
Commercial lending:						
C&I	$11,514,640	$2,414	$11,517,054	$10,685,436	$11,795	$10,697,231
CRE	9,069,879	192,448	9,262,327	8,659,209	277,688	8,936,897
Multifamily residential	2,051,477	39,086	2,090,563	1,855,128	61,048	1,916,176
Construction and land	604,991	42	605,033	659,326	371	659,697
Total commercial lending	23,240,987	233,990	23,474,977	21,859,099	350,902	22,210,001
Consumer lending:						
Single-family residential	5,583,195	101,392	5,684,587	4,528,911	117,378	4,646,289
HELOCs	1,707,798	9,642	1,717,440	1,768,917	14,007	1,782,924
Other consumer	333,181	—	333,181	336,504	—	336,504
Total consumer lending	7,624,174	111,034	7,735,208	6,634,332	131,385	6,765,717
Total loans held-for-investment	$30,865,161	$345,024	$31,210,185	$28,493,431	$482,287	$28,975,718
Allowance for loan losses	(310,010)	(31)	(310,041)	(287,070)	(58)	(287,128)
Loans held-for-investment, net	$30,555,151	$344,993	$30,900,144	$28,206,361	$482,229	$28,688,590

(1) Includes net deferred loan fees, unearned fees, unamortized premiums and unaccreted discounts of $(42.4) million and $(34.0) million as of September 30, 2018 and December 31, 2017, respectively.

(2) Includes ASC 310-30 discount of $24.5 million and $35.3 million as of September 30, 2018 and December 31, 2017, respectively.

The commercial lending portfolio includes C&I, CRE, multifamily residential, and construction and land loans. The consumer lending portfolio includes single-family residential, HELOCs and other consumer loans.

The C&I loan portfolio, which is comprised of commercial business and trade finance loans, provides financing to businesses in a wide spectrum of industries. The CRE loan portfolio includes income producing real estate loans that are either owner occupied, or non-owner occupied where 50% or more of the debt service for the loan is provided by rental income. The multifamily residential loan portfolio is largely comprised of loans secured by smaller multifamily properties ranging from 5 to 15 units in the Bank's primary lending areas. Construction loans mainly provide construction financing for hotels, multifamily and residential condominiums, as well as mixed use (residential and retail) structures.

In the consumer lending portfolio, the Company offers residential loans through a variety of first lien mortgage loan programs. The consumer residential loan portfolio is largely comprised of single-family residential loans and HELOCs that were originated through a reduced documentation loan program, where a substantial down payment is required, resulting in a low loan-to-value ratio at origination, typically 60% or less. The Company is in a first lien position for many of these reduced documentation single-family residential loans and HELOCs. These loans have historically experienced low delinquency and default rates. Other consumer loans are mainly comprised of insurance premium financing loans.

As of September 30, 2018 and December 31, 2017, loans totaling $20.39 billion and $18.88 billion, respectively, were pledged to secure borrowings and to provide additional borrowing capacity from the FRB and the FHLB.

Credit Quality Indicators

All loans are subject to the Company’s internal and external credit review and monitoring. For the commercial lending portfolio, loans are risk rated based on an analysis of the current state of the borrower’s credit quality. The analysis of credit quality includes a review of all repayment sources, the borrower’s current payment performance/delinquency, current financial and liquidity status and all other relevant information. For the majority of the consumer lending portfolio, payment performance/delinquency is the driving indicator for the risk ratings. Risk ratings are the overall credit quality indicator for the Company and the credit quality indicator utilized for estimating the appropriate allowance for loan losses. The Company utilizes a risk rating system, which classifies loans within the following categories: Pass, Watch, Special Mention, Substandard, Doubtful and Loss. The risk ratings reflect the relative strength of the repayment sources.

Pass and Watch loans are loans that have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. Special Mention loans are loans that have potential weaknesses that warrant closer attention by management. Special Mention is a transitory grade. If potential weaknesses are resolved, the loan is upgraded to a Pass or Watch grade. If negative trends in the borrower’s financial status or other information indicate that the repayment sources may become inadequate, the loan is downgraded to a Substandard grade. Substandard loans are loans that have well-defined weaknesses that may jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss, if the deficiencies are not corrected. When management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan remains classified as Substandard grade. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are loans that are uncollectible and of such little value that they are no longer considered bankable assets. These internal risk ratings are reviewed routinely and adjusted based on changes in the borrowers’ financial status and the loans’ collectability.

The following tables present the credit risk ratings for non-PCI loans by portfolio segment as of September 30, 2018 and December 31, 2017:

	September 30, 2018				
($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Total Non-PCI Loans
Commercial lending:					
C&I	$11,188,760	$218,861	$ 99,650	$ 7,369	$11,514,640
CRE	8,909,103	69,821	90,955	—	9,069,879
Multifamily residential	2,000,504	39,711	11,262	—	2,051,477
Construction and land	549,475	19,757	35,759	—	604,991
Total commercial lending	22,647,842	348,150	237,626	7,369	23,240,987
Consumer lending:					
Single-family residential	5,575,271	3,145	4,779	—	5,583,195
HELOCs	1,695,085	4,502	8,211	—	1,707,798
Other consumer	330,687	3	2,491	—	333,181
Total consumer lending	7,601,043	7,650	15,481	—	7,624,174
Total	$30,248,885	$355,800	$ 253,107	$ 7,369	$30,865,161

35

($ in thousands)	December 31, 2017				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total Non-PCI Loans
Commercial lending:					
C&I	$10,369,516	$114,769	$ 180,269	$20,882	$10,685,436
CRE	8,484,635	65,616	108,958	—	8,659,209
Multifamily residential	1,839,958	—	15,170	—	1,855,128
Construction and land	614,441	4,590	40,295	—	659,326
Total commercial lending	21,308,550	184,975	344,692	20,882	21,859,099
Consumer lending:					
Single-family residential	4,490,672	16,504	21,735	—	4,528,911
HELOCs	1,744,903	11,900	12,114	—	1,768,917
Other consumer	333,895	111	2,498	—	336,504
Total consumer lending	6,569,470	28,515	36,347	—	6,634,332
Total	$27,878,020	$213,490	$ 381,039	$20,882	$28,493,431

The following tables present the credit risk ratings for PCI loans by portfolio segment as of September 30, 2018 and December 31, 2017:

($ in thousands)	September 30, 2018				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total PCI Loans
Commercial lending:					
C&I	$2,105	$ 133	$ 176	$ —	$2,414
CRE	169,809	—	22,639	—	192,448
Multifamily residential	36,502	—	2,584	—	39,086
Construction and land	42	—	—	—	42
Total commercial lending	208,458	133	25,399	—	233,990
Consumer lending:					
Single-family residential	100,815	185	392	—	101,392
HELOCs	8,970	206	466	—	9,642
Total consumer lending	109,785	391	858	—	111,034
Total [(1)]	$318,243	$ 524	$ 26,257	$ —	$345,024

($ in thousands)	December 31, 2017				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total PCI Loans
Commercial lending:					
C&I	$10,712	$ 57	$ 1,026	$ —	$11,795
CRE	238,605	531	38,552	—	277,688
Multifamily residential	56,720	—	4,328	—	61,048
Construction and land	44	—	327	—	371
Total commercial lending	306,081	588	44,233	—	350,902
Consumer lending:					
Single-family residential	113,905	1,543	1,930	—	117,378

HELOCs	12,642	—	1,365	—	14,007
Total consumer lending	126,547	1,543	3,295	—	131,385
Total (1)	$432,628	$ 2,131	$ 47,528	$ —	$482,287

(1) Loans net of ASC 310-30 discount.

Nonaccrual and Past Due Loans

Non-PCI loans that are 90 or more days past due are generally placed on nonaccrual status, unless the loan is well-collateralized or guaranteed by government agencies, and in the process of collection. Non-PCI loans that are less than 90 days past due but have identified deficiencies, such as when the full collection of principal or interest becomes uncertain, are also placed on nonaccrual status. The following tables present the aging analysis on non-PCI loans as of September 30, 2018 and December 31, 2017:

	September 30, 2018							
($ in thousands)	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Loans	Current Accruing Loans	Total Non-PCI Loans
Commercial lending:								
C&I	$ 19,281	$ 8,143	$ 27,424	$ 34,783	$ 38,014	$ 72,797	$ 11,414,419	$ 11,514,640
CRE	21,163	27	21,190	5,486	19,266	24,752	9,023,937	9,069,879
Multifamily residential	4,092	—	4,092	1,092	669	1,761	2,045,624	2,051,477
Construction and land	2,284	—	2,284	—	—	—	602,707	604,991
Total commercial lending	46,820	8,170	54,990	41,361	57,949	99,310	23,086,687	23,240,987
Consumer lending:								
Single-family residential	20,435	3,118	23,553	409	4,813	5,222	5,554,420	5,583,195
HELOCs	4,695	2,482	7,177	1,557	5,315	6,872	1,693,749	1,707,798
Other consumer	6	6	12	—	2,491	2,491	330,678	333,181
Total consumer lending	25,136	5,606	30,742	1,966	12,619	14,585	7,578,847	7,624,174
Total	$ 71,956	$ 13,776	$ 85,732	$ 43,327	$ 70,568	$ 113,895	$ 30,665,534	$ 30,865,161

	December 31, 2017							
($ in thousands)	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Loans	Current Accruing Loans	Total Non-PCI Loans
Commercial lending:								
C&I	$ 30,964	$ 82	$ 31,046	$ 27,408	$ 41,805	$ 69,213	$ 10,585,177	$ 10,685,436
CRE	3,414	466	3,880	5,430	21,556	26,986	8,628,343	8,659,209
Multifamily residential	4,846	14	4,860	1,418	299	1,717	1,848,551	1,855,128
Construction and land	758	—	758	—	3,973	3,973	654,595	659,326
Total commercial lending	39,982	562	40,544	34,256	67,633	101,889	21,716,666	21,859,099
Consumer lending:								
Single-family residential	13,269	5,355	18,624	6	5,917	5,923	4,504,364	4,528,911
HELOCs	4,286	4,186	8,472	89	3,917	4,006	1,756,439	1,768,917
Other consumer	14	23	37	—	2,491	2,491	333,976	336,504
Total consumer lending	17,569	9,564	27,133	95	12,325	12,420	6,594,779	6,634,332

Total	$57,551	$ 10,126	$67,677	$ 34,351	$ 79,958	$ 114,309	$28,311,445	$28,493,431

For information on the policy for recording payments received and resuming accrual of interest on non-PCI loans that are placed on nonaccrual status, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2017 Form 10-K.

PCI loans are excluded from the above aging analysis tables as the Company has elected to account for these loans on a pool level basis under ASC 310-30 at the time of acquisition. Refer to the discussion on PCI loans within this note for additional details on interest income recognition. As of September 30, 2018 and December 31, 2017, PCI loans on nonaccrual status totaled $4.9 million and $5.3 million, respectively.

Loans in Process of Foreclosure

As of September 30, 2018 and December 31, 2017, consumer mortgage loans of $2.5 million and $6.6 million, respectively, were secured by residential real estate properties, for which formal foreclosure proceedings were in process in accordance with local requirements of the applicable jurisdictions. As of September 30, 2018, foreclosed residential real estate properties with carrying amounts of $615 thousand were included in total net OREO of $748 thousand. In comparison, a foreclosed residential real estate property with a carrying amount of $188 thousand was included in total net OREO of $830 thousand as of December 31, 2017.

Troubled Debt Restructurings

Potential troubled debt restructurings ("TDR"s) are individually evaluated and the type of restructuring is selected based on the loan type and the circumstances of the borrower's financial difficulty. A TDR is a modification of the terms of a loan when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not have otherwise considered.

The following tables present the additions to non-PCI TDRs for the three and nine months ended September 30, 2018 and 2017:

	Loans Modified as TDRs During the Three Months Ended September 30,							
	2018				2017			
($ in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
Commercial lending:								
C&I	4	$ 7,992	$ 8,006	$ 3,619	10	$ 15,143	$ 14,927	$ 65
CRE	—	$ —	$ —	$ —	1	$ 172	$ 172	$ 8

	Loans Modified as TDRs During the Nine Months Ended September 30,							
	2018				2017			
($ in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
Commercial lending:								
C&I	4	$ 7,992	$ 8,006	$ 3,727	15	$ 29,541	$ 28,796	$ 10,365
CRE	1	$ 750	$ 798	$ —	2	$ 1,699	$ 1,648	$ 8
Multifamily residential	—	$ —	$ —	$ —	1	$ 3,655	$ 3,620	$ 112
Consumer lending:								
Single-family residential	2	$ 404	$ 395	$ (28)	—	$ —	$ —	$ —
HELOCs	2	$ 1,546	$ 1,467	$ —	—	$ —	$ —	$ —

(1) Includes subsequent payments after modification and reflects the balance as of September 30, 2018 and 2017.
(2) The financial impact includes increases (decreases) in charge-offs and specific reserves recorded at the modification date.

The following tables present the non-PCI TDR modifications for the three and nine months ended September 30, 2018 and 2017 by modification type:

($ in thousands)	Modification Type During the Three Months Ended September 30, 2018					2017				
	Principal (1)	Principal and Interest (2)	Interest Rate Reduction	Other	Total	Principal (1)	Principal and Interest (2)	Interest Rate Reduction	Other	Total
Commercial lending:										
C&I	$8,006	$ —	$ —	$ —	$8,006	$14,903	$ 24	$ —	$ —	$14,927
CRE	—	—	—	—	—	172	—	—	—	172
Total commercial lending	8,006	—	—	—	8,006	15,075	24	—	—	15,099
Total	$8,006	$ —	$ —	$ —	$8,006	$15,075	$ 24	$ —	$ —	$15,099

($ in thousands)	Modification Type During the Nine Months Ended September 30, 2018					2017				
	Principal (1)	Principal and Interest (2)	Interest Rate Reduction	Other	Total	Principal (1)	Principal and Interest (2)	Interest Rate Reduction	Other	Total
Commercial lending:										
C&I	$8,006	$ —	$ —	$ —	$8,006	$18,289	$10,507	$ —	$ —	$28,796
CRE	—	—	798	—	798	1,648	—	—	—	1,648
Multifamily residential	—	—	—	—	—	3,620	—	—	—	3,620
Total commercial lending	8,006	—	798	—	8,804	23,557	10,507	—	—	34,064
Consumer lending:										
Single-family residential	64	—	—	331	395	—	—	—	—	—
HELOCs	1,400	—	—	67	1,467	—	—	—	—	—
Total consumer lending	1,464	—	—	398	1,862	—	—	—	—	—
Total	$9,470	$ —	$ 798	$398	$10,666	$23,557	$10,507	$ —	$ —	$34,064

(1) Includes forbearance payments, term extensions and principal deferments that modify the terms of the loan from principal and interest payments to interest payments only.

(2) Includes principal and interest deferments or reductions.

Subsequent to restructuring, a TDR that becomes delinquent, generally beyond 90 days, is considered to be in default. As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the allowance for loan losses. The following tables present information on loans modified as TDRs within the previous 12 months that have subsequently defaulted during the three and nine months ended September 30, 2018 and 2017, and were still in default at the respective period end:

($ in thousands)	Loans Modified as TDRs that Subsequently Defaulted During the Three Months Ended September 30,					
	2018			2017		
	Number of Loans	Recorded Investment		Number of Loans	Recorded Investment	
Commercial lending:						
C&I	—	$	—	1	$	9,386
CRE	1	$	186	—	$	—

($ in thousands)	Loans Modified as TDRs that Subsequently Defaulted During the Nine Months Ended September 30,					
	2018			2017		
	Number of Loans	Recorded Investment		Number of Loans	Recorded Investment	
Commercial lending:						
C&I	—	$	—	1	$	9,386
CRE	1	$	186	—	$	—
Consumer lending:						
HELOCs	—	$	—	1	$	48

The amount of additional funds committed to lend to borrowers whose terms have been modified was $2.1 million and $5.1 million as of September 30, 2018 and December 31, 2017, respectively.

Impaired Loans

The following tables present information on non-PCI impaired loans as of September 30, 2018 and December 31, 2017:

($ in thousands)	September 30, 2018				
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial lending:					
C&I	$ 105,527	$ 33,693	$ 52,903	$ 86,596	$ 14,496
CRE	37,563	27,742	3,264	31,006	436
Multifamily residential	6,880	2,973	3,125	6,098	100
Total commercial lending	149,970	64,408	59,292	123,700	15,032
Consumer lending:					
Single-family residential	14,610	2,567	10,849	13,416	36
HELOCs	8,333	3,020	5,196	8,216	266

Other consumer	2,491	—	2,491	2,491	2,491
Total consumer lending	25,434	5,587	18,536	24,123	2,793
Total non-PCI impaired loans	$175,404	$ 69,995	$ 77,828	$ 147,823	$ 17,825

($ in thousands)	December 31, 2017				
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial lending:					
C&I	$130,773	$ 36,086	$ 62,599	$ 98,685	$ 16,094
CRE	41,248	28,699	6,857	35,556	684
Multifamily residential	11,164	8,019	2,617	10,636	88
Construction and land	4,781	3,973	—	3,973	—
Total commercial lending	187,966	76,777	72,073	148,850	16,866
Consumer lending:					
Single-family residential	15,501	—	14,338	14,338	534
HELOCs	5,484	2,287	2,921	5,208	4
Other consumer	2,491	—	2,491	2,491	2,491
Total consumer lending	23,476	2,287	19,750	22,037	3,029
Total non-PCI impaired loans	$211,442	$ 79,064	$ 91,823	$ 170,887	$ 19,895

The following table presents the average recorded investment and interest income recognized on non-PCI impaired loans for the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Average Recorded Investment	Recognized Interest Income [(1)]	Average Recorded Investment	Recognized Interest Income [(1)]	Average Recorded Investment	Recognized Interest Income [(1)]	Average Recorded Investment	Recognized Interest Income [(1)]
Commercial lending:								
C&I	$81,610	$ 328	$97,494	$ 295	$83,195	$ 1,210	$99,153	$ 921
CRE	31,261	116	37,489	179	31,879	348	37,238	535
Multifamily residential	6,132	56	12,532	108	6,215	200	12,540	324
Construction and land	—	—	4,337	—	—	—	4,484	—
Total commercial lending	119,003	500	151,852	582	121,289	1,758	153,415	1,780
Consumer lending:								
Single-family residential	13,460	119	16,124	111	13,549	403	16,141	325
HELOCs	8,260	18	4,492	14	8,306	89	4,455	41
Other consumer	2,491	—	—	—	2,491	—	—	—
Total consumer lending	24,211	137	20,616	125	24,346	492	20,596	366
Total non-PCI impaired loans	$143,214	$ 637	$172,468	$ 707	$145,635	$ 2,250	$174,011	$ 2,146

(1) Includes interest recognized on accruing non-PCI TDRs. Interest payments received on nonaccrual non-PCI loans are reflected as a reduction to principal, not as interest income.

Allowance for Credit Losses

The following table presents a summary of activities in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Non-PCI Loans				
Allowance for non-PCI loans, beginning of period	$301,511	$276,238	$287,070	$260,402
Provision for loan losses on non-PCI loans	12,650	13,458	47,722	32,184
Gross charge-offs:				
Commercial lending:				
C&I	(4,462)	(7,359)	(36,441)	(19,802)
Construction and land	—	—	—	(149)
Consumer lending:				
Single-family residential	—	—	(1)	(1)
HELOCs	—	(55)	—	(55)
Other consumer	(6)	(10)	(185)	(17)
Total gross charge-offs	(4,468)	(7,424)	(36,627)	(20,024)
Gross recoveries:				
Commercial lending:				
C&I	411	1,962	8,841	9,205
CRE	2	549	431	1,541
Multifamily residential	77	634	1,471	1,329
Construction and land	23	61	716	173
Consumer lending:				
Single-family residential	295	175	1,108	429
HELOCs	—	—	—	24
Other consumer	1	2	2	142
Total gross recoveries	809	3,383	12,569	12,843
Net charge-offs	(3,659)	(4,041)	(24,058)	(7,181)
Foreign currency translation adjustments	(492)	203	(724)	453
Allowance for non-PCI loans, end of period	310,010	285,858	310,010	285,858
PCI Loans				
Allowance for PCI loans, beginning of period	39	78	58	118
Reversal of loan losses on PCI loans	(8)	(10)	(27)	(50)
Allowance for PCI loans, end of period	31	68	31	68
Allowance for loan losses	$310,041	$285,926	$310,041	$285,926

For further information on accounting policies and the methodologies used to estimate the allowance for credit losses and loan charge-offs, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2017 Form 10-K.

The following table presents a summary of activities in the allowance for unfunded credit reserves for the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Allowance for unfunded credit reserves, beginning of period	$14,019	$15,188	$13,318	$16,121
Reversal of unfunded credit reserves	(2,100)	(452)	(1,399)	(1,385)
Allowance for unfunded credit reserves, end of period	$11,919	$14,736	$11,919	$14,736

The allowance for unfunded credit reserves is maintained at a level management believes to be sufficient to absorb estimated probable losses related to unfunded credit facilities. The allowance for unfunded credit reserves is included in Accrued expenses and other liabilities on the Consolidated Balance Sheet. See Note 11 — Commitments and Contingencies to the Consolidated Financial Statements for additional information related to unfunded credit reserves.

The following tables present the Company's allowance for loan losses and recorded investments by portfolio segment and impairment methodology as of September 30, 2018 and December 31, 2017:

	September 30, 2018							
	Commercial Lending				Consumer Lending			
($ in thousands)	C&I	CRE	Multifamily Residential	Construction and Land	Single-Family Residential	HELOCs	Other Consumer	Total
Allowance for loan losses								
Individually evaluated for impairment	$14,496	$436	$100	$—	$36	$266	$2,491	$17,825
Collectively evaluated for impairment	167,261	44,961	17,655	24,433	30,609	5,496	1,770	292,185
Acquired with deteriorated credit quality	—	31	—	—	—	—	—	31
Total	$181,757	$45,428	$17,755	$24,433	$30,645	$5,762	$4,261	$310,041
Recorded investment in loans								
Individually evaluated for impairment	$86,596	$31,006	$6,098	$—	$13,416	$8,216	$2,491	$147,823
Collectively evaluated for impairment	11,428,044	9,038,873	2,045,379	604,991	5,569,779	1,699,582	330,690	30,717,338
Acquired with deteriorated credit quality (1)	2,414	192,448	39,086	42	101,392	9,642	—	345,024
Total (1)	$11,517,054	$9,262,327	$2,090,563	$605,033	$5,684,587	$1,717,440	$333,181	$31,210,185

	December 31, 2017							
	Commercial Lending				Consumer Lending			
($ in thousands)	C&I	CRE	Multifamily Residential	Construction and Land	Single-Family Residential	HELOCs	Other Consumer	Total
Allowance for loan losses								
	$16,094	$684	$88	$—	$534	$4	$2,491	$19,895

Individually evaluated for impairment								
Collectively evaluated for impairment	146,964	40,495	19,021	26,881	25,828	7,350	636	267,175
Acquired with deteriorated credit quality	—	58	—	—	—	—	—	58
Total	$163,058	$41,237	$19,109	$ 26,881	$26,362	$7,354	$3,127	$287,128
Recorded investment in loans								
Individually evaluated for impairment	$98,685	$35,556	$10,636	$ 3,973	$14,338	$5,208	$2,491	$170,887
Collectively evaluated for impairment	10,586,751	8,623,653	1,844,492	655,353	4,514,573	1,763,709	334,013	28,322,544
Acquired with deteriorated credit quality (1)	11,795	277,688	61,048	371	117,378	14,007	—	482,287
Total (1)	$10,697,231	$8,936,897	$1,916,176	$ 659,697	$4,646,289	$1,782,924	$336,504	$28,975,718

(1) Loans net of ASC 310-30 discount.

Purchased Credit-Impaired Loans

At the date of acquisition, PCI loans are pooled and accounted for at fair value, which represents the discounted value of the expected cash flows of the loan portfolio. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flows expectation. The cash flows expected over the life of the pools are estimated by an internal cash flows model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates, loss curves and prepayment speeds are utilized to calculate the expected cash flows. The amount of expected cash flows over the initial investment in the loan represents the "accretable yield," which is recognized as interest income on a level yield basis over the life of the loan. Prepayment speeds affect the estimated life of PCI loans, which may change the amount of interest income, and possibly principal, expected to be collected. The excess of total contractual cash flows over the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the "nonaccretable difference."

The following table presents the changes in accretable yield for PCI loans for the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Accretable yield for PCI loans, beginning of period	$85,052	$118,625	$101,977	$136,247
Accretion	(7,357)	(10,747)	(27,575)	(32,108)
Changes in expected cash flows	1,638	2,078	4,931	5,817
Accretable yield for PCI loans, end of period	$79,333	$109,956	$79,333	$109,956

Loans Held-for-Sale

At the time of commitment to originate or purchase a loan, the loan is determined to be held-for-investment if it is the Company's intent to hold the loan to maturity or for the "foreseeable future," subject to periodic reviews under the Company's evaluation processes, including asset/liability and credit risk management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from held-for-investment to held-for-sale at the lower of cost or fair value. As of September 30, 2018, loans held-for-sale of $3.1 million consisted of C&I and single-family residential loans. In comparison, as of December 31, 2017, loans held-for-sale of $85 thousand consisted of single-family residential loans.

Loan Purchases, Sales and Transfers

From time to time, the Company purchases and sells loans in the secondary market. Certain purchased loans are transferred from held-for-investment to held-for-sale, and write-downs to allowance for loan losses are recorded, when appropriate. The following tables present information on loan purchases into held-for-investment portfolio, reclassification of loans held-for-investment to/from held-for-sale, and sales during the three and nine months ended September 30, 2018 and 2017:

($ in thousands)	Three Months Ended September 30, 2018						
	Commercial Lending				Consumer Lending		
	C&I	CRE	Multifamily Residential	Construction and Land	Single-Family Residential	Other Consumer	Total

Loans transferred from held-for-investment to held-for-sale (1)	$53,149	$9,830	$ —	$ —	$ 14,981	$ —	$77,960
Loans transferred from held-for-sale to held-for-investment	$2,306	$—	$ —	$ —	$ —	$ —	$2,306
Sales (2)(3)(4)	$62,744	$9,830	$ —	$ —	$ 20,844	$ —	$93,418
Purchases (5)	$47,809	$—	$ 2,518	$ —	$ 10,759	$ —	$61,086

($ in thousands)	Three Months Ended September 30, 2017						
	Commercial Lending				Consumer Lending		
	C&I	CRE	Multifamily Residential	Construction and Land	Single-Family Residential	Other Consumer	Total
Loans transferred from held-for-investment to held-for-sale (1)	$58,786	$14,803	$ —	$ 923	$ —	$ —	$74,512
Sales (2)(3)(4)	$69,750	$14,803	$ —	$ 923	$ 5,771	$ —	$91,247
Purchases (5)	$63,590	$—	$ 178	$ —	$ 8,648	$ —	$72,416

($ in thousands)	Nine Months Ended September 30, 2018						
	Commercial Lending				Consumer Lending		
	C&I	CRE	Multifamily Residential	Construction and Land	Single-Family Residential	Other Consumer	Total
Loans transferred from held-for-investment to held-for-sale (1)	$298,989	$49,621	$ —	$ —	$ 14,981	$ —	$363,591
Loans transferred from held-for-sale to held-for-investment	$2,306	$—	$ —	$ —	$ —	$ —	$2,306
Sales (2)(3)(4)	$305,435	$49,621	$ —	$ —	$ 31,565	$ —	$386,621
Purchases (5)	$398,171	$—	$ 5,953	$ —	$ 46,784	$ —	$450,908

($ in thousands)	Nine Months Ended September 30, 2017						
	Commercial Lending				Consumer Lending		
	C&I	CRE	Multifamily Residential	Construction and Land	Single-Family Residential	Other Consumer	Total
Loans transferred from held-for-investment to held-for-sale (1)	$382,862	$33,236	$ 532	$ 1,610	$249	$—	$418,489
Sales (2)(3)(4)	$382,870	$33,236	$ 532	$ 1,610	$15,513	$22,191	$455,952
Purchases (5)	$431,318	$—	$ 1,018	$ —	$8,776	$—	$441,112

(1) The Company recorded $110 thousand and $13.5 million in write-downs to the allowance for loan losses related to loans transferred from held-for-investment to held-for-sale for the three and nine months ended September 30, 2018, respectively, and $232 thousand and $441 thousand for the three and nine months ended September 30, 2017, respectively.

(2) Includes originated loans sold of $58.9 million and $252.1 million for the three and nine months ended September 30, 2018, respectively, and $33.8 million and $101.4 million for the three and nine months ended September 30, 2017, respectively. Originated loans sold during the three months ended September 30, 2018 were primarily C&I and single-family residential loans. Originated loans sold during the nine months ended September 30, 2018 were primarily C&I loans. In comparison, originated loans sold during the three and nine months ended September 30, 2017 were primarily C&I and CRE loans.

(3) Includes purchased loans sold in the secondary market of $34.5 million and $134.5 million for the three and nine months ended September 30, 2018, respectively, and $57.4 million and $354.5 million for the three and nine months ended September 30, 2017, respectively.

(4)

Net gains on sales of loans, excluding the lower of cost or fair value adjustments, were $1.1 million and $5.1 million for the three and nine months ended September 30, 2018, respectively, and $2.4 million and $6.7 million for the three and nine months ended September 30, 2017, respectively. No lower of cost or fair value adjustments were recorded for each of the three months ended September 30, 2018 and 2017, and nine months ended September 30, 2018. The Company recorded a lower of cost or fair value adjustment of $61 thousand for the nine months ended September 30, 2017, which was included in Net gains on sales of loans on the Consolidated Statement of Income.

(5) C&I loan purchases for each of the three and nine months ended September 30, 2018 and 2017 were mainly comprised of C&I syndicated loans.

Note 9 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net

The Community Reinvestment Act (“CRA”) encourages banks to meet the credit needs of their communities for housing and other purposes, particularly in low or moderate income neighborhoods. The Company invests in certain affordable housing limited partnerships that qualify for CRA and tax credits. Such limited partnerships are formed to develop and operate apartment complexes designed as high-quality affordable housing for lower income tenants throughout the U.S. Each of the partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. In addition to affordable housing limited partnerships, the Company also invests in new market tax credit projects that qualify for CRA credits and eligible projects that qualify for renewable energy and historic tax credits. Investments in renewable energy tax credits help promote the development of renewable energy sources, while the investments in historic tax credits promote the rehabilitation of historic buildings and economic revitalization of the surrounding areas.

Investments in Qualified Affordable Housing Partnerships, Net

The Company records its investments in qualified affordable housing partnerships, net, using the proportional amortization method. Under the proportional amortization method, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the amortization in Income tax expense on the Consolidated Statement of Income.

The following table presents the Company's investments in qualified affordable housing partnerships, net, and related unfunded commitments as of September 30, 2018 and December 31, 2017: