# FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

# 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, 2019

OR

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

For the transition period from to

# FIRST REPUBLIC BANK

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **California** | **80-0513856** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **111 Pine Street, 2nd Floor, San Francisco, CA** | **94111** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **(415) 392-1400**

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 ☒ 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 ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐ (Do not check if a smaller reporting company) | 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 ☒

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, $0.01 par value** | **FRC** | **New York Stock Exchange** |
| **Depositary Shares, Each Representing a 1/40th Interest in a Share of 5.70% Noncumulative Perpetual Series F Preferred Stock** | **FRC-PrF** | **New York Stock Exchange** |
| **Depositary Shares, Each Representing a 1/40th Interest in a Share of 5.50% Noncumulative Perpetual Series G Preferred Stock** | **FRC-PrG** | **New York Stock Exchange** |
| **Depositary Shares, Each Representing a 1/40th Interest in a Share of 5.125% Noncumulative Perpetual Series H Preferred Stock** | **FRC-PrH** | **New York Stock Exchange** |
| **Depositary Shares, Each Representing a 1/40th Interest in a Share of 5.50% Noncumulative Perpetual Series I Preferred Stock** | **FRC-PrI** | **New York Stock Exchange** |

The number of shares outstanding of the Bank's common stock, par value $0.01 per share, as of October 31, 2019 was 168,522,036.

**FIRST REPUBLIC BANK**
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## PART I - FINANCIAL INFORMATION

**Item 1. Financial Statements.**

## FIRST REPUBLIC BANK
## CONSOLIDATED BALANCE SHEETS
## (Unaudited)

| (in thousands, except share amounts) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 2,181,600 | $ 2,811,159 |
| Debt securities available-for-sale | 1,401,105 | 1,779,116 |
| Debt securities held-to-maturity (fair value of $16,702,888 and $14,287,524 at September 30, 2019 and December 31, 2018, respectively) | 16,002,722 | 14,436,973 |
| Equity securities (fair value) | 19,736 | 18,719 |
| Loans | 86,304,810 | 75,865,282 |
| Less: Allowance for loan losses | (485,465) | (439,048) |
| Loans, net | 85,819,345 | 75,426,234 |
| Loans held for sale | 31,693 | 98,985 |
| Investments in life insurance | 1,425,057 | 1,376,579 |
| Tax credit investments | 1,039,061 | 1,057,541 |
| Prepaid expenses and other assets | 2,424,383 | 1,538,971 |
| Premises, equipment and leasehold improvements, net | 373,693 | 332,483 |
| Goodwill and other intangible assets | 264,658 | 273,974 |
| Mortgage servicing rights | 45,682 | 54,470 |
| Total Assets | $ 111,028,735 | $ 99,205,204 |
| **LIABILITIES AND EQUITY** | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing checking | $ 32,720,317 | $ 30,033,658 |
| Interest-bearing checking | 17,438,402 | 17,089,520 |
| Money market checking | 11,242,205 | 10,317,436 |
| Money market savings and passbooks | 10,277,249 | 10,245,107 |
| Certificates of deposit | 14,042,346 | 11,377,515 |
| Total Deposits | 85,720,519 | 79,063,236 |
| Short-term borrowings | 775,000 | 100,000 |
| Long-term FHLB advances | 10,900,000 | 8,700,000 |
| Senior notes | 497,494 | 896,432 |
| Subordinated notes | 777,781 | 777,475 |
| Other liabilities | 2,926,735 | 990,284 |
| Total Liabilities | 101,597,529 | 90,527,427 |
| Shareholders' Equity: | | |
| Preferred stock, $0.01 par value per share; 25,000,000 shares authorized; 940,000 shares issued and outstanding at both September 30, 2019 and December 31, 2018 | 940,000 | 940,000 |
| Common stock, $0.01 par value per share; 400,000,000 shares authorized; 168,450,453 and 164,901,950 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively | 1,685 | 1,649 |
| Additional paid-in capital | 4,198,442 | 4,024,306 |
| Retained earnings | 4,281,249 | 3,731,205 |
| Accumulated other comprehensive income (loss) | 9,830 | (19,383) |
| Total Shareholders' Equity | 9,431,206 | 8,677,777 |
| Total Liabilities and Shareholders' Equity | $ 111,028,735 | $ 99,205,204 |

See accompanying notes to consolidated financial statements.

**FIRST REPUBLIC BANK**
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**
**(Unaudited)**

| ($ in thousands, except per share amounts) | Quarter Ended September 30, 2019 | Quarter Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Interest income: | | | | |
| Loans | $ 764,468 | $ 633,794 | $ 2,205,884 | $ 1,765,019 |
| Investments | 134,099 | 134,111 | 401,908 | 406,373 |
| Other | 5,779 | 5,237 | 15,767 | 15,065 |
| Cash and cash equivalents | 5,430 | 6,896 | 18,966 | 16,494 |
| Total interest income | 909,776 | 780,038 | 2,642,525 | 2,202,951 |
| Interest expense: | | | | |
| Deposits | 134,917 | 81,438 | 371,852 | 193,852 |
| Borrowings | 79,874 | 64,146 | 226,624 | 175,194 |
| Total interest expense | 214,791 | 145,584 | 598,476 | 369,046 |
| Net interest income | 694,985 | 634,454 | 2,044,049 | 1,833,905 |
| Provision for loan losses | 16,711 | 18,633 | 52,111 | 51,003 |
| Net interest income after provision for loan losses | 678,274 | 615,821 | 1,991,938 | 1,782,902 |
| Noninterest income: | | | | |
| Investment management fees | 83,582 | 88,560 | 262,226 | 249,602 |
| Brokerage and investment fees | 12,673 | 7,207 | 28,619 | 23,770 |
| Insurance fees | 2,712 | 1,851 | 8,522 | 4,646 |
| Trust fees | 4,105 | 3,599 | 12,221 | 10,694 |
| Foreign exchange fee income | 11,685 | 8,439 | 30,661 | 25,383 |
| Deposit fees | 6,563 | 6,225 | 19,462 | 18,490 |
| Loan and related fees | 5,341 | 4,091 | 13,644 | 11,842 |
| Loan servicing fees, net | 2,347 | 3,151 | 9,560 | 9,856 |
| Gain on sale of loans | 122 | 303 | 466 | 5,037 |
| Gain (loss) on investment securities | (683) | (1,655) | (1,895) | 6,515 |
| Income from investments in life insurance | 12,152 | 11,608 | 31,536 | 30,697 |
| Other income | 1,608 | 996 | 4,853 | 3,366 |
| Total noninterest income | 142,207 | 134,375 | 419,875 | 399,898 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 309,655 | 279,248 | 920,432 | 828,207 |
| Information systems | 66,612 | 59,259 | 204,059 | 177,753 |
| Occupancy | 50,722 | 38,792 | 142,204 | 112,180 |
| Professional fees | 17,507 | 15,718 | 45,623 | 44,720 |
| Advertising and marketing | 15,912 | 13,527 | 48,346 | 40,575 |
| FDIC assessments | 9,748 | 17,679 | 27,847 | 49,275 |
| Other expenses | 63,794 | 59,776 | 199,105 | 165,427 |
| Total noninterest expense | 533,950 | 483,999 | 1,587,616 | 1,418,137 |
| Income before provision for income taxes | 286,531 | 266,197 | 824,197 | 764,663 |
| Provision for income taxes | 51,687 | 52,651 | 140,198 | 142,253 |
| Net income | 234,844 | 213,546 | 683,999 | 622,410 |
| Dividends on preferred stock | 12,787 | 17,112 | 38,362 | 41,497 |
| Net income available to common shareholders | $ 222,057 | $ 196,434 | $ 645,637 | $ 580,913 |
| Net income | $ 234,844 | $ 213,546 | $ 683,999 | $ 622,410 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net unrealized gain on securities transferred from held-to-maturity to available-for-sale | — | — | — | 12,305 |
| Net unrealized gain (loss) on securities available-for-sale | 9,354 | (4,045) | 27,725 | (10,126) |
| Reclassification of (gain) loss on securities available-for-sale to net income | 625 | 545 | 2,044 | (17,719) |
| Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity | (170) | (204) | (556) | (843) |
| Other comprehensive income (loss) | 9,809 | (3,704) | 29,213 | (16,383) |
| Comprehensive income | $ 244,653 | $ 209,842 | $ 713,212 | $ 606,027 |
| Basic earnings per common share | $ 1.32 | $ 1.20 | $ 3.85 | $ 3.58 |
| Diluted earnings per common share | $ 1.31 | $ 1.19 | $ 3.81 | $ 3.52 |

See accompanying notes to consolidated financial statements.

**FIRST REPUBLIC BANK**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**(Unaudited)**

| (in thousands, except share amounts) | Common Stock Shares | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| **At or for the Quarters Ended September 30, 2019 and 2018** | | | | | | | |
| **Balance at June 30, 2019** | **168,176,437** | **$ 940,000** | **$ 1,682** | **$ 4,186,304** | **$ 4,091,636** | **$ 21** | **$ 9,219,643** |
| Net income | — | — | — | — | 234,844 | — | 234,844 |
| Other comprehensive income | — | — | — | — | — | 9,809 | 9,809 |
| Stock compensation expense | — | — | — | 25,470 | — | — | 25,470 |
| Net issuance of common stock under stock plans | 274,016 | — | 3 | (13,332) | — | — | (13,329) |
| Dividends on preferred stock (see Note 11) | — | — | — | — | (12,787) | — | (12,787) |
| Dividends on common stock ($0.19/share) | — | — | — | — | (32,444) | — | (32,444) |
| **Balance at September 30, 2019** | **168,450,453** | **$ 940,000** | **$ 1,685** | **$ 4,198,442** | **$ 4,281,249** | **$ 9,830** | **$ 9,431,206** |
| **Balance at June 30, 2018** | **162,638,209** | **$ 1,140,000** | **$ 1,626** | **$ 3,772,323** | **$ 3,379,725** | **$ (17,701)** | **$ 8,275,973** |
| Net income | — | — | — | — | 213,546 | — | 213,546 |
| Other comprehensive loss | — | — | — | — | — | (3,704) | (3,704) |
| Issuance of common stock, net | 2,000,000 | — | 20 | 200,553 | — | — | 200,573 |
| Stock compensation expense | — | — | — | 25,541 | — | — | 25,541 |
| Net issuance of common stock under stock plans | 122,447 | — | 2 | 1,729 | — | — | 1,731 |
| Dividends on preferred stock (see Note 11) | — | — | — | — | (17,112) | — | (17,112) |
| Dividends on common stock ($0.18/share) | — | — | — | — | (29,861) | — | (29,861) |
| **Balance at September 30, 2018** | **164,760,656** | **$ 1,140,000** | **$ 1,648** | **$ 4,000,146** | **$ 3,546,298** | **$ (21,405)** | **$ 8,666,687** |
| **At or for the Nine Months Ended September 30, 2019 and 2018** | | | | | | | |
| **Balance at December 31, 2018** | **164,901,950** | **$ 940,000** | **$ 1,649** | **$ 4,024,306** | **$ 3,731,205** | **$ (19,383)** | **$ 8,677,777** |
| Net income | — | — | — | — | 683,999 | — | 683,999 |
| Other comprehensive income | — | — | — | — | — | 29,213 | 29,213 |
| Issuance of common stock, net | 2,000,000 | — | 20 | 170,565 | — | — | 170,585 |
| Stock compensation expense | — | — | — | 76,824 | — | — | 76,824 |
| Net issuance of common stock under stock plans | 1,548,503 | — | 16 | (73,253) | — | — | (73,237) |
| Dividends on preferred stock (see Note 11) | — | — | — | — | (38,362) | — | (38,362) |
| Dividends on common stock ($0.56/share) | — | — | — | — | (95,593) | — | (95,593) |
| **Balance at September 30, 2019** | **168,450,453** | **$ 940,000** | **$ 1,685** | **$ 4,198,442** | **$ 4,281,249** | **$ 9,830** | **$ 9,431,206** |
| **Balance at December 31, 2017** | **161,695,803** | **$ 990,000** | **$ 1,617** | **$ 3,778,913** | **$ 3,051,611** | **$ (3,840)** | **$ 7,818,301** |
| Cumulative adjustments from adoption of new accounting guidance | — | — | — | — | 1,334 | (1,182) | 152 |
| **Balance at January 1, 2018** | **161,695,803** | **990,000** | **1,617** | **3,778,913** | **3,052,945** | **(5,022)** | **7,818,453** |
| Net income | — | — | — | — | 622,410 | — | 622,410 |
| Other comprehensive loss | — | — | — | — | — | (16,383) | (16,383) |
| Issuance of preferred stock, net | — | 300,000 | — | (9,841) | — | — | 290,159 |
| Redemption of preferred stock | — | (150,000) | — | — | — | — | (150,000) |
| Issuance of common stock, net | 2,000,000 | — | 20 | 200,553 | — | — | 200,573 |
| Stock compensation expense | — | — | — | 66,591 | — | — | 66,591 |
| Net issuance of common stock under stock plans | 1,064,853 | — | 11 | (36,070) | — | — | (36,059) |
| Dividends on preferred stock (see Note 11) | — | — | — | — | (41,497) | — | (41,497) |
| Dividends on common stock ($0.53/share) | — | — | — | — | (87,560) | — | (87,560) |
| **Balance at September 30, 2018** | **164,760,656** | **$ 1,140,000** | **$ 1,648** | **$ 4,000,146** | **$ 3,546,298** | **$ (21,405)** | **$ 8,666,687** |

See accompanying notes to consolidated financial statements.

# FIRST REPUBLIC BANK
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## (Unaudited)

| ($ in thousands) | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| Operating Activities: | | |
| Net income | $ 683,999 | $ 622,410 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 52,111 | 51,003 |
| Depreciation, amortization and accretion, net | 87,594 | 70,559 |
| Amortization of mortgage servicing rights | 10,268 | 12,939 |
| Provision for mortgage servicing rights in excess of fair value | 630 | — |
| Deferred income taxes | (43,595) | (76,048) |
| Gain on sale of loans | (466) | (5,037) |
| (Gain) loss on investment securities | 1,895 | (6,515) |
| Noncash cost of stock plans | 76,824 | 66,591 |
| Loans originated or purchased for sale | (381,730) | (200,340) |
| Proceeds from sales and principal repayments of loans held for sale | 95,076 | 259,682 |
| (Increase) decrease in other assets | 59,006 | (37,525) |
| Increase in other liabilities | 1,160,592 | 388,325 |
| Net Cash Provided by Operating Activities | 1,802,204 | 1,146,044 |
| Investing Activities: | | |
| Loan originations, net of principal collections | (10,514,196) | (10,197,853) |
| Loans purchased | (14,667) | (548,722) |
| Loans sold | 151,256 | 748,118 |
| Purchases of securities available-for-sale | (401,242) | — |
| Proceeds from sales of securities available-for-sale | 695,306 | 2,447,894 |
| Proceeds from maturities and paydowns of securities available-for-sale | 411,416 | 308,758 |
| Purchases of securities held-to-maturity | (2,891,114) | (623,928) |
| Proceeds from maturities and paydowns of securities held-to-maturity | 1,326,575 | 389,970 |
| Purchases of FHLB stock and other investments | (232,706) | (132,286) |
| Proceeds from redemptions of FHLB stock | 176,816 | 95,580 |
| Purchases of investments in life insurance | (18,147) | — |
| Net change in tax credit and other investments | (97,653) | (133,978) |
| Additions to premises, equipment and leasehold improvements, net | (121,016) | (99,246) |
| Net Cash Used for Investing Activities | (11,529,372) | (7,745,693) |
| Financing Activities: | | |
| Net increase in deposits | 6,659,186 | 5,840,850 |
| Net increase in short-term borrowings | 675,000 | — |
| Proceeds from long-term debt | 4,700,000 | 3,300,000 |
| Repayment of long-term debt | (2,900,000) | (2,000,000) |
| Net proceeds from issuance of preferred stock | — | 290,159 |
| Redemption of preferred stock | — | (150,000) |
| Net proceeds from issuance of common stock | 170,585 | 200,573 |
| Proceeds from issuance of common stock under employee stock purchase plan | 13,193 | 8,347 |
| Proceeds from stock options exercised | 83 | 6 |
| Payments of employee taxes withheld from share-based awards | (86,483) | (44,605) |
| Dividends on preferred stock | (38,362) | (41,497) |
| Dividends on common stock | (95,593) | (87,560) |
| Net Cash Provided by Financing Activities | 9,097,609 | 7,316,273 |
| Increase (Decrease) in Cash and Cash Equivalents | (629,559) | 716,624 |
| Cash and Cash Equivalents at the Beginning of Period | 2,811,159 | 2,297,021 |
| Cash and Cash Equivalents at the End of Period | $ 2,181,600 | $ 3,013,645 |
| Supplemental Disclosure of Cash Flow Items: | | |
| Cash paid: | | |
| Interest | $ 598,602 | $ 350,241 |
| Income taxes | $ 120,340 | $ 67,227 |
| Non-cash activities: | | |
| Transfer of loans to held for sale | $ 86,763 | $ 994,318 |
| Transfer of loans to securities available-for-sale | $ 279,107 | $ 276,925 |
| Transfer of securities from held-to-maturity to available-for-sale | $ — | $ 2,096,497 |

See accompanying notes to consolidated financial statements.

## Note 1. Summary of Significant Accounting Policies

*Basis of Presentation and Organization*

First Republic Bank ("First Republic" or the "Bank") is a California-chartered commercial bank and trust company headquartered in San Francisco with deposits insured by the Federal Deposit Insurance Corporation ("FDIC"). First Republic has operated for 34 years and the current legal entity has been operating since July 1, 2010. Our consolidated financial statements include the accounts of First Republic and the following wholly-owned subsidiaries: First Republic Investment Management, Inc. ("FRIM"), First Republic Securities Company, LLC ("FRSC"), First Republic Trust Company of Delaware LLC ("FRTC Delaware"), First Republic Lending Corporation ("FRLC") and Gradifi, Inc. ("Gradifi"). All significant intercompany balances and transactions have been eliminated.

The accompanying consolidated financial statements are unaudited, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Bank's financial position and results of operations. All such adjustments were of a normal and recurring nature. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q adopted by the FDIC. These consolidated financial statements are intended to be read in conjunction with the Bank's consolidated financial statements, and notes thereto, for the year ended December 31, 2018, included in the Bank's Annual Report on Form 10-K filed with the FDIC (the "2018 Form 10-K"). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

*Nature of Operations*

First Republic and its subsidiaries offer private banking, private business banking and private wealth management, including investment, trust and brokerage services. First Republic specializes in delivering exceptional, relationship-based service and offers a complete line of products, including residential, commercial and personal loans, deposit services, and wealth management. Services are offered through preferred banking or wealth management offices primarily in San Francisco, Palo Alto, Los Angeles, Santa Barbara, Newport Beach and San Diego, California; Portland, Oregon; Boston, Massachusetts; Palm Beach, Florida; Greenwich, Connecticut; New York, New York; and Jackson, Wyoming.

First Republic originates real estate secured loans and other loans. Real estate secured loans are secured by single family residences, multifamily buildings and commercial real estate properties and include loans to construct such properties. Most of the real estate loans that First Republic originates are secured by properties located close to one of its offices in the San Francisco Bay Area, the Los Angeles area, San Diego, Boston or the New York City area. First Republic originates business loans, loans secured by securities and other types of collateral and personal unsecured loans primarily to meet the non-mortgage needs of First Republic's clients. Most of these loans are also made to borrowers in the geographic areas served by the Bank's offices.

First Republic offers its clients various wealth management services. First Republic provides investment management services through FRIM, which earns fee income from the management of equity securities, fixed income securities, balanced portfolios and alternative investments for its clients. First Republic Trust Company, a division of First Republic, and FRTC Delaware, provide trust and custody services. FRSC is a registered broker-dealer that performs brokerage and investment activities for clients. The Bank offers insurance solutions through FRSC and FRIM. The Bank also offers money market mutual funds to clients through third-party providers and conducts foreign exchange activities on behalf of clients.

Gradifi is a corporate provider of education-related benefit plans. Through Gradifi, employers can make direct contributions to education debt repayment or savings plans for their employees and provide employees with the ability to refinance their existing student loans with options from multiple lenders.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. Material estimates subject to change include those related to allowance for loan losses, goodwill, identifiable intangible assets, fair value measurements, and income taxes.

*Reclassifications*

Certain prior period amounts have been reclassified to conform to the current period presentation.

*Accounting Standards Adopted in 2019*

During the nine months ended September 30, 2019, the Bank adopted the following Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"):

*ASU 2016-02—Leases (Accounting Standards Codification ("ASC") 842) and subsequent related ASUs*

The Bank adopted this guidance effective January 1, 2019. This guidance was adopted using a modified retrospective approach. The Bank elected to record a cumulative effect adjustment without adjusting prior period comparative financial statements. In addition, the Bank elected the package of transition practical expedients, which among other things, allowed the Bank to carry forward the classification of its leases.

Under ASC 842, lessees are required to recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset representing the right to use the underlying asset for the lease term on the balance sheet. The liability is recognized at the present value of lease payments discounted using the rate implicit in the lease or the incremental borrowing rate. The asset is measured at the amount of the liability adjusted for any direct incremental costs, prepaid lease payments and lease incentives received. The Bank recorded lease assets and liabilities of $578.5 million and $619.2 million, respectively, on its consolidated balance sheet effective January 1, 2019. There was no impact to the Bank's consolidated statement of cash flows upon adoption, since the net impact of all adjustments recorded upon transition, which totaled $535.6 million, represented non-cash activity. In addition, there was no cumulative effect adjustment recorded to retained earnings upon adoption.

For operating leases, ASC 842 did not significantly change the recognition or measurement of lease expense on the income statement, which is recognized on a straight-line basis over the lease term. Variable lease payments not included in the straight-line lease expense are expensed as incurred.

ASC 842 also requires disclosure of both quantitative and qualitative information about the Bank's leases. See Note 6, "Leases," for these disclosures.

*Recent Accounting Standards*

The following ASUs have been issued by the FASB, but were not yet effective as of September 30, 2019:

*ASU 2016-13—Financial Instruments—Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments*

| | |
|---|---|
| ASC 326, which was issued in June 2016, revises the methodology for estimating credit losses on loans receivable, held-to-maturity debt securities, and unfunded loan commitments. Under ASC 326, the current expected credit losses ("CECL") model is based on lifetime expected losses, rather than incurred losses, and requires the recognition of credit loss expense in the statement of income and a related allowance for credit losses on the balance sheet at the time of origination or purchase of a loan receivable or held-to-maturity debt security. Subsequent changes in this estimate are recorded through credit loss expense and related allowance. The CECL model requires the use of not only relevant historical experience and current conditions, but also reasonable and supportable forecasts of future events and circumstances, thus incorporating a broad range of information in developing credit loss estimates, which could result in significant changes to both the timing and amount of credit loss expense and allowance.<br><br>Under ASC 326, available-for-sale debt securities are evaluated for impairment if fair value is less than amortized cost. Estimated credit losses are recorded if the present value of expected future cash flows is less than amortized cost, and are recorded through a credit loss expense and an allowance, rather than a write-down of the investment. Changes in fair value that are not credit-related will continue to be recorded in other comprehensive income. Certain additional disclosures are required. | The Bank will adopt this guidance effective January 1, 2020 using a modified retrospective approach. The Bank is currently in the process of implementing and validating the credit loss models under the new guidance, refining and calibrating qualitative adjustment factors, and performing parallel run processes. For its loan portfolio, the Bank intends to forecast losses over a two year reasonable and supportable period with a one year reversion period to historical loss rates. For its held-to-maturity debt securities, the Bank plans to utilize a three year forecast period with an immediate reversion to historical loss rates. The impact to the allowance for credit losses at the adoption date will depend on the Bank's portfolio composition, as well as the macroeconomic forecasts at the time of adoption, as well as the finalization of models and qualitative adjustments. Based on its portfolio composition at September 30, 2019 and the macroeconomic forecasts available during the third quarter 2019 parallel run, the Bank currently estimates an overall change in allowance for credit losses for loans of approximately 5% to 10% from the current levels. The allowance for credit losses for held-to-maturity debt securities is estimated to be insignificant. In addition, the impact to the Bank's regulatory capital ratios (on a fully phased-in basis) upon adoption of this guidance is estimated to be less than 10 basis points. Throughout the remainder of the year, the Bank will continue to make refinements to its models and assumptions, calibrate qualitative adjustment factors, and address other key implementation matters such as accounting policy decisions, aggregation of data for new required disclosures, and development and implementation of internal controls. |

*ASU 2017-04—Intangibles—Goodwill and Other (ASC 350): Simplifying the Test for Goodwill Impairment*

| | |
|---|---|
| The amendments, which were issued in January 2017, simplify the accounting for goodwill impairment by removing Step 2 of the impairment test, which compared the implied fair value of goodwill to its carrying amount. Measuring the implied fair value of goodwill followed the same process as determining the fair value of individual assets and liabilities assumed in a business combination, which was complex. The amended guidance simplifies the impairment test to only require a comparison of the fair value of a reporting unit with its carrying amount, including the effect of tax deductible goodwill on the carrying amount of the reporting unit. Entities still have the option to perform a qualitative assessment to determine if the quantitative impairment test is needed. | The Bank will adopt this guidance effective January 1, 2020 on a prospective basis. The Bank does not expect this guidance to have a material impact on its consolidated financial statements. |

*ASU 2018-13—Fair Value Measurement (ASC 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*

| | |
|---|---|
| The amendments, which were issued in August 2018, revise certain disclosure requirements for fair value measurements. The amendments remove the requirement to disclose the amounts and reasons for transfers between Levels 1 and 2 of the fair value hierarchy, the Bank's policy for the timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. In addition, the amendments require disclosures of the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs to develop Level 3 fair value measurements. | The Bank will adopt this guidance effective January 1, 2020. Amendments to add new disclosures will be applied prospectively, while amendments to remove disclosures will be applied retrospectively to all periods presented. The Bank does not expect the revised disclosure requirements to have a material impact on its consolidated financial statements. |

*ASU 2018-15—Intangibles—Goodwill and Other—Internal-Use Software (ASC 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*

| | |
|---|---|
| The amendments, which were issued in August 2018, require certain implementation costs for cloud computing arrangements that are service contracts to be capitalized under the internal-use software guidance. Capitalized costs should generally be amortized over the term of the arrangement on a straight-line basis. The amortization term includes fixed non-cancellable periods plus renewal periods the customer is reasonably certain to exercise, termination periods the customer is reasonably certain not to exercise, and periods covered by an option to extend that is controlled by the vendor.<br><br>When an arrangement includes multiple elements (e.g., hosting service, software license, professional service), the amendments require the purchase price be allocated based on the relative standalone price of each element. This requirement will also be applicable to internal-use software. | The Bank will adopt this guidance effective January 1, 2020 on a prospective basis. The Bank does not expect this guidance to have a material impact on its consolidated financial statements. |

## Note 2. Investment Securities

The following tables present information related to available-for-sale debt securities, held-to-maturity debt securities, and equity securities measured at fair value:

| | September 30, 2019 | | | |
|---|---|---|---|---|
| **($ in thousands)** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| **Debt securities available-for-sale:** | | | | |
| Agency residential mortgage-backed securities (“MBS”) | $ 416,883 | $ 4,217 | $ (155) | $ 420,945 |
| Other residential MBS | 4,334 | 97 | (2) | 4,429 |
| Agency commercial MBS | 920,844 | 8,368 | (930) | 928,282 |
| Securities of U.S. states and political subdivisions—taxable | 47,279 | 170 | — | 47,449 |
| Total | $ 1,389,340 | $ 12,852 | $ (1,087) | $ 1,401,105 |
| **Debt securities held-to-maturity:** | | | | |
| U.S. Government-sponsored agency securities | $ 558,459 | $ 279 | $ (735) | $ 558,003 |
| Agency residential MBS | 2,052,012 | 10,245 | (7,888) | 2,054,369 |
| Agency commercial MBS | 3,377,375 | 61,233 | (1,505) | 3,437,103 |
| Securities of U.S. states and political subdivisions: | | | | |
| Tax-exempt municipal securities | 9,637,134 | 617,584 | (1,598) | 10,253,120 |
| Tax-exempt nonprofit debentures | 139,830 | 5,940 | — | 145,770 |
| Taxable municipal securities | 213,832 | 16,207 | — | 230,039 |
| Corporate debt securities | 24,080 | 404 | — | 24,484 |
| Total | $ 16,002,722 | $ 711,892 | $ (11,726) | $ 16,702,888 |

| **($ in thousands)** | **September 30, 2019** |
|---|---|
| **Equity securities (fair value):** | |
| Mutual funds and marketable equity securities | $ 19,736 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| **($ in thousands)** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| **Debt securities available-for-sale:** | | | | |
| Agency residential MBS | $ 26,608 | $ 65 | $ (578) | $ 26,095 |
| Other residential MBS | 4,581 | — | (29) | 4,552 |
| Agency commercial MBS | 1,731,293 | 847 | (31,119) | 1,701,021 |
| Securities of U.S. states and political subdivisions—taxable | 47,275 | 173 | — | 47,448 |
| Total | $ 1,809,757 | $ 1,085 | $ (31,726) | $ 1,779,116 |
| **Debt securities held-to-maturity:** | | | | |
| U.S. Government-sponsored agency securities | $ 1,044,912 | $ — | $ (33,588) | $ 1,011,324 |
| Agency residential MBS | 1,868,587 | — | (69,487) | 1,799,100 |
| Agency commercial MBS | 3,375,409 | 2,040 | (136,597) | 3,240,852 |
| Securities of U.S. states and political subdivisions: | | | | |
| Tax-exempt municipal securities | 7,952,605 | 208,263 | (125,725) | 8,035,143 |
| Tax-exempt nonprofit debentures | 142,508 | 228 | (2,910) | 139,826 |
| Taxable municipal securities | 52,952 | 8,327 | — | 61,279 |
| Total | $ 14,436,973 | $ 218,858 | $ (368,307) | $ 14,287,524 |

| **($ in thousands)** | **December 31, 2018** |
|---|---|
| **Equity securities (fair value):** | |
| Mutual funds and marketable equity securities | $ 18,719 |

The Bank pledges investment securities at the Federal Reserve Bank to maintain the ability to borrow at the discount window, or at a correspondent bank as collateral to secure trust funds and public deposits. At September 30, 2019, the carrying value of investment securities pledged was $2.4 billion, of which $2.3 billion was unencumbered and available to support additional borrowings.

The following tables present gross unrealized losses and fair value of available-for-sale and held-to-maturity debt securities by length of time that individual securities in each category had been in a continuous loss position:

| | September 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | | |
| ($ in thousands) | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Total Number of Securities |
| **Debt securities available-for-sale:** | | | | | | | |
| Agency residential MBS | $ — | $ — | $ (155) | $ 10,152 | $ (155) | $ 10,152 | 16 |
| Other residential MBS | — | — | (2) | 486 | (2) | 486 | 2 |
| Agency commercial MBS | (411) | 126,879 | (519) | 91,686 | (930) | 218,565 | 5 |
| Total | $ (411) | $ 126,879 | $ (676) | $ 102,324 | $ (1,087) | $ 229,203 | 23 |
| **Debt securities held-to-maturity:** | | | | | | | |
| U.S. Government-sponsored agency securities | $ (735) | $ 199,265 | $ — | $ — | $ (735) | $ 199,265 | 2 |
| Agency residential MBS | (486) | 202,001 | (7,402) | 809,002 | (7,888) | 1,011,003 | 20 |
| Agency commercial MBS | — | — | (1,505) | 475,799 | (1,505) | 475,799 | 9 |
| Securities of U.S. states and political subdivisions: | | | | | | | |
| Tax-exempt municipal securities | (1,598) | 581,420 | — | — | (1,598) | 581,420 | 39 |
| Total | $ (2,819) | $ 982,686 | $ (8,907) | $1,284,801 | $ (11,726) | $2,267,487 | 70 |

| | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | | |
| ($ in thousands) | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Total Number of Securities |
| **Debt securities available-for-sale:** | | | | | | | |
| Agency residential MBS | $ (8) | $ 1,266 | $ (570) | $ 16,941 | $ (578) | $ 18,207 | 23 |
| Other residential MBS | (17) | 4,021 | (12) | 531 | (29) | 4,552 | 3 |
| Agency commercial MBS | (3,789) | 784,939 | (27,330) | 689,386 | (31,119) | 1,474,325 | 35 |
| Total | $ (3,814) | $ 790,226 | $ (27,912) | $ 706,858 | $ (31,726) | $1,497,084 | 61 |
| **Debt securities held-to-maturity:** | | | | | | | |
| U.S. Government-sponsored agency securities | $ (592) | $ 57,908 | $ (32,996) | $ 953,416 | $ (33,588) | $1,011,324 | 39 |
| Agency residential MBS | — | — | (69,487) | 1,799,100 | (69,487) | 1,799,100 | 49 |
| Agency commercial MBS | (5,084) | 233,573 | (131,513) | 2,716,170 | (136,597) | 2,949,743 | 82 |
| Securities of U.S. states and political subdivisions: | | | | | | | |
| Tax-exempt municipal securities | (9,429) | 644,391 | (116,296) | 2,206,671 | (125,725) | 2,851,062 | 309 |
| Tax-exempt nonprofit debentures | (1,167) | 57,918 | (1,743) | 19,240 | (2,910) | 77,158 | 4 |
| Total | $ (16,272) | $ 993,790 | $ (352,035) | $7,694,597 | $ (368,307) | $8,688,387 | 483 |

The Bank conducts a regular assessment of its investment securities portfolio to determine whether securities are other-than-temporarily impaired considering, among other factors, the nature of the securities, credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows, market conditions and the Bank's ability to hold the securities through the anticipated recovery period.

The Bank does not intend to sell the available-for-sale or held-to-maturity debt securities included in the tables above and has concluded that it is more likely than not that it will not be required to sell any of the investments prior to recovery of the amortized cost basis.

*U.S. Government-Sponsored Agency Securities.* At September 30, 2019, the unrealized losses on the Bank's investments in U.S. Government-sponsored agency securities are primarily due to movement in market interest rates and spreads since the securities were purchased and are not due to credit losses, given the explicit or implicit guarantees provided by agencies of the U.S. Government. The Bank expects to continue to receive all contractual principal and interest payments. Therefore, the Bank does not consider these investments to be other-than-temporarily impaired.

*Agency Residential MBS and Agency Commercial MBS.* At September 30, 2019, the unrealized losses on the Bank's investments in agency residential MBS and agency commercial MBS are primarily due to movement in market interest rates and spreads since the securities were purchased and are not due to credit losses, given the explicit or implicit guarantees provided by the U.S. Government or agencies of the U.S. Government. The Bank expects to continue to receive all contractual principal and interest payments. Therefore, the Bank does not consider these investments to be other-than-temporarily impaired.

*Tax-Exempt Municipal Securities.* At September 30, 2019, the unrealized losses on the Bank's investments in tax-exempt municipal securities are primarily due to increases in market interest rates since the securities were purchased and are not due to the credit quality of the securities. The Bank monitors these securities regularly to determine if any changes in ratings have occurred and conducts its internal credit analysis to determine if the issuer has experienced any change in financial condition that may result in a potential loss of the contractual principal and interest payments. The Bank expects to continue to receive all contractual principal and interest payments.

At both September 30, 2019 and December 31, 2018, there were no other-than-temporary impairment charges on debt securities recognized in accumulated other comprehensive income (loss). In addition, there were no other-than-temporary impairment charges on debt securities recognized in earnings during the quarters and nine months ended September 30, 2019 and 2018.

During the nine months ended September 30, 2018, the Bank performed a repositioning of its investment portfolio and sold certain available-for-sale U.S. Treasury securities, U.S. Government-sponsored agency securities, agency residential MBS, agency commercial MBS, and tax-exempt municipal securities with proceeds of $2.2 billion, and recognized a gain on sale of $10.7 million.

The following table presents proceeds received from sales of investment securities:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Debt securities available-for-sale: | | | | |
| Sales proceeds | $ 501,677 | $ 114,514 | $ 695,306 | $ 2,447,894 |

The following table presents gains and losses on investment securities:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Debt securities available-for-sale: | | | | |
| Gross realized gains on sales | $ 200 | $ — | $ 200 | $ 72,574 |
| Gross realized losses on sales | (1,090) | (779) | (3,112) | (64,863) |
| Equity securities (fair value): | | | | |
| Net change in fair value | 207 | (876) | 1,017 | (1,196) |
| Total gain (loss) on investment securities | $ (683) | $ (1,655) | $ (1,895) | $ 6,515 |

The following table presents interest income on investment securities:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Interest income on tax-exempt securities | $ 80,296 | $ 73,233 | $ 232,156 | $ 225,387 |
| Interest income on taxable securities | 53,803 | 60,878 | 169,752 | 180,986 |
| Total | $ 134,099 | $ 134,111 | $ 401,908 | $ 406,373 |

The following table presents contractual maturities of debt securities available-for-sale and held-to-maturity. Actual maturities for certain U.S. Government agency securities, U.S. Government-sponsored agency securities and municipal securities may occur earlier than their stated contractual maturities because the note issuers may have the right to call outstanding amounts ahead of their contractual maturities. In addition, the remaining contractual principal maturities for MBS do not consider prepayments. Expected remaining maturities for MBS can differ from contractual maturities because borrowers have the right to prepay their mortgage obligations, with or without penalties, prior to contractual maturity.

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| **($ in thousands)** | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| Available-for-sale: | | | | |
| Due in one year or less | $ 57 | $ 57 | $ 12 | $ 12 |
| Due after one year through five years | 110,670 | 110,387 | 352,542 | 352,845 |
| Due after five years through ten years | 122,166 | 121,580 | 659,459 | 655,810 |
| Due after ten years | 1,156,447 | 1,169,081 | 797,744 | 770,449 |
| Total | $ 1,389,340 | $ 1,401,105 | $ 1,809,757 | $ 1,779,116 |
| Held-to-maturity: | | | | |
| Due in one year or less | $ 270,539 | $ 275,660 | $ 386,762 | $ 390,440 |
| Due after one year through five years | 324,919 | 358,181 | 499,827 | 536,214 |
| Due after five years through ten years | 434,564 | 451,622 | 736,569 | 729,623 |
| Due after ten years | 14,972,700 | 15,617,425 | 12,813,815 | 12,631,247 |
| Total | $ 16,002,722 | $ 16,702,888 | $ 14,436,973 | $ 14,287,524 |

## Note 3. Loans and Allowance for Loan Losses

*Loan Profile*

The following table presents the recorded investment in the Bank's loan portfolio and allowance for loan losses:

| ($ in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Single family (1-4 units) | $ 44,882,363 | $ 37,955,252 |
| Home equity lines of credit | 2,530,740 | 2,542,713 |
| Multifamily (5+ units) | 11,725,331 | 10,357,839 |
| Commercial real estate | 7,504,334 | 6,677,440 |
| Single family construction | 743,699 | 645,924 |
| Multifamily/commercial construction | 1,442,896 | 1,576,582 |
| Total real estate mortgages | 68,829,363 | 59,755,750 |
| Business | 11,564,863 | 10,998,503 |
| Stock secured | 1,610,914 | 1,432,911 |
| Other secured | 1,293,084 | 1,105,751 |
| Unsecured | 3,006,586 | 2,572,367 |
| Total other loans | 17,475,447 | 16,109,532 |
| Total loans | 86,304,810 | 75,865,282 |
| Less: | | |
| Allowance for loan losses | (485,465) | (439,048) |
| Loans, net | $ 85,819,345 | $ 75,426,234 |
| Loans held for sale | $ 31,693 | $ 98,985 |

Real estate loans are secured by single family, multifamily and commercial real estate properties and generally mature over periods of up to thirty years. At September 30, 2019 and December 31, 2018, approximately 51% and 50%, respectively, of the total loan portfolio was secured by California real estate. At September 30, 2019, approximately 67% of single family mortgages fully and evenly amortize until maturity following an initial interest-only period of generally ten years, compared to 68% at December 31, 2018.

As of September 30, 2019, the Bank had pledged $41.4 billion of loans to secure borrowings of $11.2 billion from the Federal Home Loan Bank (the "FHLB"), although only approximately $12.6 billion of collateral was required in connection with the outstanding FHLB advances.

*Credit Quality*

The Bank has two classes of loans: (1) non-impaired loans, which include both purchased and originated non-impaired loans and (2) impaired loans, which include both purchased and originated non-impaired loans that subsequently became impaired under ASC 310-10-35, "Receivables—Subsequent Measurement," and purchased credit-impaired loans subject to ASC 310-30, "Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality."

A loan is considered past due if the required principal and interest payment has not been received as of the day after such payment was due. The tables below present an aging analysis of loans and loans on nonaccrual status by class. Of the loans on nonaccrual status, at September 30, 2019, $111.5 million were current, compared to $21.1 million at December 31, 2018. The increase in nonaccrual loans at September 30, 2019 was from one lending relationship totaling $91.4 million, consisting of single family, home equity lines of credit and non-owner occupied single family construction loans.

| ($ in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans | 90 Days or More Past Due and Accruing | Nonaccrual |
|---|---|---|---|---|---|---|---|---|
| **At September 30, 2019** | | | | | | | | |
| Single Family (1-4 units): | | | | | | | | |
| Non-impaired | $ 10,237 | $ 148 | $ 2,321 | $ 12,706 | $ 44,810,010 | $ 44,822,716 | $ — | $ 4,983 |
| Impaired | 3,595 | 762 | 13,443 | 17,800 | 41,847 | 59,647 | — | 47,003 |
| | 13,832 | 910 | 15,764 | 30,506 | 44,851,857 | 44,882,363 | — | 51,986 |
| Home Equity Lines of Credit: | | | | | | | | |
| Non-impaired | 1,211 | 475 | 994 | 2,680 | 2,515,987 | 2,518,667 | — | 1,271 |
| Impaired | — | 1,049 | 633 | 1,682 | 10,391 | 12,073 | — | 9,883 |
| | 1,211 | 1,524 | 1,627 | 4,362 | 2,526,378 | 2,530,740 | — | 11,154 |
| Multifamily (5+ units): | | | | | | | | |
| Non-impaired | — | — | — | — | 11,714,983 | 11,714,983 | — | — |
| Impaired | — | — | — | — | 10,348 | 10,348 | — | — |
| | — | — | — | — | 11,725,331 | 11,725,331 | — | — |
| Commercial Real Estate: | | | | | | | | |
| Non-impaired | — | — | — | — | 7,499,834 | 7,499,834 | — | — |
| Impaired | — | — | — | — | 4,500 | 4,500 | — | — |
| | — | — | — | — | 7,504,334 | 7,504,334 | — | — |
| Single Family Construction: | | | | | | | | |
| Non-impaired | — | — | — | — | 743,699 | 743,699 | — | — |
| Multifamily/Commercial Construction: | | | | | | | | |
| Non-impaired | — | — | — | — | 1,372,852 | 1,372,852 | — | — |
| Impaired | — | — | — | — | 70,044 | 70,044 | — | 70,044 |
| | — | — | — | — | 1,442,896 | 1,442,896 | — | 70,044 |
| Business: | | | | | | | | |
| Non-impaired | 582 | — | — | 582 | 11,557,203 | 11,557,785 | — | 668 |
| Impaired | — | — | 993 | 993 | 6,085 | 7,078 | — | 2,268 |
| | 582 | — | 993 | 1,575 | 11,563,288 | 11,564,863 | — | 2,936 |
| Stock Secured: | | | | | | | | |
| Non-impaired | — | — | — | — | 1,610,914 | 1,610,914 | — | — |
| Other Secured: | | | | | | | | |
| Non-impaired | 639 | — | — | 639 | 1,292,445 | 1,293,084 | — | — |
| Unsecured: | | | | | | | | |
| Non-impaired | 511 | — | — | 511 | 3,005,873 | 3,006,384 | — | 608 |
| Impaired | 200 | — | — | 200 | 2 | 202 | — | 200 |
| | 711 | — | — | 711 | 3,005,875 | 3,006,586 | — | 808 |
| Total | $ 16,975 | $ 2,434 | $ 18,384 | $ 37,793 | $ 86,267,017 | $ 86,304,810 | $ — | $ 136,928 |

| ($ in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans | 90 Days or More Past Due and Accruing | Nonaccrual |
|---|---|---|---|---|---|---|---|---|
| **At December 31, 2018** | | | | | | | | |
| Single Family (1-4 units): | | | | | | | | |
| Non-impaired | $ 5,905 | $ 1,370 | $ 3,479 | $ 10,754 | $ 37,915,612 | $ 37,926,366 | $ — | $ 4,982 |
| Impaired | — | 288 | 8,927 | 9,215 | 19,671 | 28,886 | — | 18,848 |
| | 5,905 | 1,658 | 12,406 | 19,969 | 37,935,283 | 37,955,252 | — | 23,830 |
| Home Equity Lines of Credit: | | | | | | | | |
| Non-impaired | 2,130 | — | 607 | 2,737 | 2,527,547 | 2,530,284 | — | 1,518 |
| Impaired | 2,892 | 1,512 | 2,843 | 7,247 | 5,182 | 12,429 | — | 8,008 |
| | 5,022 | 1,512 | 3,450 | 9,984 | 2,532,729 | 2,542,713 | — | 9,526 |
| Multifamily (5+ units): | | | | | | | | |
| Non-impaired | — | — | — | — | 10,345,471 | 10,345,471 | — | — |
| Impaired | — | — | — | — | 12,368 | 12,368 | — | 2,056 |
| | — | — | — | — | 10,357,839 | 10,357,839 | — | 2,056 |
| Commercial Real Estate: | | | | | | | | |
| Non-impaired | — | — | — | — | 6,670,954 | 6,670,954 | — | 266 |
| Impaired | — | — | — | — | 6,486 | 6,486 | — | — |
| | — | — | — | — | 6,677,440 | 6,677,440 | — | 266 |
| Single Family Construction: | | | | | | | | |
| Non-impaired | — | — | — | — | 645,924 | 645,924 | — | — |
| Multifamily/Commercial Construction: | | | | | | | | |
| Non-impaired | — | — | — | — | 1,576,582 | 1,576,582 | — | — |
| Business: | | | | | | | | |
| Non-impaired | — | — | — | — | 10,988,098 | 10,988,098 | — | 331 |
| Impaired | — | — | 3,252 | 3,252 | 7,153 | 10,405 | — | 6,209 |
| | — | — | 3,252 | 3,252 | 10,995,251 | 10,998,503 | — | 6,540 |
| Stock Secured: | | | | | | | | |
| Non-impaired | — | — | — | — | 1,432,911 | 1,432,911 | — | — |
| Other Secured: | | | | | | | | |
| Non-impaired | — | — | — | — | 1,105,751 | 1,105,751 | — | — |
| Unsecured: | | | | | | | | |
| Non-impaired | 200 | 286 | — | 486 | 2,569,386 | 2,569,872 | — | 1,754 |
| Impaired | — | 2,493 | — | 2,493 | 2 | 2,495 | — | 2,493 |
| | 200 | 2,779 | — | 2,979 | 2,569,388 | 2,572,367 | — | 4,247 |
| Total | $ 11,127 | $ 5,949 | $ 19,108 | $ 36,184 | $ 75,829,098 | $ 75,865,282 | $ — | $ 46,465 |

The interest income related to nonaccrual loans at each respective period end is presented in the following table:

| ($ in thousands) | Quarter Ended September 30, 2019 | Quarter Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Actual interest income recognized | $ — | $ — | $ — | $ — |
| Interest income under original terms | $ 1,745 | $ 538 | $ 3,150 | $ 1,348 |

We perform annual reviews of our larger multifamily, commercial real estate and commercial business loans. For loans that are criticized or classified, the Bank's Special Assets Committee reviews loan grades, reserves and accrual status on a quarterly or more frequent basis. The Bank's internal loan grades apply to all loans and are as follows:

Pass—These loans are performing substantially as agreed, with no current identified material weakness in repayment ability. Any credit or collateral exceptions existing with respect to the loan should be minimal and immaterial, in the process of correction, and not such that they could subsequently impair credit quality and introduce risk of collection.

Special Mention—These loans have potential weaknesses and deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. However, these loans do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard—These loans are inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. These loans have a well-defined weakness that jeopardizes the liquidation of the debt.

Doubtful—These loans have weaknesses that make collection or liquidation in full highly improbable. The possibility of some loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage and strengthening of the loan, its classification as a loss is deferred until a more exact status may be determined.

The following tables present the recorded investment in loans, by credit quality indicator and by class:

| ($ in thousands) | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| **At September 30, 2019** | | | | | |
| Single Family (1-4 units): | | | | | |
| Non-impaired | $ 44,710,398 | $ 41,867 | $ 70,451 | $ — | $ 44,822,716 |
| Impaired | 12,194 | 451 | 47,002 | — | 59,647 |
| | 44,722,592 | 42,318 | 117,453 | — | 44,882,363 |
| Home Equity Lines of Credit: | | | | | |
| Non-impaired | 2,494,736 | 10,111 | 13,820 | — | 2,518,667 |
| Impaired | 1,021 | 822 | 10,230 | — | 12,073 |
| | 2,495,757 | 10,933 | 24,050 | — | 2,530,740 |
| Multifamily (5+ units): | | | | | |
| Non-impaired | 11,714,317 | 666 | — | — | 11,714,983 |
| Impaired | 10,348 | — | — | — | 10,348 |
| | 11,724,665 | 666 | — | — | 11,725,331 |
| Commercial Real Estate: | | | | | |
| Non-impaired | 7,459,148 | 36,747 | 3,939 | — | 7,499,834 |
| Impaired | 4,500 | — | — | — | 4,500 |
| | 7,463,648 | 36,747 | 3,939 | — | 7,504,334 |
| Single Family Construction: | | | | | |
| Non-impaired | 731,528 | 3,413 | 8,758 | — | 743,699 |
| Multifamily/Commercial Construction: | | | | | |
| Non-impaired | 1,371,783 | — | 1,069 | — | 1,372,852 |
| Impaired | — | — | 70,044 | — | 70,044 |
| | 1,371,783 | — | 71,113 | — | 1,442,896 |
| Business: | | | | | |
| Non-impaired | 11,516,865 | 24,310 | 15,941 | 669 | 11,557,785 |
| Impaired | 3,788 | 1,022 | 2,268 | — | 7,078 |
| | 11,520,653 | 25,332 | 18,209 | 669 | 11,564,863 |
| Stock Secured: | | | | | |
| Non-impaired | 1,610,662 | 252 | — | — | 1,610,914 |
| Other Secured: | | | | | |
| Non-impaired | 1,292,834 | 250 | — | — | 1,293,084 |
| Unsecured: | | | | | |
| Non-impaired | 2,996,275 | 1,231 | 8,270 | 608 | 3,006,384 |
| Impaired | 2 | — | 200 | — | 202 |
| | 2,996,277 | 1,231 | 8,470 | 608 | 3,006,586 |
| Total | $ 85,930,399 | $ 121,142 | $ 251,992 | $ 1,277 | $ 86,304,810 |

| ($ in thousands) | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| **At December 31, 2018** | | | | | |
| Single Family (1-4 units): | | | | | |
| Non-impaired | $ 37,842,048 | $ 44,322 | $ 39,996 | $ — | $ 37,926,366 |
| Impaired | 9,578 | — | 19,308 | — | 28,886 |
| | 37,851,626 | 44,322 | 59,304 | — | 37,955,252 |
| Home Equity Lines of Credit: | | | | | |
| Non-impaired | 2,515,039 | 12,727 | 2,518 | — | 2,530,284 |
| Impaired | 1,107 | — | 11,322 | — | 12,429 |
| | 2,516,146 | 12,727 | 13,840 | — | 2,542,713 |
| Multifamily (5+ units): | | | | | |
| Non-impaired | 10,345,471 | — | — | — | 10,345,471 |
| Impaired | 10,312 | — | 2,056 | — | 12,368 |
| | 10,355,783 | — | 2,056 | — | 10,357,839 |
| Commercial Real Estate: | | | | | |
| Non-impaired | 6,657,627 | 9,039 | 4,288 | — | 6,670,954 |
| Impaired | 1,986 | — | 4,500 | — | 6,486 |
| | 6,659,613 | 9,039 | 8,788 | — | 6,677,440 |
| Single Family Construction: | | | | | |
| Non-impaired | 643,017 | — | 2,907 | — | 645,924 |
| Multifamily/Commercial Construction: | | | | | |
| Non-impaired | 1,575,419 | — | 1,163 | — | 1,576,582 |
| Business: | | | | | |
| Non-impaired | 10,927,492 | 46,096 | 14,179 | 331 | 10,988,098 |
| Impaired | 4,197 | — | 6,208 | — | 10,405 |
| | 10,931,689 | 46,096 | 20,387 | 331 | 10,998,503 |
| Stock Secured: | | | | | |
| Non-impaired | 1,432,911 | — | — | — | 1,432,911 |
| Other Secured: | | | | | |
| Non-impaired | 1,105,501 | 250 | — | — | 1,105,751 |
| Unsecured: | | | | | |
| Non-impaired | 2,562,258 | 1,231 | 4,629 | 1,754 | 2,569,872 |
| Impaired | — | — | 2,495 | — | 2,495 |
| | 2,562,258 | 1,231 | 7,124 | 1,754 | 2,572,367 |
| Total | $ 75,633,963 | $ 113,665 | $ 115,569 | $ 2,085 | $ 75,865,282 |

*Other Real Estate Owned and Residential Mortgage Loans in the Process of Foreclosure*

As of September 30, 2019 and December 31, 2018, the Bank did not have any residential real estate owned (acquired through foreclosure).

The carrying amount of residential mortgage loans in the process of foreclosure was $10.6 million and $6.2 million at September 30, 2019 and December 31, 2018, respectively.

*Allowance for Loan Losses*

The Bank's allowance for loan losses is evaluated based on its two classes of loans: (1) non-impaired loans, which include both purchased and originated non-impaired loans and (2) impaired loans, which include both purchased and originated non-impaired loans that subsequently became impaired under ASC 310-10-35, and purchased credit-impaired loans subject to ASC 310-30.

Purchased non-impaired loans are monitored to determine if these loans have experienced a deterioration in credit quality based upon their payment status and loan grade. If a deterioration in credit quality has occurred, the Bank evaluates the estimated loss content in the individual loan as compared to the loan's current carrying value, which includes any related purchase accounting discount.

Originated non-impaired loans are collectively evaluated for estimated losses in accordance with ASC 450, "Contingencies," based on groups of loans with similar risk characteristics that align with the loan portfolio segments. The Bank has maintained an allowance for loan loss model that computes loss factors for each segment based upon our historical losses and current portfolio trends.

Any purchased non-impaired and originated non-impaired loans that subsequently became impaired are evaluated under ASC 310-10-35. If determined necessary, a specific reserve will be recorded for these loans. In addition, purchased credit-impaired loans are subject to a quarterly review of expected cash flows. These loans are generally evaluated quarterly by the Bank's Special Assets Committee, unless they have been upgraded to a pass loan. If there is further credit deterioration, an additional specific reserve will be recorded.

The Bank also maintains a qualitative reserve, which represents the qualitative portion of the allowance for loan losses. This qualitative reserve is determined based on management's assessments of the risks that may lead to a loan loss experience different than our historical loss experience and therefore not reflected in the quantitative model. The Bank uses qualitative factors that are intended to address developing external and internal environmental trends and include considerations such as changes in current economic and business conditions, the nature and volume of the Bank's loan portfolio, the existence and effects of credit concentrations, and problem loan trends, along with other external factors, such as competition and the legal and regulatory environment. The allocation to the individual loan portfolios considers the qualitative factors relevant to each portfolio, the degree to which the relevant qualitative factors impacted each loan portfolio, and relative portfolio balances.

The following tables present an analysis of the allowance for loan losses:

| ($ in thousands) | Single Family (1-4 units) | Home Equity Lines of Credit | Multifamily (5+ units) | Commercial Real Estate | Single Family Construction | Multifamily/ Commercial Construction | Business | Stock Secured | Other Secured | Unsecured | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At or for the Quarter Ended September 30, 2019** | | | | | | | | | | | |
| **Rollforward of allowance for loan losses:** | | | | | | | | | | | |
| Balance at beginning of period | $ 73,660 | $ 13,935 | $ 89,427 | $ 56,277 | $ 4,450 | $ 13,029 | $ 184,109 | $ 378 | $ 6,486 | $ 31,344 | $ 473,095 |
| Provision (reversal of provision) | 3 | (549) | 10,592 | 6,486 | 553 | 710 | (4,286) | (378) | 837 | 2,743 | 16,711 |
| Charge-offs | (961) | — | — | — | — | — | (3,329) | — | — | (331) | (4,621) |
| Recoveries | 35 | 25 | — | — | — | — | 17 | — | — | 203 | 280 |
| Balance at end of period | $ 72,737 | $ 13,411 | $ 100,019 | $ 62,763 | $ 5,003 | $ 13,739 | $ 176,511 | $ — | $ 7,323 | $ 33,959 | $ 485,465 |
| **At or for the Nine Months Ended September 30, 2019** | | | | | | | | | | | |
| **Rollforward of allowance for loan losses:** | | | | | | | | | | | |
| Balance at beginning of period | $ 65,402 | $ 12,887 | $ 80,134 | $ 54,907 | $ 3,073 | $ 14,687 | $ 167,591 | $ 8,724 | $ 8,301 | $ 23,342 | $ 439,048 |
| Provision (reversal of provision) | 8,110 | 424 | 19,885 | 7,856 | 1,930 | (948) | 13,432 | (8,724) | (978) | 11,124 | 52,111 |
| Charge-offs | (992) | — | — | — | — | — | (4,558) | — | — | (861) | (6,411) |
| Recoveries | 217 | 100 | — | — | — | — | 46 | — | — | 354 | 717 |
| Balance at end of period | $ 72,737 | $ 13,411 | $ 100,019 | $ 62,763 | $ 5,003 | $ 13,739 | $ 176,511 | $ — | $ 7,323 | $ 33,959 | $ 485,465 |
| **Allowance for loan losses by impairment methodology:** | | | | | | | | | | | |
| Non-impaired | $ 72,737 | $ 13,392 | $ 100,019 | $ 62,609 | $ 5,003 | $ 13,739 | $ 176,503 | $ — | $ 7,323 | $ 33,959 | $ 485,284 |
| Impaired | — | 19 | — | 154 | — | — | 8 | — | — | — | 181 |
| Total | $ 72,737 | $ 13,411 | $ 100,019 | $ 62,763 | $ 5,003 | $ 13,739 | $ 176,511 | $ — | $ 7,323 | $ 33,959 | $ 485,465 |
| **Recorded investment in loans:** | | | | | | | | | | | |
| Non-impaired | $44,822,716 | $ 2,518,667 | $11,714,983 | $ 7,499,834 | $ 743,699 | $ 1,372,852 | $11,557,785 | $ 1,610,914 | $ 1,293,084 | $ 3,006,384 | $ 86,140,918 |
| Impaired | 59,647 | 12,073 | 10,348 | 4,500 | — | 70,044 | 7,078 | — | — | 202 | 163,892 |
| Total | $44,882,363 | $ 2,530,740 | $11,725,331 | $ 7,504,334 | $ 743,699 | $ 1,442,896 | $11,564,863 | $ 1,610,914 | $ 1,293,084 | $ 3,006,586 | $ 86,304,810 |

| ($ in thousands) | Single Family (1-4 units) | Home Equity Lines of Credit | Multifamily (5+ units) | Commercial Real Estate | Single Family Construction | Multifamily/ Commercial Construction | Business | Stock Secured | Other Secured | Unsecured | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At or for the Quarter Ended September 30, 2018** | | | | | | | | | | | |
| **Rollforward of allowance for loan losses:** | | | | | | | | | | | |
| Balance at beginning of period | $ 56,770 | $ 12,538 | $ 74,527 | $ 50,900 | $ 3,200 | $ 11,914 | $ 152,278 | $ 8,339 | $ 7,736 | $ 19,175 | $ 397,377 |
| Provision (reversal of provision) | 5,127 | 543 | 1,049 | 1,499 | (51) | 1,345 | 7,157 | 7 | 501 | 1,456 | 18,633 |
| Charge-offs | — | (146) | — | — | — | — | (78) | — | — | (127) | (351) |
| Recoveries | 11 | 24 | — | — | — | — | 115 | — | — | 16 | 166 |
| Balance at end of period | $ 61,908 | $ 12,959 | $ 75,576 | $ 52,399 | $ 3,149 | $ 13,259 | $ 159,472 | $ 8,346 | $ 8,237 | $ 20,520 | $ 415,825 |
| **At or for the Nine Months Ended September 30, 2018** | | | | | | | | | | | |
| **Rollforward of allowance for loan losses:** | | | | | | | | | | | |
| Balance at beginning of period | $ 52,011 | $ 13,046 | $ 67,605 | $ 52,268 | $ 2,758 | $ 10,513 | $ 137,956 | $ 6,596 | $ 7,850 | $ 15,329 | $ 365,932 |
| Provision | 9,880 | 325 | 7,971 | 131 | 391 | 2,746 | 21,916 | 1,750 | 387 | 5,506 | 51,003 |
| Charge-offs | — | (497) | — | — | — | — | (639) | — | — | (430) | (1,566) |
| Recoveries | 17 | 85 | — | — | — | — | 239 | — | — | 115 | 456 |
| Balance at end of period | $ 61,908 | $ 12,959 | $ 75,576 | $ 52,399 | $ 3,149 | $ 13,259 | $ 159,472 | $ 8,346 | $ 8,237 | $ 20,520 | $ 415,825 |
| **Allowance for loan losses by impairment methodology:** | | | | | | | | | | | |
| Non-impaired | $ 61,908 | $ 12,928 | $ 75,576 | $ 52,160 | $ 3,149 | $ 13,259 | $ 159,266 | $ 8,346 | $ 8,237 | $ 20,520 | $ 415,349 |
| Impaired | — | 31 | — | 239 | — | — | 206 | — | — | — | 476 |
| Total | $ 61,908 | $ 12,959 | $ 75,576 | $ 52,399 | $ 3,149 | $ 13,259 | $ 159,472 | $ 8,346 | $ 8,237 | $ 20,520 | $ 415,825 |
| **Recorded investment in loans:** | | | | | | | | | | | |
| Non-impaired | $36,189,288 | $ 2,530,199 | $ 9,765,087 | $ 6,453,156 | $ 654,643 | $ 1,422,746 | $10,369,998 | $ 1,371,546 | $ 1,101,721 | $ 2,399,061 | $ 72,257,445 |
| Impaired | 24,426 | 13,453 | 14,606 | 6,498 | — | — | 12,052 | — | — | 17 | 71,052 |
| Total | $36,213,714 | $ 2,543,652 | $ 9,779,693 | $ 6,459,654 | $ 654,643 | $ 1,422,746 | $10,382,050 | $ 1,371,546 | $ 1,101,721 | $ 2,399,078 | $ 72,328,497 |

*Reserve for Unfunded Commitments*

The Bank evaluates reserves for unfunded commitments for home equity lines of credit, single family construction, commercial real estate and multifamily lines of credit, multifamily/commercial construction, business lines of credit and secured/unsecured lines of credit. In determining the level of reserves, the Bank determines the probability of funding for each portfolio segment based on historical utilization statistics specific to that portfolio segment. Construction commitments are assumed to be fully funded, since the construction projects are expected to be completed. Additionally, for unfunded commitments, the Bank applies a loss factor that is consistent with that applied against the funded balance for each portfolio segment. The reserve for unfunded commitments was $13.5 million and $13.2 million at September 30, 2019 and December 31, 2018, respectively.

*Impaired Loans*

The following tables present information related to impaired loans:

| | Total | | With no related allowance recorded | | With an allowance recorded | | |
|---|---|---|---|---|---|---|---|
| ($ in thousands) | Recorded Investment | Unpaid Principal Balance | Recorded Investment | Unpaid Principal Balance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| **At September 30, 2019** | | | | | | | |
| Single family (1-4 units) | $ 59,647 | $ 59,884 | $ 59,647 | $ 59,884 | $ — | $ — | $ — |
| Home equity lines of credit | 12,073 | 12,138 | 11,726 | 11,774 | 347 | 364 | 19 |
| Multifamily (5+ units) | 10,348 | 10,394 | 10,348 | 10,394 | — | — | — |
| Commercial real estate | 4,500 | 4,500 | — | — | 4,500 | 4,500 | 154 |
| Multifamily/commercial construction | 70,044 | 70,044 | 70,044 | 70,044 | — | — | — |
| Business | 7,078 | 7,101 | 6,056 | 6,079 | 1,022 | 1,022 | 8 |
| Unsecured | 202 | 326 | 202 | 326 | — | — | — |
| Total | $ 163,892 | $ 164,387 | $ 158,023 | $ 158,501 | $ 5,869 | $ 5,886 | $ 181 |
| **At December 31, 2018** | | | | | | | |
| Single family (1-4 units) | $ 28,886 | $ 29,219 | $ 28,886 | $ 29,219 | $ — | $ — | $ — |
| Home equity lines of credit | 12,429 | 12,527 | 12,429 | 12,527 | — | — | — |
| Multifamily (5+ units) | 12,368 | 12,546 | 12,368 | 12,546 | — | — | — |
| Commercial real estate | 6,486 | 6,516 | 1,986 | 2,016 | 4,500 | 4,500 | 265 |
| Business | 10,405 | 10,436 | 9,163 | 9,194 | 1,242 | 1,242 | 48 |
| Unsecured | 2,495 | 2,630 | 2,495 | 2,630 | — | — | — |
| Total | $ 73,069 | $ 73,874 | $ 67,327 | $ 68,132 | $ 5,742 | $ 5,742 | $ 313 |

| | Quarter Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| ($ in thousands) | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Single family (1-4 units) | $ 62,917 | $ 207 | $ 23,905 | $ 118 | $ 46,706 | $ 551 | $ 25,771 | $ 342 |
| Home equity lines of credit | 13,121 | 20 | 12,513 | 73 | 11,958 | 116 | 12,892 | 223 |
| Multifamily (5+ units) | 10,345 | 118 | 14,647 | 129 | 11,347 | 468 | 14,756 | 394 |
| Commercial real estate | 5,967 | 87 | 7,143 | 109 | 6,272 | 225 | 8,785 | 336 |
| Multifamily/ commercial construction | 70,419 | — | — | — | 28,168 | — | — | — |
| Business | 7,562 | 39 | 14,778 | 147 | 8,763 | 108 | 14,985 | 1,118 |
| Unsecured | 52 | 6 | 94 | 6 | 271 | 19 | 477 | 18 |
| Total | $ 170,383 | $ 477 | $ 73,080 | $ 582 | $ 113,485 | $ 1,487 | $ 77,666 | $ 2,431 |

*Troubled Debt Restructurings*

The Bank restructures loans generally because of the borrower's financial difficulties by granting concessions to reduce the interest rate or to defer payments. Loans that have been modified in troubled debt restructurings are generally reported as nonaccrual loans until at least six consecutive payments are received and the loan meets the Bank's other criteria for returning to accrual status. The following table presents the recorded investment in loans modified in troubled debt restructurings:

| | At September 30, 2019 | | | At December 31, 2018 | | |
|---|---|---|---|---|---|---|
| **($ in thousands)** | **Restructured - Nonaccrual** | **Restructured - Accruing** | **Total** | **Restructured - Nonaccrual** | **Restructured - Accruing** | **Total** |
| Single Family (1-4 units): | | | | | | |
| Non-impaired | $ — | $ 445 | $ 445 | $ — | $ 459 | $ 459 |
| Impaired | 25,768 | 6,775 | 32,543 | 5,694 | 4,019 | 9,713 |
| | 25,768 | 7,220 | 32,988 | 5,694 | 4,478 | 10,172 |
| Home Equity Lines of Credit: | | | | | | |
| Non-impaired | — | 17 | 17 | 79 | — | 79 |
| Impaired | 6,721 | 1,853 | 8,574 | 4,559 | 2,057 | 6,616 |
| | 6,721 | 1,870 | 8,591 | 4,638 | 2,057 | 6,695 |
| Commercial Real Estate: | | | | | | |
| Non-impaired | — | 213 | 213 | — | 215 | 215 |
| Impaired | — | 4,500 | 4,500 | — | 4,500 | 4,500 |
| | — | 4,713 | 4,713 | — | 4,715 | 4,715 |
| Multifamily/ Commercial Construction: | | | | | | |
| Impaired | 70,044 | — | 70,044 | — | — | — |
| Business: | | | | | | |
| Non-impaired | — | 139 | 139 | — | 165 | 165 |
| Impaired | 1,275 | 1,022 | 2,297 | 2,957 | — | 2,957 |
| | 1,275 | 1,161 | 2,436 | 2,957 | 165 | 3,122 |
| Unsecured: | | | | | | |
| Non-impaired | — | — | — | — | 99 | 99 |
| Total | $ 103,808 | $ 14,964 | $118,772 | $ 13,289 | $ 11,514 | $ 24,803 |

During the quarters and nine months ended September 30, 2019 and 2018, troubled debt restructurings were primarily modified through payment deferrals, extensions of the maturity date or reductions in interest rate, both temporary and permanent. The following table presents the recorded investment in loans modified in troubled debt restructurings during the periods indicated:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Single Family (1-4 units): | | | | |
| Non-impaired | $ — | $ — | $ 1,279 | $ 2,636 |
| Impaired | 23,670 | 3,431 | 23,670 | 3,431 |
| | 23,670 | 3,431 | 24,949 | 6,067 |
| Home Equity Lines of Credit: | | | | |
| Non-impaired | — | — | 180 | 2,168 |
| Impaired | 2,983 | — | 2,983 | 3,331 |
| | 2,983 | — | 3,163 | 5,499 |
| Multifamily/Commercial Construction | | | | |
| Impaired | 70,940 | — | 70,940 | — |
| Business: | | | | |
| Impaired | — | 1,818 | — | 1,818 |
| Total | $ 97,593 | $ 5,249 | $ 99,052 | $ 13,384 |

The majority of the Bank's restructured loans are considered impaired and are evaluated individually for impairment under ASC 310-10-35. The resulting impairment, if any, would have an impact on the allowance for loan losses as a specific reserve and be measured under the same criteria as all other impaired loans. For those restructured loans that are purchased credit-impaired, any required allowance is evaluated based upon ASC 310-30. Certain restructured accruing loans may be deemed non-impaired and would therefore be evaluated for estimated losses under ASC 450. No loans defaulted during the quarters and nine months ended September 30, 2019 and 2018 that were modified in the previous twelve months.

## Note 4. Mortgage Banking Activities

Mortgage servicing rights ("MSRs") are reported at the lower of amortized cost or fair value. The recorded value of MSRs is amortized in proportion to, and over the period of, estimated net servicing income. The Bank values MSRs by stratifying loans by the year they are sold, by product type (fixed, hybrid or adjustable) and interest rate coupon range. Hybrid loans are further stratified by their initial fixed-rate period.

The following table presents information on the level of loans originated, loans sold and gain on sale of loans:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Total loans originated | $ 11,132,301 | $ 7,028,983 | $ 27,285,273 | $ 23,709,256 |
| Single family loans originated | $ 4,872,598 | $ 2,623,429 | $ 11,129,819 | $ 8,075,457 |
| Loans sold: | | | | |
| Flow sales: | | | | |
| Agency | $ 25,214 | $ 15,365 | $ 51,426 | $ 37,136 |
| Non-agency | 11,932 | 76,772 | 43,266 | 165,292 |
| Total flow sales | 37,146 | 92,137 | 94,692 | 202,428 |
| Bulk sales: | | | | |
| Non-agency | — | — | 152,119 | 773,041 |
| Total loans sold | $ 37,146 | $ 92,137 | $ 246,811 | $ 975,469 |
| Gain on sale of loans: | | | | |
| Amount | $ 122 | $ 303 | $ 466 | $ 5,037 |
| Gain as a percentage of loans sold | 0.33% | 0.33% | 0.19% | 0.52% |

The following table presents changes in the portfolio of loans serviced for others and changes in the carrying value of the Bank's MSRs and valuation statistics:

| | At or for the Quarter Ended September 30, | | At or for the Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Loans serviced for others: | | | | |
| Beginning balance | $ 10,746,351 | $ 12,374,275 | $ 11,573,326 | $ 12,495,321 |
| Loans sold | 37,146 | 92,137 | 246,811 | 975,469 |
| Repayments | (694,125) | (473,853) | (1,730,765) | (1,458,891) |
| Loans purchased | (9,762) | (259,066) | (9,762) | (278,406) |
| Ending balance | $ 10,079,610 | $ 11,733,493 | $ 10,079,610 | $ 11,733,493 |
| MSRs: | | | | |
| Beginning balance | $ 49,554 | $ 62,096 | $ 54,470 | $ 66,139 |
| Additions due to new loans sold | 341 | 950 | 2,153 | 5,497 |
| Amortization expense | (3,540) | (4,360) | (10,268) | (12,939) |
| Provision for valuation allowance | (630) | — | (630) | — |
| Reductions due to purchases | (43) | (999) | (43) | (1,010) |
| Ending balance | $ 45,682 | $ 57,687 | $ 45,682 | $ 57,687 |
| Estimated fair value of MSRs | $ 69,633 | $ 87,015 | $ 69,633 | $ 87,015 |
| MSRs as a percent of loans serviced | 0.45% | 0.49% | 0.45% | 0.49% |
| Weighted average servicing fee collected for the period (annualized) | 0.25% | 0.25% | 0.25% | 0.25% |
| MSRs as a multiple of weighted average servicing fee | 1.83x | 1.98x | 1.84x | 1.97x |

The following table presents changes in the valuation allowance for MSRs:

| ($ in thousands) | At or for the Quarter Ended September 30, 2019 | At or for the Quarter Ended September 30, 2018 | At or for the Nine Months Ended September 30, 2019 | At or for the Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Valuation allowance: | | | | |
| Beginning balance | $ — | $ — | $ — | $ — |
| Provision | 630 | — | 630 | — |
| Ending balance | $ 630 | $ — | $ 630 | $ — |

The following table presents loan servicing fees:

| ($ in thousands) | Quarter Ended September 30, 2019 | Quarter Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Contractually specified servicing fees | $ 6,517 | $ 7,511 | $ 20,458 | $ 22,795 |
| Late charges and ancillary fees, net of costs | $ (454) | $ (225) | $ (1,067) | $ (455) |

The following table presents the Bank's key assumptions used in measuring the fair value of MSRs and the pre-tax sensitivity of the fair values to an immediate 10% and 20% adverse change in these assumptions:

| ($ in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Fair value of MSRs | $ 69,633 | $ 95,205 |
| | | |
| Weighted average prepayment speed (CPR) | 17.2% | 13.2% |
| Impact on fair value of 10% adverse change | $ (3,565) | $ (3,589) |
| Impact on fair value of 20% adverse change | $ (6,761) | $ (6,927) |
| | | |
| Weighted average discount rate | 12.7% | 13.1% |
| Impact on fair value of 10% adverse change | $ (2,533) | $ (3,996) |
| Impact on fair value of 20% adverse change | $ (4,890) | $ (7,680) |

The sensitivity analysis above is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of MSRs is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another factor, which may magnify or counteract the sensitivities. Further changes in fair value based on a single variation in assumptions generally cannot be extrapolated because the relationship of the change in a single assumption to the change in fair value may not be linear.

Refer to Note 7, "Goodwill and Intangible Assets," for disclosures of the gross carrying value, accumulated amortization and estimated future amortization expense of MSRs.

## Note 5. Variable Interest Entities

The Bank's involvement with variable interest entities ("VIEs") includes its interests from tax credit investments, other investments and securitizations.

The Bank has variable interests in low-income housing tax credit funds that are designed to generate a return primarily through the realization of federal tax credits. These investments are typically limited partnerships in which the general partner, other than the Bank, holds the power over significant activities of the VIE. Since the Bank is not the primary beneficiary of these investments, it does not consolidate these interests.

In addition, the Bank has variable interests in other investments, which are accounted for under the equity method. Since the Bank is not the primary beneficiary of these investments, it does not consolidate these investments.

The Bank has a variable interest related to its reimbursement obligation to the Federal Home Loan Mortgage Corporation ("Freddie Mac") for certain losses from the securitization of multifamily loans. Since the Bank is not the primary beneficiary of the VIE, it does not consolidate this interest.

The following tables summarize the assets and liabilities recorded on the Bank's balance sheet associated with transactions with VIEs:

| | VIEs | | |
|---|---|---|---|
| **($ in thousands)** | **Not consolidated** | **Consolidated** | **Total** |
| **September 30, 2019** | | | |
| **Assets:** | | | |
| Tax credit investments | $ 1,039,061 | $ — | $ 1,039,061 |
| Other investments | 61,371 | — | 61,371 |
| Total Assets | 1,100,432 | — | 1,100,432 |
| **Liabilities:** | | | |
| Reimbursement obligation | 312 | — | 312 |
| Unfunded commitments—tax credit investments | 346,175 | — | 346,175 |
| Unfunded commitments—other investments | 23,202 | — | 23,202 |
| Total Liabilities | 369,689 | — | 369,689 |
| Net Assets | $ 730,743 | $ — | $ 730,743 |

| | VIEs | | |
|---|---|---|---|
| **($ in thousands)** | **Not consolidated** | **Consolidated** | **Total** |
| **December 31, 2018** | | | |
| **Assets:** | | | |
| Tax credit investments | $ 1,057,541 | $ — | $ 1,057,541 |
| Other investments | 31,917 | — | 31,917 |
| Total Assets | 1,089,458 | — | 1,089,458 |
| **Liabilities:** | | | |
| Reimbursement obligation | 488 | — | 488 |
| Unfunded commitments—tax credit investments | 352,438 | — | 352,438 |
| Unfunded commitments—other investments | 5,256 | — | 5,256 |
| Total Liabilities | 358,182 | — | 358,182 |
| Net Assets | $ 731,276 | $ — | $ 731,276 |

The Bank's exposure to loss with respect to VIEs that are not consolidated includes the Bank's investment in these assets of $1.1 billion at both September 30, 2019 and December 31, 2018. The Bank's exposure to loss related to the reimbursement obligation is 12% of the loans securitized, or $30.2 million at both September 30, 2019 and December 31, 2018.

**Note 6. Leases**

The Bank adopted ASC 842 effective January 1, 2019 and recognized lease assets and lease liabilities of $578.5 million and $619.2 million, respectively, on its consolidated balance sheet. Refer to Note 1, "Summary of Significant Accounting Policies," for additional information.

The Bank primarily leases corporate, preferred banking and wealth management offices, as well as equipment. The resulting lease assets and lease liabilities recognized on the Bank's consolidated balance sheet are operating leases.

The Bank determines if an arrangement contains a lease at inception, and recognizes lease liabilities upon commencement based on the present value of lease payments over the lease term. Corresponding lease assets are recognized at the liability amount adjusted for any direct incremental costs, prepaid lease payments and lease incentives received. The Bank's lease terms range from 1 year to 19 years. The majority of these leases include one or more options to extend the lease term, primarily up to 5 years at a time. The Bank includes renewal options it is reasonably certain to exercise in the lease term. As the leases do not provide an implicit discount rate, the Bank uses its incremental borrowing rate at the commencement date in determining the present value of lease payments. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Some of the Bank's lease arrangements include rental payments that adjust periodically for inflation. These and other variable lease payments are expensed as incurred.

Additionally, the Bank combines non-lease components with lease components in the measurement of its lease assets and liabilities.

The following tables present information related to leases:

| ($ in thousands) | September 30, 2019 |
|---|---|
| Supplemental balance sheet information: | |
| Lease assets [1] | $ 760,340 |
| Lease liabilities [2] | $ 778,257 |
| Weighted average remaining lease term | 10.4 years |
| Weighted average discount rate | 3.2% |

[1] Included in prepaid expenses and other assets on the consolidated balance sheets.

[2] Included in other liabilities on the consolidated balance sheets.

| ($ in thousands) | Quarter Ended September 30, 2019 | Nine Months Ended September 30, 2019 |
|---|---|---|
| Components of lease cost: | | |
| Operating lease cost [1] | $ 30,049 | $ 84,055 |
| Variable lease cost [1] | 97 | 475 |
| Total lease cost | $ 30,146 | $ 84,530 |

[1] Included in occupancy expense on the consolidated statements of income and comprehensive income.

| ($ in thousands) | Nine Months Ended September 30, 2019 |
|---|---|
| Supplemental cash flow information: | |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash outflows from operating leases | $ 74,343 |
| Non-cash activity related to lease assets: | |
| Lease assets obtained from new operating lease liabilities | $ 216,654 |

The following table presents the future maturities of lease liabilities:

| ($ in thousands) | September 30, 2019 [1] |
|---|---|
| Lease liabilities maturing in: | |
| October 1 - December 31, 2019 | $ 27,911 |
| 2020 | 116,203 |
| 2021 | 105,313 |
| 2022 | 98,343 |
| 2023 | 93,049 |
| 2024 and thereafter | 547,389 |
| Total | 988,208 |
| Less: imputed interest | (164,923) |
| Less: tenant improvement receivable | (45,028) |
| Total lease liabilities | $ 778,257 |

[1] Excludes $685.3 million of undiscounted minimum lease payments for leases signed but not yet commenced. These leases will commence at various dates from 2019 through 2025 with lease terms ranging from 4 to 16 years.

Prior to the adoption of ASC 842, the Bank's operating leases were not recognized on the balance sheet. The following table presents the undiscounted future minimum lease payments under the Bank's operating leases as of December 31, 2018:

| ($ in thousands) | December 31, 2018 |
|---|---|
| Operating leases: | |
| 2019 | $ 99,576 |
| 2020 | 102,498 |
| 2021 | 91,680 |
| 2022 | 89,326 |
| 2023 | 83,629 |
| 2024 and thereafter | 537,810 |
| Total | $ 1,004,519 |

## Note 7. Goodwill and Intangible Assets

The following table presents the Bank's intangible assets (excluding MSRs) and goodwill:

| | September 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Gross Carrying Value | Accumulated Amortization | Carrying Value | Gross Carrying Value | Accumulated Amortization | Carrying Value |
| Intangible assets: | | | | | | |
| Customer relationship intangibles | $ 133,100 | $ (110,332) | $ 22,768 | $ 133,100 | $ (102,535) | $ 30,565 |
| Core deposit intangibles | 87,550 | (87,007) | 543 | 87,550 | (85,488) | 2,062 |
| Trade name | 42,900 | — | 42,900 | 42,900 | — | 42,900 |
| Intangible assets | $ 263,550 | $ (197,339) | 66,211 | $ 263,550 | $ (188,023) | 75,527 |
| Goodwill | | | 198,447 | | | 198,447 |
| Total | | | $ 264,658 | | | $ 273,974 |

Amortization of intangible assets (excluding MSRs) was $2.8 million and $9.3 million for the quarter and nine months ended September 30, 2019, respectively, and $3.9 million and $12.6 million for the quarter and nine months ended September 30, 2018, respectively.

The following table presents the Bank's MSRs:

| | September 30, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| **($ in thousands)** | **Gross Carrying Value** | **Accumulated Amortization** | **Valuation Allowance** | **Carrying Value** | **Gross Carrying Value** | **Accumulated Amortization** | **Valuation Allowance** | **Carrying Value** |
| MSRs [1] | $ 141,726 | $ (95,414) | $ (630) | $ 45,682 | $ 140,746 | $ (86,276) | $ — | $ 54,470 |

[1] Amortization of MSRs is included in loan servicing fees, net on the consolidated statements of income and comprehensive income.

Refer to Note 4, "Mortgage Banking Activities," for further discussion on MSRs.

The following table presents goodwill by business segment:

| **($ in thousands)** | **Commercial Banking** | **Wealth Management** | **Total** |
|---|---|---|---|
| Balance as of December 31, 2017, December 31, 2018 and September 30, 2019 | $ 51,435 | $ 147,012 | $ 198,447 |

The following table presents the estimated future amortization for amortizable intangible assets as of September 30, 2019. The projections of amortization expense are based on existing asset balances as of September 30, 2019. Future amortization expense may vary from these projections.

| **($ in thousands)** | **Customer relationship intangibles** | **Core deposit intangibles** | **MSRs** |
|---|---|---|---|
| October 1 - December 31, 2019 | $ 2,268 | $ 290 | $ 3,029 |
| 2020 | 7,504 | 253 | 10,237 |
| 2021 | 5,527 | — | 7,780 |
| 2022 | 3,671 | — | 5,913 |
| 2023 | 2,235 | — | 4,494 |
| 2024 | 1,259 | — | 3,415 |

**Note 8. Borrowings**

The Bank uses FHLB advances primarily as a funding source for long-term debt, and, in certain cases, for short-term borrowings. Other sources of funding include federal funds purchased, senior notes and subordinated notes. Short-term borrowings have an original maturity of one year or less. Long-term debt has an original maturity in excess of one year. The following table presents the carrying values, interest expense and components of short-term borrowings and long-term debt:

| | Carrying Values | | Interest Expense | | | |
|---|---|---|---|---|---|---|
| | | | Quarter Ended September 30, | | Nine Months Ended September 30, | |
| **($ in thousands)** | **September 30, 2019** | **December 31, 2018** | **2019** | **2018** | **2019** | **2018** |
| **Short-term borrowings:** | | | | | | |
| Federal funds purchased | $ 475,000 | $ — | $ 4,900 | $ 1 | $ 9,066 | $ 2 |
| FHLB advances | 300,000 | 100,000 | 7,620 | 2,247 | 27,766 | 11,407 |
| Total | 775,000 | 100,000 | 12,520 | 2,248 | 36,832 | 11,409 |
| **Long-term debt:** | | | | | | |
| FHLB advances | 10,900,000 | 8,700,000 | 54,901 | 46,872 | 147,669 | 118,716 |
| Senior notes [1] | 497,494 | 896,432 | 3,350 | 5,928 | 14,818 | 17,777 |
| Subordinated notes [1] | 777,781 | 777,475 | 9,103 | 9,098 | 27,305 | 27,292 |
| Total | 12,175,275 | 10,373,907 | 67,354 | 61,898 | 189,792 | 163,785 |
| Total borrowings | $ 12,950,275 | $ 10,473,907 | $ 79,874 | $ 64,146 | $ 226,624 | $ 175,194 |

[1] Carrying value represents the principal balance, net of unamortized issuance discounts and deferred issuance costs. Interest expense includes amortization of issuance discounts and deferred issuance costs, which are amortized over the contractual life using a level yield methodology.

*FHLB Advances*

FHLB advances may be either adjustable-rate in nature or fixed for a specific term. At September 30, 2019, the Bank had $300.0 million in short-term FHLB advances. At September 30, 2019, all of the long-term FHLB advances were fixed-rate for a specific term. At September 30, 2019, the contractual maturities and weighted average contractual rates of long-term FHLB advances were as follows:

| **($ in thousands)** | **September 30, 2019** | |
|---|---|---|
| FHLB advances maturing in: | **Amount** | **Rate** |
| October 1 - December 31, 2019 | $ 1,050,000 | 1.89% |
| 2020 | 3,950,000 | 2.25% |
| 2021 | 5,900,000 | 2.18% |
| Total | $ 10,900,000 | 2.18% |

In connection with outstanding FHLB advances, the Bank owned FHLB stock of $329.1 million and $273.2 million at September 30, 2019 and December 31, 2018, respectively. At September 30, 2019 and December 31, 2018, the Bank was required to own FHLB stock at least equal to 2.7% of outstanding FHLB advances.

*Senior Notes and Subordinated Notes*

The following table presents the carrying values, coupon rates and maturity dates of the Bank's unsecured, term, fixed-rate senior notes and subordinated notes as of September 30, 2019. The 2.375% fixed-rate senior notes issued in June 2014 of $400.0 million matured in the second quarter of 2019, and, therefore, were no longer outstanding as of September 30, 2019.

| | September 30, 2019 | | |
|---|---|---|---|
| **($ in thousands)** | **Carrying Value [1]** | **Rate** | **Maturity Date** |
| **Senior notes:** | | | |
| Fixed rate, issued June 2017 | $ 497,494 | 2.500% | June 2022 |
| **Subordinated notes:** | | | |
| Fixed rate, issued August 2016 | $ 387,981 | 4.375% | August 2046 |
| Fixed rate, issued February 2017 | $ 389,800 | 4.625% | February 2047 |

[1] Principal balance, net of unamortized issuance discounts and deferred issuance costs.

## Note 9. Derivative Financial Instruments

In accordance with ASC 815, "Derivatives and Hedging," the Bank recognizes all derivatives on the balance sheet at fair value. The Bank has elected to present its derivative assets and derivative liabilities on a gross basis on its balance sheet. The Bank accounts for changes in the fair value of a derivative depending on the intended use of the derivative and its resulting designation under specified criteria. The Bank currently does not have any derivatives designated as hedging instruments.

The Bank has derivative assets and liabilities consisting of foreign exchange contracts executed with clients. In these transactions, the Bank offsets the client exposure with another financial institution counterparty, such as a major investment bank or a large commercial bank. The Bank does not retain significant foreign exchange risk. The Bank does retain credit risk, both to the client and the financial institution counterparty, which is evaluated and managed by the Bank in the normal course of its operations. In addition, the Bank has foreign exchange contracts associated with client deposits denominated in various foreign currencies. Management does not currently anticipate non-performance by any of the counterparties. The amounts presented in the table below include the foreign exchange contracts with both the client and the financial institution counterparties.

The Bank also creates derivative instruments when it enters into interest rate lock commitments for single family mortgage loans that will be sold to investors. The Bank's interest rate risk exposure to these commitments is not significant as these derivatives are economically hedged with forward commitments to sell the loans to investors.

The following table presents the total notional or contractual amounts and fair values of derivatives:

| | September 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | | Fair Value | | | Fair Value | |
| **($ in thousands)** | **Notional or Contractual Amount** | **Derivative Assets [1]** | **Derivative Liabilities [2]** | **Notional or Contractual Amount** | **Derivative Assets [1]** | **Derivative Liabilities [2]** |
| Foreign exchange contracts | $ 4,496,101 | $ 25,816 | $ 38,792 | $ 4,696,285 | $ 41,646 | $ 27,466 |
| Interest rate contracts with borrowers | $ 25,392 | 1 | 108 | $ 8,207 | 9 | — |
| Forward loan sale commitments | $ 57,090 | 108 | 1 | $ 106,922 | — | 9 |
| Total | | $ 25,925 | $ 38,901 | | $ 41,655 | $ 27,475 |

[1] Included in prepaid expenses and other assets on the consolidated balance sheets.

[2] Included in other liabilities on the consolidated balance sheets.

The credit risk associated with these derivative instruments is the risk of non-performance by the counterparties to the contracts. The Bank's counterparty credit exposure is equal to the amount reported as a derivative asset on the Bank's balance sheet. To mitigate this risk, the Bank enters into master netting and bilateral collateral agreements with certain counterparties. These agreements allow the Bank to settle its derivative contracts with such counterparties on a net basis and to offset the net derivative exposure against the related collateral in the event of default.

The following table presents additional information related to the Bank's foreign exchange derivative contracts:

| | Total | Contracts Not Subject to Master Netting Arrangements | Contracts Subject to Master Netting Arrangements | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Gross Amounts Not Offset on the Balance Sheet | | |
| ($ in thousands) | Gross Amounts Recognized | Gross Amounts Recognized | Gross Amounts Recognized | Gross Amounts Offset on the Balance Sheet | Net Amounts Presented on the Balance Sheet | Derivative Amount | Cash Collateral [(1)] | Net Amount |
| **September 30, 2019** | | | | | | | | |
| **Derivative assets:** | | | | | | | | |
| Foreign exchange contracts . . . . . . . . . | $ 25,816 | $ 14,726 | $ 11,090 | $ — | $ 11,090 | $ 11,090 | $ — | $ — |
| **Derivative liabilities:** | | | | | | | | |
| Foreign exchange contracts . . . . . . . . . | $ 38,792 | $ 8,989 | $ 29,803 | $ — | $ 29,803 | $ 11,090 | $ 14,720 | $ 3,993 |
| **December 31, 2018** | | | | | | | | |
| **Derivative assets:** | | | | | | | | |
| Foreign exchange contracts . . . . . . . . . | $ 41,646 | $ 12,641 | $ 29,005 | $ — | $ 29,005 | $ 13,395 | $ 15,610 | $ — |
| **Derivative liabilities:** | | | | | | | | |
| Foreign exchange contracts . . . . . . . . . | $ 27,466 | $ 14,071 | $ 13,395 | $ — | $ 13,395 | $ 13,395 | $ — | $ — |

(1) Collateral presented in the table above is limited to the amount required to settle the net derivative position and does not include any excess collateral.

## Note 10. Fair Value Measurements

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Under ASC 820, "Fair Value Measurement," fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Debt securities available-for-sale and derivative instruments are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis, which typically involve write-downs of individual assets or application of the lower-of-cost-or-market accounting. Nonrecurring fair value adjustments of loans represent a write-down based on the fair value of the underlying collateral of the loan, adjusted for certain factors such as estimated costs to sell and current market conditions. Nonrecurring fair value adjustments of loans held for sale, MSRs and other real estate owned result from the application of lower-of-cost-or-market accounting.

Although management uses its best judgment in estimating fair value, there are inherent weaknesses in any estimates that are made at a discrete point in time based on relevant market data, information about the financial instruments and other factors. Estimates of fair value of instruments without quoted market prices are subjective in nature and involve various assumptions that are matters of judgment. Changes in the assumptions used could significantly affect these estimates.

The estimated fair values presented neither include nor give effect to the values associated with the Bank's existing client relationships, lending and deposit office networks, or certain tax implications related to the realization of unrealized gains or losses.

**Fair Value Hierarchy**

Under ASC 820, the Bank groups its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- 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 in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3—Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

It is the Bank's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy of ASC 820.

*Recurring Fair Value Measurements*

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis.

*Available-for-sale debt securities:* The Bank's U.S. Treasury securities are valued using quoted market prices from the active exchange on which the securities are traded. For most other debt securities, the Bank uses quoted prices obtained through third-party valuation sources. Management reviews the valuation techniques and assumptions used by the providers to ensure that such valuation techniques are based on observable market inputs appropriate for the type of security being measured. In some instances, prices are obtained from dealer quotes. The fair value of tax-exempt nonprofit debentures and certain municipal securities is determined using estimated future cash flows or other model-based valuation methods using inputs similar to market pricing, adjusted for liquidity risk.

*Equity securities measured at fair value:* The Bank's mutual funds and marketable equity securities are valued using quoted market prices from the active exchange on which the securities are traded. Mutual funds are valued using the net asset value ("NAV") per share using quoted market prices.

*Derivatives:* Derivative assets and liabilities consist of foreign exchange contracts, interest rate lock commitments and forward loan sale commitments. The Bank uses current market prices to determine the fair value of foreign exchange contracts. The fair values of interest rate lock commitments and forward loan sale commitments are estimated using analysis based on current market prices.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

| ($ in thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **September 30, 2019** | | | | |
| **Assets:** | | | | |
| Debt securities available-for-sale: | | | | |
| Agency residential MBS | $ — | $ 420,945 | $ — | $ 420,945 |
| Other residential MBS | — | 4,429 | — | 4,429 |
| Agency commercial MBS | — | 928,282 | — | 928,282 |
| Securities of U.S. states and political subdivisions—taxable | — | — | 47,449 | 47,449 |
| Equity securities (fair value): | | | | |
| Mutual funds and marketable equity securities | 19,736 | — | — | 19,736 |
| Derivative assets | — | 25,925 | — | 25,925 |
| Total | $ 19,736 | $ 1,379,581 | $ 47,449 | $ 1,446,766 |
| **Liabilities:** | | | | |
| Derivative liabilities | $ — | $ 38,901 | $ — | $ 38,901 |
| **December 31, 2018** | | | | |
| **Assets:** | | | | |
| Debt securities available-for-sale: | | | | |
| Agency residential MBS | $ — | $ 26,095 | $ — | $ 26,095 |
| Other residential MBS | — | 4,552 | — | 4,552 |
| Agency commercial MBS | — | 1,701,021 | — | 1,701,021 |
| Securities of U.S. states and political subdivisions—taxable | — | — | 47,448 | 47,448 |
| Equity securities (fair value): | | | | |
| Mutual funds and marketable equity securities | 18,719 | — | — | 18,719 |
| Derivative assets | — | 41,655 | — | 41,655 |
| Total | $ 18,719 | $ 1,773,323 | $ 47,448 | $ 1,839,490 |
| **Liabilities:** | | | | |
| Derivative liabilities | $ — | $ 27,475 | $ — | $ 27,475 |

There were no transfers in or out of Levels 1, 2 or 3 assets measured at fair value on a recurring basis in the quarters and nine months ended September 30, 2019 and 2018.

The following table presents changes in Level 3 assets measured at fair value on a recurring basis:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| ($ in thousands) | 2019 | 2018 | 2019 | 2018 |
| Available-for-sale debt securities of U.S. states and political subdivisions—taxable: | | | | |
| Balance at beginning of period | $ 47,448 | $ 47,448 | $ 47,448 | $ 47,449 |
| Unrealized losses included in other comprehensive income (loss) | (1) | (2) | (3) | (11) |
| Accretion included in interest income | 2 | 2 | 4 | 10 |
| Balance at end of period | $ 47,449 | $ 47,448 | $ 47,449 | $ 47,448 |

The table and discussion below provide information about the significant unobservable inputs in our recurring Level 3 fair value measurements:

| ($ in thousands) | Fair Value | Valuation Technique | Unobservable Input |
|---|---|---|---|
| **September 30, 2019** | | | |
| Available-for-sale debt securities of U.S. states and political subdivisions—taxable | $ 47,449 | Discounted cash flow | Weighted average liquidity risk yield premium of 50 bps |
| **December 31, 2018** | | | |
| Available-for-sale debt securities of U.S. states and political subdivisions—taxable | $ 47,448 | Discounted cash flow | Weighted average liquidity risk yield premium of 50 bps |

For taxable municipal securities, the Bank calculates the fair value using estimated future cash flows on a quarterly basis. In addition to the inputs listed above, the Bank's management considers interest rate reset frequency, spread to index, market yield curves and the underlying bond rating at the time of valuation. The liquidity risk yield premium is applied to account for liquidity considerations since the bond is not publicly traded. An unfavorable change in the general business and credit environments could cause an increase in the liquidity risk yield premium, resulting in a decrease in the fair value of the investment.

*Nonrecurring Fair Value Measurements*

The following is a description of valuation methodologies used in estimating the fair value of assets measured at fair value on a nonrecurring basis.

*Loans:* The fair value of loans with nonrecurring fair value adjustments is based on the fair value of the underlying collateral, primarily real estate, adjusted for certain factors such as estimated costs to sell.

*Loans held for sale:* The fair value of loans held for sale is derived from actual prices at which loans were committed for sale adjusted for loan servicing value.

*MSRs:* The fair value of MSRs is based on a present value calculation of expected future cash flows, with assumptions regarding prepayments, discount rates, cost to service, escrow account earnings, contractual servicing fees and ancillary income.

*Other real estate owned:* Other real estate owned includes foreclosed properties securing mortgage loans. Fair value is generally based upon independent market prices or appraised values of the collateral, adjusted for estimated costs to sell.

The following table presents the assets measured at fair value on a nonrecurring basis that were held on the balance sheet at September 30, 2019 and December 31, 2018:

| ($ in thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **September 30, 2019** | | | | |
| **Assets:** | | | | |
| Loans | $ — | $ — | $ 2,628 | $ 2,628 |
| MSRs | — | — | 7,009 | 7,009 |
| Total | $ — | $ — | $ 9,637 | $ 9,637 |
| **December 31, 2018** | | | | |
| **Assets:** | | | | |
| Loans | $ — | $ — | $ 5,417 | $ 5,417 |

The following table presents losses related to nonrecurring fair value measurements. The losses relate to assets held on the balance sheet at each respective period end.

| ($ in thousands) | Quarter Ended September 30, 2019 | Quarter Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Loans | $ (961) | $ — | $ (992) | $ (349) |
| MSRs | (630) | — | (630) | — |
| Total | $ (1,591) | $ — | $ (1,622) | $ (349) |

*Fair Value of Financial Instruments*

The following tables present the carrying values, estimated fair values and the levels in the fair value hierarchy of financial instruments, excluding those measured at fair value on a recurring basis:

| | September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | | | |
| ($ in thousands) | | Total | Level 1 | Level 2 | Level 3 |
| **Assets:** | | | | | |
| Cash and cash equivalents | $ 2,181,600 | $ 2,181,600 | $ 2,181,600 | $ — | $ — |
| Debt securities held-to-maturity: | | | | | |
| U.S. Government-sponsored agency securities | 558,459 | 558,003 | — | 558,003 | — |
| Agency residential MBS | 2,052,012 | 2,054,369 | — | 2,054,369 | — |
| Agency commercial MBS | 3,377,375 | 3,437,103 | — | 3,437,103 | — |
| Securities of U.S. states and political subdivisions: | | | | | |
| Tax-exempt municipal securities | 9,637,134 | 10,253,120 | — | 10,160,083 | 93,037 |
| Tax-exempt nonprofit debentures | 139,830 | 145,770 | — | — | 145,770 |
| Taxable municipal securities | 213,832 | 230,039 | — | 230,039 | — |
| Corporate debt securities | 24,080 | 24,484 | — | 24,484 | — |
| Loans, net: | | | | | |
| Real estate secured mortgages | 68,561,691 | 66,876,731 | — | 43,917,041 | 22,959,690 |
| Other loans | 17,257,654 | 16,169,946 | — | — | 16,169,946 |
| Loans held for sale | 31,693 | 32,009 | — | 32,009 | — |
| Investments in life insurance | 1,425,057 | 1,425,057 | — | — | 1,425,057 |
| MSRs | 45,682 | 69,633 | — | — | 69,633 |
| FHLB stock | 329,130 | 329,130 | — | — | 329,130 |
| **Liabilities:** | | | | | |
| Deposits: | | | | | |
| Certificates of deposit | $ 14,042,346 | $ 14,093,479 | $ — | $ — | $ 14,093,479 |
| Borrowings: | | | | | |
| Federal funds purchased | 475,000 | 475,000 | — | 475,000 | — |
| Short-term FHLB advances | 300,000 | 300,000 | — | 300,000 | — |
| Long-term FHLB advances | 10,900,000 | 10,950,297 | — | 10,950,297 | — |
| Senior notes | 497,494 | 502,955 | — | 502,955 | — |
| Subordinated notes | 777,781 | 902,560 | — | 902,560 | — |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | | | |
| ($ in thousands) | | Total | Level 1 | Level 2 | Level 3 |
| **Assets:** | | | | | |
| Cash and cash equivalents | $ 2,811,159 | $ 2,811,159 | $ 2,811,159 | $ — | $ — |
| Debt securities held-to-maturity: | | | | | |
| U.S. Government-sponsored agency securities | 1,044,912 | 1,011,324 | — | 1,011,324 | — |
| Agency residential MBS | 1,868,587 | 1,799,100 | — | 1,799,100 | — |
| Agency commercial MBS | 3,375,409 | 3,240,852 | — | 3,240,852 | — |
| Securities of U.S. states and political subdivisions: | | | | | |
| Tax-exempt municipal securities | 7,952,605 | 8,035,143 | — | 7,935,574 | 99,569 |
| Tax-exempt nonprofit debentures | 142,508 | 139,826 | — | — | 139,826 |
| Taxable municipal securities | 52,952 | 61,279 | — | 61,279 | — |
| Loans, net: | | | | | |
| Real estate secured mortgages | 59,524,660 | 57,183,416 | — | 36,659,706 | 20,523,710 |
| Other loans | 15,901,574 | 14,677,426 | — | — | 14,677,426 |
| Loans held for sale | 98,985 | 99,226 | — | 99,226 | — |
| Investments in life insurance | 1,376,579 | 1,376,579 | — | — | 1,376,579 |
| MSRs | 54,470 | 95,205 | — | — | 95,205 |
| FHLB stock | 273,240 | 273,240 | — | — | 273,240 |
| **Liabilities:** | | | | | |
| Deposits: | | | | | |
| Certificates of deposit | $ 11,377,515 | $ 11,442,054 | $ — | $ — | $ 11,442,054 |
| Borrowings: | | | | | |
| Short-term FHLB advances | 100,000 | 100,000 | — | 100,000 | — |
| Long-term FHLB advances | 8,700,000 | 8,735,714 | — | 8,735,714 | — |
| Senior notes | 896,432 | 881,618 | — | 881,618 | — |
| Subordinated notes | 777,475 | 744,293 | — | 744,293 | — |

## Note 11. Preferred Stock

At September 30, 2019, the Bank was authorized to issue 25,000,000 shares of preferred stock, par value $0.01 per share, of which 940,000 shares were issued and outstanding. Each share of preferred stock has a liquidation preference of $1,000. The following table presents the authorized, issued and outstanding shares for each series of the Bank's preferred stock:

| (in thousands, except share amounts) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| 5.50% Noncumulative Perpetual Series D—200,000 shares authorized; 190,000 shares issued and outstanding | $ 190,000 | $ 190,000 |
| 5.70% Noncumulative Perpetual Series F—115,000 shares authorized; 100,000 shares issued and outstanding | 100,000 | 100,000 |
| 5.50% Noncumulative Perpetual Series G—172,500 shares authorized; 150,000 shares issued and outstanding | 150,000 | 150,000 |
| 5.125% Noncumulative Perpetual Series H—200,000 shares authorized, issued and outstanding | 200,000 | 200,000 |
| 5.50% Noncumulative Perpetual Series I—300,000 shares authorized, issued and outstanding | 300,000 | 300,000 |
| Total | $ 940,000 | $ 940,000 |

Refer to Note 18, "Subsequent Events," for information regarding the Bank's redemption of all of its outstanding 5.50% Noncumulative Perpetual Series D Preferred Stock on October 18, 2019.

Dividends on each series of the Bank's outstanding shares of preferred stock are paid each March 30, June 30, September 30 and December 30. The following table presents dividends paid on preferred stock:

| | Quarter Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| (in thousands, except per share amounts) | Total | Per Share | Total | Per Share | Total | Per Share | Total | Per Share |
| 5.625% Noncumulative Perpetual Series C | $ — | $ — | $ — | $ — | $ — | $ — | $ 60 | $ 0.40 |
| 5.50% Noncumulative Perpetual Series D | 2,612 | $ 13.75 | 2,612 | $ 13.75 | 7,837 | $ 41.25 | 7,838 | $ 41.25 |
| 7.00% Noncumulative Perpetual Series E | — | $ — | 3,500 | $ 17.50 | — | $ — | 10,500 | $ 52.50 |
| 5.70% Noncumulative Perpetual Series F | 1,425 | $ 14.25 | 1,425 | $ 14.25 | 4,275 | $ 42.75 | 4,275 | $ 42.75 |
| 5.50% Noncumulative Perpetual Series G | 2,063 | $ 13.75 | 2,062 | $ 13.75 | 6,188 | $ 41.25 | 6,187 | $ 41.25 |
| 5.125% Noncumulative Perpetual Series H | 2,562 | $ 12.81 | 2,563 | $ 12.81 | 7,687 | $ 38.44 | 7,687 | $ 38.44 |
| 5.50% Noncumulative Perpetual Series I | 4,125 | $ 13.75 | 4,950 | $ 16.50 | 12,375 | $ 41.25 | 4,950 | $ 16.50 |
| Total | $ 12,787 | | $ 17,112 | | $ 38,362 | | $ 41,497 | |

## Note 12. Common Stock and Stock Plans

*Common Stock*

At September 30, 2019, the Bank was authorized to issue 400,000,000 shares of common stock, par value $0.01 per share. At September 30, 2019, the Bank had 168,450,453 shares issued and outstanding. During the nine months ended September 30, 2019, the Bank issued 2,000,000 shares of common stock in an "at-the-market" offering, which added $170.6 million to common equity.

*First Republic Bank Employee Stock Purchase Plan*

Under the Bank's Employee Stock Purchase Plan (the "Purchase Plan"), the Bank is authorized to sell 2,000,000 shares of common stock to its full-time and part-time employees who are regularly employed for 20 hours or more per week. For 2019, employees may purchase shares of the Bank's common stock at 85% of the closing price of the common stock on the New York Stock Exchange on the date of purchase or the nearest prior trading day, subject to an annual limitation of common stock valued at $25,000. For the nine months ended September 30, 2019, a total of 160,003 shares were sold to employees, and the compensation expense for the Purchase Plan was approximately $2.3 million.

*First Republic Bank 2017 Omnibus Award Plan*

In May 2017, the Bank adopted the 2017 Omnibus Award Plan, which replaced the 2010 Omnibus Award Plan. Stock awards outstanding that were previously granted under the 2010 Omnibus Award Plan were not affected by the replacement and the terms of the 2010 Omnibus Award Plan will remain effective for such awards.

The Bank is authorized to grant shares of common stock in the form of stock options, stock appreciation rights, shares of restricted stock, restricted stock units or performance share units to its employees, officers and directors. Upon termination of service, unvested awards are generally forfeited. At September 30, 2019, the Bank had 2,294,223 shares reserved for future stock award grants.

*Stock Options*

At September 30, 2019, the Bank had stock options outstanding of 460,032. Generally, stock options vest over a period of up to four years from the grant date and have a maximum contractual life of ten years. Under the Bank's stock option agreements, the exercise price of each option equals the market price of the Bank's common stock at the grant date. Stock option exercises are satisfied by issuing shares from the Bank's authorized shares. The number of shares of common stock issued from stock option exercises is generally net of shares withheld to pay the exercise price or taxes due upon the exercise. As of September 30, 2019, all options are fully vested.

The following table presents information related to outstanding stock options:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value ($ in thousands) |
|---|---|---|---|---|
| **Options outstanding as of December 31, 2018** | 1,764,407 | $15.43 | | |
| Granted | — | — | | |
| Canceled or forfeited | — | — | | |
| Exercised | (1,304,375) | $15.13 | | |
| **Options outstanding as of September 30, 2019** | 460,032 | $16.28 | 0.9 years | $36,996 |

The intrinsic value of all options exercised was $107.6 million for the nine months ended September 30, 2019.

*Restricted Stock Units*

The Bank has granted restricted stock units ("RSUs") to certain of its employees, officers and directors. Upon vesting, one share of common stock is issued from the Bank's authorized shares for each RSU. The number of shares of common stock issued at the time of vesting is generally net of shares withheld to pay taxes due upon vesting. Participants are entitled to dividends and voting rights only upon vesting.

RSUs have time-based vesting requirements ("Time RSUs") or both time-based and performance-based vesting requirements ("Performance RSUs"). RSUs vest evenly over periods ranging from one year to five years from the date of grant. Performance RSUs vest over these periods, provided that certain performance criteria, such as return on average tangible common equity, are met, based on performance periods that are specified for each grant. The following table presents information related to Performance RSUs and Time RSUs:

| | Performance RSUs | | | Time RSUs | | |
|---|---|---|---|---|---|---|
| | Number of Awards | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term | Number of Awards | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term |
| **Nonvested awards as of December 31, 2018** | 2,236,683 | $90.70 | | 320,903 | $76.49 | |
| Granted | 202,098 | $101.15 | | 214,212 | $96.90 | |
| Vested | (701,858) | $85.05 | | (201,485) | $72.49 | |
| Canceled or forfeited | (79,990) | $92.75 | | (1,066) | $77.57 | |
| **Nonvested awards as of September 30, 2019** | 1,656,933 | $94.27 | 2.5 years | 332,564 | $92.05 | 2.2 years |

The total fair value of Performance RSUs that vested in the nine months ended September 30, 2019 was $67.9 million. The total fair value of Time RSUs that vested in the nine months ended September 30, 2019 was $20.5 million. No cash consideration was received in connection with the vesting of these awards.

*Performance Share Units*

The Bank has granted performance share units ("PSUs") to certain of its employees and officers. Upon vesting, one share of common stock is issued from the Bank's authorized shares for each PSU. The number of shares of common stock issued at the time of vesting is generally net of shares withheld to pay taxes due upon vesting. Participants are entitled to dividends and voting rights only upon vesting. Certain PSUs vest in full after three years, subject to achieving certain performance criteria, while other PSUs vest evenly over periods ranging from three years to five years from the date of grant, provided that certain performance criteria are met. Performance criteria include metrics such as return on equity and return on average tangible common equity, and are based on performance periods that are specified for each grant. The following table presents information related to PSUs:

| | Number of Awards | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term |
|---|---|---|---|
| **Nonvested awards as of December 31, 2018** | 952,084 | $89.82 | |
| Granted | — | — | |
| Vested | (270,717) | $83.27 | |
| Canceled or forfeited | — | — | |
| **Nonvested awards as of September 30, 2019** | 681,367 | $92.43 | 2.4 years |

The total fair value of PSUs that vested in the nine months ended September 30, 2019 was $26.5 million. No cash consideration was received in connection with the vesting of these awards.

*Restricted Stock Awards*

The Bank previously granted restricted stock awards ("RSAs") to certain of its employees and officers. Upon grant, one share of common stock is issued from the Bank's authorized shares for each RSA. Upon vesting, common stock shares are transferred to the employee or officer. At the time of vesting, shares are generally withheld to pay the taxes due upon vesting. Participants are entitled to dividends and voting rights for all RSAs, regardless of whether the award has vested.

RSAs have performance-based vesting requirements ("Performance RSAs") and vest on a quarterly basis through the end of 2019, provided that certain performance criteria are achieved for a specified performance period, such as return on average tangible common equity, return on average tangible assets and nonperforming asset ratios. The following table presents information related to Performance RSAs:

| | Number of Awards | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term |
|---|---|---|---|
| **Nonvested awards as of December 31, 2018** | 17,500 | $31.80 | |
| Granted | — | — | |
| Vested | (13,125) | $31.80 | |
| Canceled or forfeited | — | — | |
| **Nonvested awards as of September 30, 2019** | 4,375 | $31.80 | 0.3 years |

The total fair value of Performance RSAs that vested in the nine months ended September 30, 2019 was $1.3 million. No cash consideration was received in connection with the vesting of these awards.

*Compensation Expense*

RSUs, PSUs and RSAs are valued at the closing market price of the Bank's common stock at the grant date, and compensation expense is recognized over the requisite service period, which is generally the vesting period. The Bank accounts for forfeitures of stock awards in the period they occur. All compensation costs related to stock options have been fully recognized.

The following tables present information regarding share-based compensation expense:

| | Quarter Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| ($ in thousands) | Expense Recognized | Related Tax Benefit | Expense Recognized | Related Tax Benefit | Expense Recognized | Related Tax Benefit | Expense Recognized | Related Tax Benefit |
| RSUs | $ 18,657 | $ 5,377 | $ 18,890 | $ 5,630 | $ 55,997 | $ 16,185 | $ 49,535 | $ 14,762 |
| PSUs | 5,925 | 1,223 | 6,232 | 1,857 | 18,086 | 3,778 | 15,712 | 4,682 |
| RSAs | 139 | 41 | 139 | 41 | 417 | 124 | 417 | 124 |
| Total | $ 24,721 | $ 6,641 | $ 25,261 | $ 7,528 | $ 74,500 | $ 20,087 | $ 65,664 | $ 19,568 |

| | September 30, 2019 | |
|---|---|---|
| ($ in thousands) | Unrecognized Expense | Weighted Average Expected Recognition Period |
| RSUs | $ 154,553 | 2.6 years |
| PSUs | 46,837 | 2.6 years |
| RSAs | 138 | 0.3 years |
| Total | $ 201,528 | |

*Excess Tax Benefits*

Excess tax benefits from exercise or vesting of share-based awards are included as a reduction in provision for income taxes in the period in which the exercise or vesting occurs. The following table presents excess tax benefits recognized, by award type:

| | Quarter Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| ($ in thousands) | Number of Awards Exercised or Vested | Related Excess Tax Benefit (Deficiency) | Number of Awards Exercised or Vested | Related Excess Tax Benefit | Number of Awards Exercised or Vested | Related Excess Tax Benefit | Number of Awards Exercised or Vested | Related Excess Tax Benefit |
| Stock options | 432,822 | $ 9,579 | 105,006 | $ 2,579 | 1,304,375 | $ 30,016 | 456,230 | $ 10,386 |
| RSUs | 44,719 | (50) | 13,052 | 91 | 903,343 | 4,614 | 815,255 | 6,735 |
| PSUs | — | — | — | — | 270,717 | 1,290 | 219,650 | 1,958 |
| RSAs | 4,375 | 84 | 4,375 | 86 | 13,125 | 260 | 13,125 | 253 |
| Total | 481,916 | $ 9,613 | 122,433 | $ 2,756 | 2,491,560 | $ 36,180 | 1,504,260 | $ 19,332 |

## Note 13. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in the components of accumulated other comprehensive income (loss):

| ($ in thousands) | Securities Available-For-Sale | Securities Transferred from Available-For-Sale to Held-to-Maturity | Total | Securities Available-For-Sale | Securities Transferred from Available-For-Sale to Held-to-Maturity | Total |
|---|---|---|---|---|---|---|
| | Quarter Ended September 30, 2019 | | | Nine Months Ended September 30, 2019 | | |
| **Beginning balance** | **$ (1,155)** | **$ 1,176** | **$ 21** | **$ (20,945)** | **$ 1,562** | **$ (19,383)** |
| Net unrealized gain on securities available-for-sale | 13,325 | — | 13,325 | 39,494 | — | 39,494 |
| Related tax effect | (3,971) | — | (3,971) | (11,769) | — | (11,769) |
| Reclassification of loss on securities available-for-sale to net income (1) | 890 | — | 890 | 2,912 | — | 2,912 |
| Related tax effect (2) | (265) | — | (265) | (868) | — | (868) |
| Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity (3) | — | (242) | (242) | — | (792) | (792) |
| Related tax effect (2) | — | 72 | 72 | — | 236 | 236 |
| Other comprehensive income (loss) | 9,979 | (170) | 9,809 | 29,769 | (556) | 29,213 |
| **Ending balance** | **$ 8,824** | **$ 1,006** | **$ 9,830** | **$ 8,824** | **$ 1,006** | **$ 9,830** |
| | Quarter Ended September 30, 2018 | | | Nine Months Ended September 30, 2018 | | |
| **Beginning balance** | **$ (19,694)** | **$ 1,993** | **$ (17,701)** | **$ (6,472)** | **$ 2,632** | **$ (3,840)** |
| Cumulative adjustments from adoption of new accounting guidance | — | — | — | (1,182) | | (1,182) |
| **Beginning balance after cumulative adjustments** | **(19,694)** | **1,993** | **(17,701)** | **(7,654)** | **2,632** | **(5,022)** |
| Net unrealized gain on securities transferred from held-to-maturity to available-for-sale | — | — | — | 17,528 | — | 17,528 |
| Related tax effect | — | — | — | (5,223) | — | (5,223) |
| Net unrealized loss on securities available-for-sale | (5,761) | — | (5,761) | (14,424) | — | (14,424) |
| Related tax effect | 1,716 | — | 1,716 | 4,298 | — | 4,298 |
| Reclassification of loss (gain) on securities available-for-sale to net income (1) | 777 | — | 777 | (25,240) | — | (25,240) |
| Related tax effect (2) | (232) | — | (232) | 7,521 | — | 7,521 |
| Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity (3) | — | (291) | (291) | — | (1,201) | (1,201) |
| Related tax effect (2) | — | 87 | 87 | — | 358 | 358 |
| Other comprehensive loss | (3,500) | (204) | (3,704) | (15,540) | (843) | (16,383) |
| **Ending balance** | **$ (23,194)** | **$ 1,789** | **$ (21,405)** | **$ (23,194)** | **$ 1,789** | **$ (21,405)** |

(1) Included in gain (loss) on investment securities on the consolidated statements of income and comprehensive income.

(2) Included in provision for income taxes on the consolidated statements of income and comprehensive income.

(3) Included in interest income on investments on the consolidated statements of income and comprehensive income.

## Note 14. Income Taxes

The Bank's effective tax rates for the quarter and nine months ended September 30, 2019 were 18.0% and 17.0%, respectively. The Bank's effective tax rates for the quarter and nine months ended September 30, 2018 were 19.8% and 18.6%, respectively. The following table presents the reconciliation between the effective tax rate and the federal statutory rate:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Effective Tax Rate** | **2019** | **2018** | **2019** | **2018** |
| Statutory rate | 21.0 % | 21.0 % | 21.0 % | 21.0 % |
| State taxes, net of federal benefits | 7.9 % | 7.1 % | 7.9 % | 7.9 % |
| Tax-exempt income | (6.3)% | (6.7)% | (6.5)% | (7.2)% |
| Investments in life insurance | (0.9)% | (0.9)% | (0.8)% | (0.8)% |
| Tax credits | (13.9)% | (13.9)% | (14.6)% | (15.0)% |
| Tax credit investment amortization | 12.2 % | 12.6 % | 12.9 % | 13.3 % |
| Excess tax benefits—stock options | (3.3)% | (0.9)% | (3.6)% | (1.3)% |
| Excess tax benefits—other stock awards | (0.1)% | (0.1)% | (0.8)% | (1.2)% |
| FDIC assessments | 0.7 % | 1.3 % | 0.7 % | 1.3 % |
| Other, net | 0.7 % | 0.3 % | 0.8 % | 0.6 % |
| Effective tax rate | 18.0 % | 19.8 % | 17.0 % | 18.6 % |

## Note 15. Earnings Per Common Share ("EPS")

The following table presents a reconciliation of the income and share amounts used in the basic and diluted earnings per common share computations:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands, except per share amounts)** | **2019** | **2018** | **2019** | **2018** |
| **Basic EPS:** | | | | |
| Net income | $ 234,844 | $ 213,546 | $ 683,999 | $ 622,410 |
| Less: Dividends on preferred stock | 12,787 | 17,112 | 38,362 | 41,497 |
| Net income available to common shareholders | $ 222,057 | $ 196,434 | $ 645,637 | $ 580,913 |
| Weighted average common shares outstanding | 168,272 | 163,048 | 167,694 | 162,322 |
| Net income per common share—basic | $ 1.32 | $ 1.20 | $ 3.85 | $ 3.58 |
| **Diluted EPS:** | | | | |
| Net income available to common shareholders | $ 222,057 | $ 196,434 | $ 645,637 | $ 580,913 |
| Weighted average shares: | | | | |
| Common shares outstanding | 168,272 | 163,048 | 167,694 | 162,322 |
| Dilutive effect of stock options | 612 | 1,673 | 849 | 1,781 |
| Dilutive effect of restricted stock awards, restricted stock units and performance share units | 462 | 777 | 906 | 1,006 |
| Weighted average diluted common shares outstanding | 169,346 | 165,498 | 169,449 | 165,109 |
| Net income per common share—diluted | $ 1.31 | $ 1.19 | $ 3.81 | $ 3.52 |

Stock options, restricted stock awards, restricted stock units and performance share units that are anti-dilutive are not included in the calculation of diluted earnings per common share. The following table presents the weighted average shares of outstanding stock awards that were anti-dilutive for the periods indicated:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Restricted stock units and performance share units | 767 | — | 4 | 240 |

## Note 16. Revenue from Contracts with Customers

*Revenue Recognition*

The following table presents revenue from contracts with customers, disaggregated by revenue stream, as well as other noninterest income:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Noninterest income: | | | | |
| Revenue from contracts with customers: | | | | |
| Investment management fees | $ 83,582 | $ 88,560 | $ 262,226 | $ 249,602 |
| Brokerage and investment fees | 12,040 | 6,407 | 26,587 | 21,674 |
| Insurance fees | 2,712 | 1,851 | 8,522 | 4,646 |
| Trust fees | 4,105 | 3,599 | 12,221 | 10,694 |
| Deposit fees | 6,563 | 6,225 | 19,462 | 18,490 |
| Other income | 1,082 | 592 | 3,299 | 1,936 |
| Total revenue from contracts with customers | 110,084 | 107,234 | 332,317 | 307,042 |
| Other sources of noninterest income | 32,123 | 27,141 | 87,558 | 92,856 |
| Total noninterest income | $ 142,207 | $ 134,375 | $ 419,875 | $ 399,898 |

The Bank earns revenues from contracts with customers primarily for performing investment management, brokerage, sales of insurance and annuity policies, trust and deposit services. Most of the Bank's contracts with customers are open-ended, and the Bank provides services on an ongoing basis for an unspecified contract term. For these ongoing services, the fees are variable, since they are dependent on factors such as the value of underlying assets under management, assets under administration or volume of transactions. The Bank recognizes revenue over the period services are provided to customers and when the uncertainties that determine the amount of revenue are resolved, and the actual fees are known or can be estimated. For certain services that are provided at a specific point in time, the Bank recognizes revenue in full at the time such services are provided.

*Contract Balances and Receivables*

The Bank records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers. The Bank generally receives payments for its services during the period or at the time services are provided and, therefore, does not have deferred revenue balances at period-end.

Receivables from contracts with customers were $21.1 million and $17.3 million at September 30, 2019 and December 31, 2018, respectively, and consist primarily of investment management and brokerage receivables, which are included in prepaid expenses and other assets on the consolidated balance sheets.

**Note 17. Segment Reporting**

ASC 280-10, "Segment Reporting," requires that a public business enterprise report certain financial and descriptive information about its reportable operating segments on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. The Bank's two reportable segments are Commercial Banking and Wealth Management.

The Commercial Banking segment represents most of the operations of the Bank, including real estate secured lending, retail deposit gathering, private banking activities, mortgage sales and servicing, and managing capital, liquidity and interest rate risk.

The Wealth Management segment consists of (i) the investment management activities of FRIM, which manages assets for individuals and institutions in equity securities, fixed income securities, balanced portfolios and alternative investments; (ii) First Republic Trust Company, a division of the Bank that offers personal trust and custody services; (iii) FRTC Delaware, a wholly-owned subsidiary of the Bank that provides personal trust and custody services; (iv) the Bank's mutual fund activities through third-party providers; (v) the brokerage activities of FRSC; and (vi) the Bank's foreign exchange activities conducted on behalf of clients. In addition, the Wealth Management segment earns fee income for offering sales of life insurance and annuity products to clients. Further, the Wealth Management segment earns fees for the Bank's investment portfolio and earns a deposit earnings credit for client deposit accounts that are maintained at the Bank, including sweep deposit accounts.

Income tax expense for the segments is presented based on the segment's contribution to total consolidated tax expense. Tax preference items are allocated to the segment responsible for the related investments resulting in the tax preference item.

The following tables present the operating results, goodwill and total assets of the Bank's two reportable segments, as well as any reconciling items:

| ($ in thousands) | Commercial Banking | Wealth Management | Reconciling Items | Consolidated Total |
|---|---|---|---|---|
| **At or for the Quarter Ended September 30, 2019** | | | | |
| Net interest income | $ 673,801 | $ 21,184 | $ — | $ 694,985 |
| Provision for loan losses | 16,711 | — | — | 16,711 |
| Noninterest income from contracts with customers [(1)] | 6,949 | 111,626 | (8,491) | 110,084 |
| Other noninterest income | 20,283 | 11,840 | — | 32,123 |
| Noninterest income | 27,232 | 123,466 | (8,491) | 142,207 |
| Amortization of intangibles | 398 | 2,434 | — | 2,832 |
| Other noninterest expense | 435,460 | 104,149 | (8,491) | 531,118 |
| Noninterest expense | 435,858 | 106,583 | (8,491) | 533,950 |
| Income before provision for income taxes | 248,464 | 38,067 | — | 286,531 |
| Provision for income taxes | 40,510 | 11,177 | — | 51,687 |
| Net income | $ 207,954 | $ 26,890 | $ — | $ 234,844 |
| Goodwill | $ 51,435 | $ 147,012 | $ — | $ 198,447 |
| Total Assets | $ 110,489,310 | $ 780,547 | $ (241,122) | $ 111,028,735 |
| **At or for the Quarter Ended September 30, 2018** | | | | |
| Net interest income | $ 613,689 | $ 20,765 | $ — | $ 634,454 |
| Provision for loan losses | 18,633 | — | — | 18,633 |
| Noninterest income from contracts with customers [(1)] | 6,270 | 109,284 | (8,320) | 107,234 |
| Other noninterest income | 18,174 | 8,967 | — | 27,141 |
| Noninterest income | 24,444 | 118,251 | (8,320) | 134,375 |
| Amortization of intangibles | 832 | 3,093 | — | 3,925 |
| Other noninterest expense | 382,616 | 105,778 | (8,320) | 480,074 |
| Noninterest expense | 383,448 | 108,871 | (8,320) | 483,999 |
| Income before provision for income taxes | 236,052 | 30,145 | — | 266,197 |
| Provision for income taxes | 43,910 | 8,741 | — | 52,651 |
| Net income | $ 192,142 | $ 21,404 | $ — | $ 213,546 |
| Goodwill | $ 51,435 | $ 147,012 | $ — | $ 198,447 |
| Total Assets | $ 95,661,482 | $ 625,532 | $ (192,792) | $ 96,094,222 |

[(1)] The Commercial Banking segment consists of noninterest income from contracts with customers related to deposit fees and the Wealth Management segment consists of investment management, brokerage and investment, insurance and trust fees.

| ($ in thousands) | Commercial Banking | Wealth Management | Reconciling Items | Consolidated Total |
|---|---|---|---|---|
| **At or for the Nine Months Ended September 30, 2019** | | | | |
| Net interest income | $ 1,977,175 | $ 66,874 | $ — | $ 2,044,049 |
| Provision for loan losses | 52,111 | — | — | 52,111 |
| Noninterest income from contracts with customers [(1)] | 20,511 | 336,766 | (24,960) | 332,317 |
| Other noninterest income | 55,914 | 31,644 | — | 87,558 |
| Noninterest income | 76,425 | 368,410 | (24,960) | 419,875 |
| Amortization of intangibles | 1,519 | 7,797 | — | 9,316 |
| Other noninterest expense | 1,274,663 | 328,597 | (24,960) | 1,578,300 |
| Noninterest expense | 1,276,182 | 336,394 | (24,960) | 1,587,616 |
| Income before provision for income taxes | 725,307 | 98,890 | — | 824,197 |
| Provision for income taxes | 112,511 | 27,687 | — | 140,198 |
| Net income | $ 612,796 | $ 71,203 | $ — | $ 683,999 |
| Goodwill | $ 51,435 | $ 147,012 | $ — | $ 198,447 |
| Total Assets | $ 110,489,310 | $ 780,547 | $ (241,122) | $ 111,028,735 |
| **At or for the Nine Months Ended September 30, 2018** | | | | |
| Net interest income | $ 1,775,535 | $ 58,370 | $ — | $ 1,833,905 |
| Provision for loan losses | 51,003 | — | — | 51,003 |
| Noninterest income from contracts with customers [(1)] | 18,369 | 314,992 | (26,319) | 307,042 |
| Other noninterest income | 66,095 | 26,761 | — | 92,856 |
| Noninterest income | 84,464 | 341,753 | (26,319) | 399,898 |
| Amortization of intangibles | 2,822 | 9,774 | — | 12,596 |
| Other noninterest expense | 1,127,063 | 304,797 | (26,319) | 1,405,541 |
| Noninterest expense | 1,129,885 | 314,571 | (26,319) | 1,418,137 |
| Income before provision for income taxes | 679,111 | 85,552 | — | 764,663 |
| Provision for income taxes | 118,187 | 24,066 | — | 142,253 |
| Net income | $ 560,924 | $ 61,486 | $ — | $ 622,410 |
| Goodwill | $ 51,435 | $ 147,012 | $ — | $ 198,447 |
| Total Assets | $ 95,661,482 | $ 625,532 | $ (192,792) | $ 96,094,222 |

[(1)] The Commercial Banking segment consists of noninterest income from contracts with customers related to deposit fees and the Wealth Management segment consists of investment management, brokerage and investment, insurance and trust fees.

The reconciling items for revenues include fees for managing the Bank's investment portfolio by FRIM and intercompany management fees related to the training and licensing of the Bank's licensed representatives by FRSC. The reconciling items for assets include subsidiary funds on deposit with the Bank and any intercompany receivable that is reimbursed at least on a quarterly basis.

## Note 18. Subsequent Events

The Bank evaluated the effects of events that have occurred subsequent to the quarter ended September 30, 2019.

On October 18, 2019 (the "Series D Redemption Date"), we redeemed all outstanding depositary shares, each representing a 1/40th interest in a share of the Bank's 5.50% Noncumulative Perpetual Series D Preferred Stock ("Series D Preferred Stock"). In total, 7,600,000 depositary shares were redeemed at a redemption price of $25.00 per share, representing an aggregate amount of $190.0 million plus all accrued and unpaid dividends as of the Series D Redemption Date. As of the Series D Redemption Date, the Series D Preferred Stock was deemed no longer outstanding, and no further dividends will be declared on the Series D Preferred Stock. This redemption reduced the Bank's Tier 1 capital by $190.0 million.

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

### Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this Quarterly Report that are not historical facts are hereby identified as "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipates," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimates," "plans," "projects," "continuing," "ongoing," "expects," "intends" and similar words or phrases. Accordingly, these statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties. Our actual results could differ materially from those expressed or anticipated in such forward-looking statements as a result of risks and uncertainties more fully described under "Item 1A. Risk Factors" in this Quarterly Report or under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K").

Forward-looking statements involving such risks and uncertainties include, but are not limited to, statements regarding:

- Projections of loans, assets, deposits, liabilities, revenues, expenses, tax liabilities, net income, capital expenditures, liquidity, dividends, capital structure, investments or other financial items;
- Expectations regarding the banking and wealth management industries;
- Descriptions of plans or objectives of management for future operations, products or services;
- Forecasts of future economic conditions generally and in our market areas in particular, which may affect the ability of borrowers to repay their loans and the value of real property or other property held as collateral for such loans;
- Our opportunities for growth and our plans for expansion (including opening new offices);
- Expectations about the performance of any new offices;
- Projections about the amount and the value of intangible assets, as well as amortization of recorded amounts;
- Future provisions for loan losses, changes in nonperforming assets, impairment of investments and our allowance for loan losses;
- Projections about future levels of loan originations or loan repayments;
- Projections regarding costs, including the impact on our efficiency ratio; and
- Descriptions of assumptions underlying or relating to any of the foregoing.

Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Significant competition to attract and retain banking and wealth management customers, from both traditional and non-traditional financial services and technology companies;
- Our ability to recruit and retain key managers, employees and board members;

- The possibility of earthquakes, fires and other natural disasters affecting the markets in which we operate;
- Interest rate risk and credit risk;
- Our ability to maintain and follow high underwriting standards;
- Economic and market conditions, including those affecting the valuation of our investment securities portfolio, which could result in other-than-temporary impairment if the general economy deteriorates, credit ratings decline, the financial condition of issuers deteriorates, interest rates increase or the liquidity for securities is limited;
- Real estate prices generally and in our markets;
- Our geographic and product concentrations;
- Demand for our products and services;
- Developments and uncertainty related to the future use and availability of reference rates, such as the London Interbank Offered Rate ("LIBOR") and the 11th District Monthly Weighted Average Cost of Funds Index ("COFI");
- The regulatory environment in which we operate, our regulatory compliance and future regulatory requirements;
- The impact of tax reform legislation;
- Any future changes to regulatory capital requirements;
- Legislative and regulatory actions affecting us and the financial services industry, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), including increased compliance costs, limitations on activities and requirements to hold additional capital, as well as changes to the Dodd-Frank Act pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA");
- Our ability to avoid litigation and its associated costs and liabilities;
- The impact of new accounting standards, including the estimated impact of the Current Expected Credit Losses ("CECL") accounting standard;
- Future Federal Deposit Insurance Corporation ("FDIC") special assessments or changes to regular assessments;
- Fraud, cybersecurity and privacy risks; and
- Custom technology preferences of our customers and our ability to successfully execute on initiatives relating to enhancements of our technology infrastructure, including client-facing systems and applications.

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations, and, therefore, you are cautioned not to place undue reliance on such statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Quarterly Report, the 2018 Form 10-K and our other public filings under the Exchange Act. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

## Selected Financial Data

The following table presents our selected financial data and ratios at the dates or for the periods indicated:

| ($ in thousands, except per share amounts) | At or for the Quarter Ended September 30, 2019 | At or for the Quarter Ended September 30, 2018 | At or for the Nine Months Ended September 30, 2019 | At or for the Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| **Selected Financial Data:** | | | | |
| Interest income | $ 909,776 | $ 780,038 | $ 2,642,525 | $ 2,202,951 |
| Interest expense | 214,791 | 145,584 | 598,476 | 369,046 |
| Net interest income | 694,985 | 634,454 | 2,044,049 | 1,833,905 |
| Provision for loan losses | 16,711 | 18,633 | 52,111 | 51,003 |
| Net interest income after provision for loan losses | 678,274 | 615,821 | 1,991,938 | 1,782,902 |
| Noninterest income | 142,207 | 134,375 | 419,875 | 399,898 |
| Noninterest expense | 533,950 | 483,999 | 1,587,616 | 1,418,137 |
| Net income | 234,844 | 213,546 | 683,999 | 622,410 |
| Dividends on preferred stock | 12,787 | 17,112 | 38,362 | 41,497 |
| Net income available to common shareholders | $ 222,057 | $ 196,434 | $ 645,637 | $ 580,913 |
| **Selected Ratios:** | | | | |
| Basic earnings per common share ("EPS") | $ 1.32 | $ 1.20 | $ 3.85 | $ 3.58 |
| Diluted EPS | $ 1.31 | $ 1.19 | $ 3.81 | $ 3.52 |
| Net income to average assets [(1)] | 0.87% | 0.91% | 0.89% | 0.93% |
| Net income available to common shareholders to average common equity [(1)] | 10.50% | 10.60% | 10.49% | 10.84% |
| Net income available to common shareholders to average tangible common equity [(1)] | 10.84% | 11.02% | 10.85% | 11.28% |
| Average total equity to average total assets | 8.72% | 9.12% | 8.92% | 9.04% |
| Dividends per common share | $ 0.19 | $ 0.18 | $ 0.56 | $ 0.53 |
| Dividend payout ratio | 14.5% | 15.2% | 14.7% | 15.1% |
| Book value per common share | $ 50.41 | $ 45.68 | $ 50.41 | $ 45.68 |
| Tangible book value per common share | $ 48.84 | $ 44.00 | $ 48.84 | $ 44.00 |
| Net interest margin [(1)] | 2.80% | 2.94% | 2.87% | 2.95% |
| Efficiency ratio [(2)] | 63.8% | 63.0% | 64.4% | 63.5% |
| **Selected Asset Quality Ratios:** | | | | |
| Nonperforming assets to total assets | 0.12% | 0.04% | 0.12% | 0.04% |
| Allowance for loan losses to total loans | 0.56% | 0.57% | 0.56% | 0.57% |
| Allowance for loan losses to nonperforming loans | 354.5% | 976.6% | 354.5% | 976.6% |
| Net loan charge-offs to average total loans [(1)] | 0.02% | 0.00% | 0.01% | 0.00% |
| **Capital Ratios:** | | | | |
| Tier 1 leverage ratio | 8.50% | 8.94% | 8.50% | 8.94% |
| Common Equity Tier 1 ratio | 9.91% | 10.47% | 9.91% | 10.47% |
| Tier 1 risk-based capital ratio | 11.05% | 12.14% | 11.05% | 12.14% |
| Total risk-based capital ratio | 12.61% | 13.90% | 12.61% | 13.90% |

(1) Ratios are annualized.

(2) Efficiency ratio is the ratio of noninterest expense to the sum of net interest income and noninterest income.

## Introduction

We derive our income from the following principal areas: (1) net interest income, which is our largest source of income, and constitutes the difference between the interest income that we receive from interest-earning assets, such as loans and investment securities, and the interest expense that we pay on interest-bearing liabilities, such as deposits and borrowings; (2) fee income from wealth management activities, including investment management, trust, brokerage, insurance, foreign exchange and other banking services; (3) fees for deposit services; (4) loan and related fees, including late charge income, loan-related processing fees, prepayment penalties on sold loans, and payoff fees; and (5) earnings from the sale and servicing of real estate secured loans. We currently operate our business through two business segments: Commercial Banking and Wealth Management.

## Critical Accounting Policies and the Impact of Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to allowance for loan losses and income taxes. We base these estimates on our historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We consider these to be critical accounting policies because of the significance to our financial condition and results of operations and the complex and subjective judgments, assumptions and estimates involved. Actual results may differ from these estimates under different assumptions or conditions. For discussion of our critical accounting policies and estimates, refer to "—Critical Accounting Policies and the Impact of Accounting Estimates" in Item 7 of our 2018 Form 10-K.

## Current Accounting Developments

For a discussion of accounting standards that became effective during the nine months ended September 30, 2019, and accounting standards recently issued but that are not yet effective, refer to Note 1, "Summary of Significant Accounting Policies—Accounting Standards Adopted in 2019 and—Recent Accounting Standards," in "Item 1. Financial Statements."

## Key Factors Affecting Our Business and Financial Statements

### *Regulatory and Supervisory Matters*

Our results of operations are affected by the regulatory environment and requirements imposed on us by regulators. The extensive regulation and supervision that govern our business continues to evolve as the legal and regulatory framework changes and as our business grows. As described in our 2018 Form 10-K under "Item 1. Business—Supervision and Regulation," the Dodd-Frank Act significantly restructured the financial regulatory regime in the United States. The enactment of the EGRRCPA in May 2018 altered several provisions of the Dodd-Frank Act. Overall, the changes under the EGRRCPA mainly apply to smaller U.S. banks and to U.S. bank holding companies and, subject to rulemaking and implementation by our regulators, we expect them to have a limited effect on the Bank, including in the following areas, among others: a) company-run stress testing, b) treatment of municipal obligations as high quality liquid assets ("HQLA") and c) resolution planning. Specifically, the EGRRCPA and corresponding FDIC rule expanded the definition of HQLA to include certain municipal obligations, and HQLA now include such qualifying securities.

The EGRRCPA amended the Dodd-Frank Act to eliminate company-run stress testing requirements for financial institutions with less than $250 billion in total consolidated assets, effective as of late November 2019. We have been informed by the FDIC that they have extended our stress test filing and reporting deadlines until late November 2019, at which point, under EGRRCPA, and consistent with the final rule issued by the FDIC in October 2019 on company-run stress testing requirements, we would no longer be subject to the Dodd-Frank Act's requirement to conduct annual company-run stress tests.

In April 2019, the FDIC released an advance notice of proposed rulemaking about potential changes to its resolution planning requirements for certain insured depository institutions ("IDIs"). The FDIC has also indicated that it will extend the submission deadline for the next IDI resolution plans to a later date or dates that the FDIC will specify in connection with final amendments to its IDI resolution planning requirements.

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds and other investment vehicles, known as "covered funds," subject to certain detailed exemptions. The statutory provision is commonly called the "Volcker Rule." In August 2019, the FDIC, together with other federal agencies, adopted a final rule amending the regulations that implement the Volcker Rule. The final rule is effective on January 1, 2020 with a compliance date of January 1, 2021 and is intended to simplify and tailor the compliance requirements under the 2013 rule. Among other changes, the 2019 final rule tailors compliance program obligations for trading activities in tiers based on the level of trading assets and liabilities which benefits banking entities with limited trading activities like First Republic Bank and simplifies certain conditions for exemptions to the restrictions that apply to activities engaged in by banking entities. The agencies also signaled the intention to propose further amendments to the covered funds provisions of their Volcker Rule regulations. We do not believe the amendments to the regulations that implement the Volcker Rule will have a material impact on our business or operations.

We continue to evaluate the impact of these changes, and the nature, extent, timing and impact of any future changes to the Dodd-Frank Act and related regulatory requirements cannot be predicted.

**Financial Highlights**

At September 30, 2019, total assets were $111.0 billion, a 12% increase compared to $99.2 billion at December 31, 2018 and a 16% increase compared to $96.1 billion at September 30, 2018.

At September 30, 2019, total investment securities were $17.4 billion, a 7% increase compared to $16.2 billion at December 31, 2018 and a 7% increase from $16.3 billion at September 30, 2018. Total investment securities represented 16% of total assets at September 30, 2019 and December 31, 2018, compared to 17% at September 30, 2018. Our holdings of assets that are considered HQLA, including eligible cash, totaled $13.6 billion at September 30, 2019, compared to $14.8 billion at December 31, 2018 and $15.0 billion at September 30, 2018. At September 30, 2019 and December 31, 2018, HQLA included $5.7 billion and $5.2 billion, respectively, of municipal securities. At September 30, 2019, HQLA represented 12.7% of average total assets for the third quarter of 2019. For additional discussion regarding our investment portfolio, see "—Balance Sheet Analysis—Investments."

At September 30, 2019, loans, excluding loans held for sale, were $86.3 billion, a 14% increase compared to $75.9 billion at December 31, 2018 and a 19% increase compared to $72.3 billion at September 30, 2018. Our single family mortgage loans, including single family mortgage loans held for sale and home equity lines of credit ("HELOCs"), were $47.4 billion and represented 55% of total loans at September 30, 2019, compared to $40.6 billion, or 53% of total loans at December 31, 2018 and $38.8 billion, or 53% of total loans at September 30, 2018.

Loan origination volume was $11.1 billion for the third quarter of 2019, compared to $7.0 billion for the third quarter of 2018, an increase of 58%, and was $27.3 billion for the nine months ended September 30, 2019, compared to $23.7 billion for the nine months ended September 30, 2018, an increase of 15%. The increase for the quarter was due to increases in single family, business, stock and other secured, commercial real estate and construction lending. The increase for the nine months was primarily due to increases in single family and commercial real estate lending, partially offset by a decrease in multifamily lending.

Total deposits were $85.7 billion at September 30, 2019, an increase of 8% compared to $79.1 billion at December 31, 2018, and an increase of 15% compared to $74.8 billion at September 30, 2018. Deposits increased as a result of expanding existing client relationships, referrals from existing clients, and new deposit clients. We continue to emphasize building banking relationships through checking and other transaction deposit accounts. At September 30, 2019, balances in business and personal checking accounts were $50.2 billion, or 59% of total deposits, compared to $47.1 billion, or 60% of total deposits at December 31, 2018 and $44.8 billion, or 60% of total deposits at September 30, 2018. At September 30, 2019, business deposits were $49.8 billion and represented 58% of total deposits, compared to $44.3 billion, or 56% of total deposits at December 31, 2018, and $42.2 billion, or 56% of total deposits at September 30, 2018.

Our Common Equity Tier 1 ("CET1") and total risk-based capital ratios at September 30, 2019 were 9.91% and 12.61%, respectively. We continue to exceed regulatory guidelines for well-capitalized institutions. Refer to "—Capital Resources" for further discussion of capital ratios and our capital requirements.

Book value per common share was $50.41 at September 30, 2019, a 7% increase from December 31, 2018 and a 10% increase during the last twelve months. Tangible book value per common share was $48.84 at September 30, 2019, an 8% increase from December 31, 2018 and an 11% increase during the last twelve months.

During the first nine months of 2019, we issued 2,000,000 shares of common stock in an "at-the-market" offering, which added $170.6 million to common equity. In addition, on October 18, 2019, we redeemed all outstanding shares of our 5.50% Noncumulative Perpetual Series D Preferred Stock at an aggregate amount of $190.0 million plus all accrued and unpaid dividends as of the redemption date.

Cash dividends paid in the third quarter of 2019 were $0.19 per share of common stock to shareholders of record as of July 25, 2019, compared to $0.18 in the third quarter of 2018. On October 15, 2019, we declared a cash dividend for the third quarter of $0.19 per share, which is payable on November 14, 2019 to shareholders of record as of October 31, 2019. Any future payment of dividends will be subject to ongoing regulatory oversight and board approval.

Wealth management assets under management ("AUM") and assets under administration ("AUA") were $140.2 billion at September 30, 2019, an increase of $14.0 billion, or 11%, from $126.2 billion at December 31, 2018 and an increase of $9.2 billion, or 7%, from $131.0 billion at September 30, 2018. See "—Business Segments" for additional information.

The Bank's effective tax rate for the quarter and nine months ended September 30, 2019 was 18.0% and 17.0%, respectively, compared to 19.8% and 18.6%, respectively, for the quarter and nine months ended September 30, 2018. See "—Provision for Income Taxes" for additional information.

**Results of Operations— Quarter and Nine Months Ended September 30, 2019, Compared to Quarter and Nine Months Ended September 30, 2018**

***Overview***

Net income for the quarter and nine months ended September 30, 2019 was $234.8 million and $684.0 million, compared to $213.5 million and $622.4 million for the quarter and nine months ended September 30, 2018, respectively, an increase of $21.3 million, or 10%, for the quarter, and an increase of $61.6 million, or 10%, for the nine months. Diluted EPS for the quarter and nine months ended September 30, 2019 were $1.31 and $3.81, compared to $1.19 and $3.52 for the quarter and nine months ended September 30, 2018, respectively, an increase of 10% for the quarter and an increase of 8% for the nine months.

Net income for the Commercial Banking segment for the quarter and nine months ended September 30, 2019 was $208.0 million and $612.8 million, compared to $192.1 million and $560.9 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 8% for the quarter and an increase of 9% for the nine months. The Wealth Management segment's net income for the quarter and nine months ended September 30, 2019 was $26.9 million and $71.2 million, compared to $21.4 million and $61.5 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 26% for the quarter and an increase of 16% for the nine months. For a discussion of segment results, see "—Business Segments."

***Net Interest Income and Net Interest Margin***

Net interest income for the quarter and nine months ended September 30, 2019 was $695.0 million and $2.0 billion, compared to $634.5 million and $1.8 billion for the quarter and nine months ended September 30, 2018, respectively, an increase of $60.5 million, or 10%, for the quarter and an increase of $210.1 million, or 11%, for the nine months.

Net interest margin represents net interest income on a fully taxable-equivalent basis divided by total average interest-earning assets. Net interest margin for the quarter and nine months ended September 30, 2019 was 2.80% and 2.87%, compared to 2.94% and 2.95% for the quarter and nine months ended September 30, 2018, respectively. The decreases for the quarter and nine months were primarily due to increases in total funding costs, which outpaced the increases in yields on interest-earning assets.

Fully taxable-equivalent net interest income for the quarter and nine months ended September 30, 2019 was $721.1 million and $2.1 billion, compared to $660.1 million and $1.9 billion for the quarter and nine months ended September 30, 2018, respectively, an increase of 9% for the quarter and an increase of 11% for the nine months.

On an average basis, interest-earning assets and interest-bearing liabilities for the third quarter of 2019 increased 15% and 14%, respectively, from the third quarter of 2018. For the nine months ended September 30, 2019, average interest-earning assets and interest-bearing liabilities both increased 14% from the nine months ended September 30, 2018.

*Yields/Rates (Fully Taxable-Equivalent Basis)*

The following tables present the distribution of average assets, liabilities and equity, interest income and resulting yields on average interest-earning assets, and interest expense and rates on average interest-bearing liabilities on a fully taxable-equivalent basis.

| ($ in thousands) | 2019 Average Balance | 2019 Interest Income/ Expense [1] | 2019 Yields/ Rates [2] | 2018 Average Balance | 2018 Interest Income/ Expense [1] | 2018 Yields/ Rates [2] |
|---|---|---|---|---|---|---|
| | Quarter Ended September 30, | | | | | |
| **Assets:** | | | | | | |
| Cash and cash equivalents | $ 1,161,441 | $ 5,430 | 1.86% | $ 1,490,468 | $ 6,896 | 1.84% |
| Investment securities: | | | | | | |
| U.S. Government-sponsored agency securities | 740,893 | 5,375 | 2.90% | 1,044,897 | 7,776 | 2.98% |
| Mortgage-backed securities ("MBS"): | | | | | | |
| Agency residential and commercial MBS | 6,593,422 | 46,762 | 2.84% | 7,355,930 | 51,705 | 2.81% |
| Other residential and commercial MBS | 4,473 | 43 | 3.84% | 4,690 | 37 | 3.16% |
| Municipal securities | 9,184,274 | 101,154 | 4.41% | 7,989,269 | 93,425 | 4.68% |
| Other investment securities [3] | 24,977 | 156 | 2.49% | 19,669 | 115 | 2.34% |
| Total investment securities | 16,548,039 | 153,490 | 3.71% | 16,414,455 | 153,058 | 3.73% |
| Loans: | | | | | | |
| Residential real estate | 45,754,902 | 374,690 | 3.27% | 37,929,270 | 306,521 | 3.23% |
| Multifamily | 11,446,955 | 112,624 | 3.85% | 9,907,089 | 94,352 | 3.73% |
| Commercial real estate | 7,366,320 | 79,213 | 4.21% | 6,369,984 | 67,360 | 4.14% |
| Construction | 2,152,911 | 26,599 | 4.83% | 1,996,313 | 24,286 | 4.76% |
| Business | 11,551,439 | 129,314 | 4.38% | 9,828,856 | 108,350 | 4.31% |
| Other | 5,704,872 | 48,746 | 3.34% | 4,744,162 | 39,593 | 3.27% |
| Total loans | 83,977,399 | 771,186 | 3.63% | 70,775,674 | 640,462 | 3.58% |
| Federal Home Loan Bank ("FHLB") stock | 321,778 | 5,779 | 7.13% | 298,880 | 5,237 | 6.95% |
| Total interest-earning assets | 102,008,657 | 935,885 | 3.63% | 88,979,477 | 805,653 | 3.59% |
| Noninterest-earning assets: | | | | | | |
| Noninterest-earning cash | 335,648 | | | 353,753 | | |
| Goodwill and other intangibles | 266,032 | | | 279,523 | | |
| Other assets | 4,409,665 | | | 3,518,736 | | |
| Total noninterest-earning assets | 5,011,345 | | | 4,152,012 | | |
| Total Assets | $ 107,020,002 | | | $ 93,131,489 | | |
| **Liabilities and Equity:** | | | | | | |
| Deposits: | | | | | | |
| Checking | $ 48,666,948 | 8,501 | 0.07% | $ 44,102,853 | 5,186 | 0.05% |
| Money market checking and savings | 20,536,777 | 53,046 | 1.02% | 18,095,858 | 31,313 | 0.69% |
| Certificates of deposit ("CDs") | 13,170,046 | 73,370 | 2.21% | 9,770,083 | 44,939 | 1.82% |
| Total deposits | 82,373,771 | 134,917 | 0.65% | 71,968,794 | 81,438 | 0.45% |
| Borrowings: | | | | | | |
| Short-term borrowings | 2,204,262 | 12,520 | 2.25% | 423,383 | 2,248 | 2.11% |
| Long-term FHLB advances | 9,796,739 | 54,901 | 2.22% | 9,681,793 | 46,872 | 1.92% |
| Senior notes [4] | 497,384 | 3,350 | 2.69% | 895,791 | 5,928 | 2.65% |
| Subordinated notes [4] | 777,730 | 9,103 | 4.68% | 777,328 | 9,098 | 4.68% |
| Total borrowings | 13,276,115 | 79,874 | 2.39% | 11,778,295 | 64,146 | 2.16% |
| Total interest-bearing liabilities | 95,649,886 | 214,791 | 0.89% | 83,747,089 | 145,584 | 0.69% |
| Noninterest-bearing liabilities | 2,037,177 | | | 894,573 | | |
| Preferred equity | 940,000 | | | 1,140,000 | | |
| Common equity | 8,392,939 | | | 7,349,827 | | |
| Total Liabilities and Equity | $ 107,020,002 | | | $ 93,131,489 | | |
| Net interest spread [5] | | | 2.74% | | | 2.90% |
| Net interest income (fully taxable-equivalent basis) and net interest margin [6] | | $ 721,094 | 2.80% | | $ 660,069 | 2.94% |
| **Reconciliation of tax-equivalent net interest income to reported net interest income:** | | | | | | |
| Municipal securities tax-equivalent adjustment | | (19,391) | | | (18,948) | |
| Business loans tax-equivalent adjustment | | (6,718) | | | (6,667) | |
| Net interest income, as reported | | $ 694,985 | | | $ 634,454 | |

(1) Interest income is presented on a fully taxable-equivalent basis.
(2) Yields/rates are annualized.
(3) Includes corporate debt securities, mutual funds and marketable equity securities.
(4) Average balances include unamortized issuance discounts and costs. Interest expense includes amortization of issuance discounts and costs.
(5) Net interest spread represents the average yield on interest-earning assets less the average rate on interest-bearing liabilities.
(6) Net interest margin represents net interest income on a fully taxable-equivalent basis divided by total average interest-earning assets.

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| ($ in thousands) | Average Balance | Interest Income/ Expense [(1)] | Yields/ Rates [(2)] | Average Balance | Interest Income/ Expense [(1)] | Yields/ Rates [(2)] |
| **Assets:** | | | | | | |
| Cash and cash equivalents | $ 1,231,578 | $ 18,966 | 2.06% | $ 1,341,984 | $ 16,494 | 1.64% |
| Investment securities: | | | | | | |
| U.S. Treasury and other U.S. Government agency securities | — | — | —% | 6,277 | 87 | 1.85% |
| U.S. Government-sponsored agency securities | 938,081 | 20,827 | 2.96% | 1,081,651 | 23,989 | 2.96% |
| MBS: | | | | | | |
| Agency residential and commercial MBS | 6,705,085 | 144,106 | 2.87% | 7,462,205 | 152,656 | 2.73% |
| Other residential and commercial MBS | 4,508 | 131 | 3.88% | 5,167 | 222 | 5.73% |
| Municipal securities | 8,624,534 | 293,060 | 4.53% | 8,139,055 | 287,447 | 4.71% |
| Other investment securities [(3)] | 21,121 | 403 | 2.54% | 19,838 | 359 | 2.41% |
| Total investment securities | 16,293,329 | 458,527 | 3.75% | 16,714,193 | 464,760 | 3.71% |
| Loans: | | | | | | |
| Residential real estate | 43,212,351 | 1,073,950 | 3.31% | 36,374,722 | 859,923 | 3.15% |
| Multifamily | 11,039,188 | 323,788 | 3.87% | 9,386,554 | 260,084 | 3.65% |
| Commercial real estate | 7,042,107 | 226,874 | 4.25% | 6,264,665 | 195,345 | 4.11% |
| Construction | 2,164,414 | 79,888 | 4.87% | 1,889,493 | 67,149 | 4.69% |
| Business | 11,216,470 | 382,143 | 4.49% | 9,204,049 | 295,925 | 4.24% |
| Other | 5,382,125 | 139,274 | 3.41% | 4,377,812 | 106,081 | 3.20% |
| Total loans | 80,056,655 | 2,225,917 | 3.69% | 67,497,295 | 1,784,507 | 3.51% |
| FHLB stock | 310,758 | 15,768 | 6.78% | 293,369 | 15,065 | 6.87% |
| Total interest-earning assets | 97,892,320 | 2,719,178 | 3.69% | 85,846,841 | 2,280,826 | 3.53% |
| Noninterest-earning assets: | | | | | | |
| Noninterest-earning cash | 341,984 | | | 348,613 | | |
| Goodwill and other intangibles | 269,246 | | | 283,651 | | |
| Other assets | 4,306,791 | | | 3,477,584 | | |
| Total noninterest-earning assets | 4,918,021 | | | 4,109,848 | | |
| Total Assets | $ 102,810,341 | | | $ 89,956,689 | | |
| **Liabilities and Equity:** | | | | | | |
| Deposits: | | | | | | |
| Checking | $ 47,006,632 | 21,541 | 0.06% | $ 43,312,861 | 16,173 | 0.05% |
| Money market checking and savings | 19,714,378 | 146,900 | 1.00% | 17,374,636 | 71,238 | 0.55% |
| CDs | 12,457,649 | 203,411 | 2.18% | 8,715,306 | 106,441 | 1.63% |
| Total deposits | 79,178,659 | 371,852 | 0.63% | 69,402,803 | 193,852 | 0.37% |
| Borrowings: | | | | | | |
| Short-term borrowings | 2,016,744 | 36,832 | 2.44% | 841,818 | 11,409 | 1.81% |
| Long-term FHLB advances | 9,149,268 | 147,669 | 2.16% | 8,985,073 | 118,716 | 1.77% |
| Senior notes [(4)] | 741,731 | 14,818 | 2.66% | 895,368 | 17,777 | 2.65% |
| Subordinated notes [(4)] | 777,629 | 27,305 | 4.68% | 777,231 | 27,292 | 4.68% |
| Total borrowings | 12,685,372 | 226,624 | 2.39% | 11,499,490 | 175,194 | 2.04% |
| Total interest-bearing liabilities | 91,864,031 | 598,476 | 0.87% | 80,902,293 | 369,046 | 0.61% |
| Noninterest-bearing liabilities | 1,780,107 | | | 924,458 | | |
| Preferred equity | 940,000 | | | 961,978 | | |
| Common equity | 8,226,203 | | | 7,167,960 | | |
| Total Liabilities and Equity | $ 102,810,341 | | | $ 89,956,689 | | |
| Net interest spread [(5)] | | | 2.82% | | | 2.92% |
| Net interest income (fully taxable-equivalent basis) and net interest margin [(6)] | | $ 2,120,702 | 2.87% | | $ 1,911,780 | 2.95% |
| **Reconciliation of tax-equivalent net interest income to reported net interest income:** | | | | | | |
| Municipal securities tax-equivalent adjustment | | (56,620) | | | (58,388) | |
| Business loans tax-equivalent adjustment | | (20,033) | | | (19,487) | |
| Net interest income, as reported | | $ 2,044,049 | | | $ 1,833,905 | |

(1) Interest income is presented on a fully taxable-equivalent basis.
(2) Yields/rates are annualized.
(3) Includes corporate debt securities, mutual funds and marketable equity securities.
(4) Average balances include unamortized issuance discounts and costs. Interest expense includes amortization of issuance discounts and costs.
(5) Net interest spread represents the average yield on interest-earning assets less the average rate on interest-bearing liabilities.
(6) Net interest margin represents net interest income on a fully taxable-equivalent basis divided by total average interest-earning assets.

***Interest Income***

Total interest income consists of interest income on loans and investments, FHLB stock dividends, and interest income on cash and cash equivalents. Total interest income was $909.8 million and $2.6 billion for the quarter and nine months ended September 30, 2019, compared to $780.0 million and $2.2 billion for the quarter and nine months ended September 30, 2018, respectively, an increase of $129.7 million, or 17%, for the quarter and an increase of $439.6 million, or 20%, for the nine months. The increase for the third quarter of 2019 was the result of an increase of 15% in average interest-earning assets, which were $102.0 billion, compared to $89.0 billion for the third quarter of 2018, and an increase in the average yield on interest-earning assets to 3.63% from 3.59% for the third quarter of 2018. The increase for the nine months ended September 30, 2019 was the result of an increase of 14% in average interest-earning assets, which were $97.9 billion, compared to $85.8 billion for the nine months ended September 30, 2018, and an increase in the average yield on interest-earning assets to 3.69% from 3.53% for the nine months ended September 30, 2018.

*Loans*

Interest income on loans for the quarter and nine months ended September 30, 2019 was $764.5 million and $2.2 billion, compared to $633.8 million and $1.8 billion for the quarter and nine months ended September 30, 2018, respectively, an increase of $130.7 million, or 21%, for the quarter, and an increase of $440.9 million, or 25%, for the nine months due to continued loan growth and increases in the average yield. Fully taxable-equivalent interest income on loans was $771.2 million for the third quarter of 2019, compared to $640.5 million for the third quarter of 2018, an increase of 20%, and was $2.2 billion for the nine months ended September 30, 2019, compared to $1.8 billion for the nine months ended September 30, 2018, an increase of 25%.

Average loan balances were $84.0 billion for the third quarter of 2019, compared to $70.8 billion for the third quarter of 2018, an increase of 19%, and were $80.1 billion for the nine months ended September 30, 2019, compared to $67.5 billion for the nine months ended September 30, 2018, an increase of 19%. The average yield on loans was 3.63% for the third quarter of 2019, compared to 3.58% for the third quarter of 2018, and was 3.69% for the nine months ended September 30, 2019, compared to 3.51% for the nine months ended September 30, 2018.

Interest income on loans included prepayment penalty fees of $2.7 million and $9.1 million for the quarter and nine months ended September 30, 2019, compared to $2.9 million and $6.4 million for the quarter and nine months ended September 30, 2018, respectively. The decrease in these fees for the quarter was primarily due to lower prepayments on multifamily loans. The increase in these fees for the nine months ended September 30, 2019 was primarily due to higher prepayments on multifamily, single family and commercial real estate loans.

Our yield on loans is affected by a number of factors: market interest rates, the level of adjustable-rate loan indices, interest rate floors and caps, the repayment rate of loans, portfolio mix and the level of nonaccrual loans. Our weighted average contractual loan rate (on a fully taxable-equivalent basis) was 3.59% at September 30, 2019, compared to 3.68% at December 31, 2018 and 3.59% at September 30, 2018. For adjustable-rate mortgages ("ARMs"), the yield is also affected by the timing of changes in the loan rates, which generally lag market rate changes. At September 30, 2019, approximately 30% of our total loans were adjustable-rate or mature within one year, compared to 33% and 34% at December 31, 2018 and September 30, 2018, respectively.

*Investments*

Interest income on investments for the quarter and nine months ended September 30, 2019 was $134.1 million and $401.9 million, compared to $134.1 million and $406.4 million for the quarter and nine months ended September 30, 2018, respectively, a slight decrease for the nine months. Fully taxable-equivalent interest income on investments was $153.5 million and $458.5 million for the quarter and nine months ended September 30, 2019, compared to $153.1 million and $464.8 million for the quarter and nine months ended September 30, 2018, a slight increase for the quarter and a slight decrease for the nine months.

Average investment balances were $16.5 billion for the third quarter of 2019, compared to $16.4 billion for the third quarter of 2018, a slight increase, and were $16.3 billion for the nine months ended September 30, 2019, compared to $16.7 billion for the nine months ended September 30, 2018, a slight decrease. The average yield on investment securities for the third quarter of 2019 was 3.71%, compared to 3.73% for the third quarter of 2018, a decline of 2 basis points, and was 3.75% for the nine months ended September 30, 2019, compared to 3.71% for the nine months ended September 30, 2018, an increase of 4 basis points. The yield increase for the nine months was the result of higher yield on agency residential and commercial MBS, partially offset by lower yield on municipal securities, and also due to a change in the mix of the investment portfolio.

*FHLB Stock*

Dividends on FHLB stock for the quarter and nine months ended September 30, 2019 were $5.8 million and $15.8 million, compared to $5.2 million and $15.1 million for the quarter and nine months ended September 30, 2018, respectively, a 10% increase for the quarter and a 5% increase for the nine months. The increases in dividend income for these periods were primarily driven by increases in average FHLB stock balances. Average FHLB stock balances were $321.8 million for the third quarter of 2019, compared to $298.9 million for the third quarter of 2018, an increase of 8%, and were $310.8 million for the nine months ended September 30, 2019, compared to $293.4 million for the nine months ended September 30, 2018, an increase of 6%. The average yield on FHLB stock was 7.13% for the third quarter of 2019, compared to 6.95% for the third quarter of 2018, and was 6.78% for the nine months ended September 30, 2019, compared to 6.87% for the nine months ended September 30, 2018.

***Interest Expense***

Total interest expense consists of interest expense on deposits, federal funds purchased, FHLB advances, senior notes, subordinated notes and other borrowings. Total interest expense was $214.8 million and $598.5 million for the quarter and nine months ended September 30, 2019, compared to $145.6 million and $369.0 million for the quarter and nine months ended September 30, 2018, respectively, an increase of $69.2 million, or 48%, for the quarter, and an increase of $229.4 million, or 62%, for the nine months. The increase for the third quarter of 2019 was the result of an increase of 14% in average interest-bearing liabilities, which were $95.6 billion, compared to $83.7 billion for the third quarter of 2018, and an increase in the average cost of interest-bearing liabilities to 0.89% from 0.69% for the third quarter of 2018. The increase for the nine months ended September 30, 2019 was the result of an increase of 14% in average interest-bearing liabilities, which were $91.9 billion, compared to $80.9 billion for the nine months ended September 30, 2018, and an increase in the average cost of interest-bearing liabilities to 0.87% from 0.61% for the nine months ended September 30, 2018.

*Deposits*

Interest expense on deposits was $134.9 million and $371.9 million for the quarter and nine months ended September 30, 2019, compared to $81.4 million and $193.9 million for the quarter and nine months ended September 30, 2018, respectively, an increase of $53.5 million for the quarter, and an increase of $178.0 million for the nine months. The increases in interest expense were driven by an increase in rates paid on deposits due to an increase in market rates of interest, along with growth in deposit balances. The average interest rate paid on deposits was 0.65% and 0.45% for the third quarter of 2019 and 2018, and was 0.63% and 0.37% for the nine months ended September 30, 2019 and 2018, respectively.

Average deposit balances were $82.4 billion for the third quarter of 2019, an increase of 14% from $72.0 billion for the third quarter of 2018, and were $79.2 billion for the nine months ended September 30, 2019, an increase of 14% from $69.4 billion for the nine months ended September 30, 2018. The following table presents average deposit balances by deposit type as a percentage of average total deposits:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Average Deposits by Type as a % of Average Total Deposits** | **2019** | **2018** | **2019** | **2018** |
| Checking | 59% | 61% | 59% | 62% |
| Money market checking and savings | 25% | 25% | 25% | 25% |
| CDs | 16% | 14% | 16% | 13% |

At September 30, 2019, our total deposits were $85.7 billion, compared to $74.8 billion at September 30, 2018, an increase of 15%, and the weighted average contractual rate paid on total deposits was 0.64% and 0.50%, respectively. We will continue to focus on growth in our core deposit base to fund a significant percentage of our future asset growth, although there can be no assurance we will be successful. If we are not successful, we may need to use other sources of funding, such as federal funds purchased, FHLB advances, unsecured term senior notes or unsecured term subordinated notes, which are generally higher in cost.

*Borrowings*

Interest expense on borrowings was $79.9 million and $226.6 million for the quarter and nine months ended September 30, 2019, compared to $64.1 million and $175.2 million for the quarter and nine months ended September 30, 2018, respectively, an increase of $15.7 million, or 25%, for the quarter, and an increase of $51.4 million, or 29%, for the nine months. Such increases were primarily due to increases in average short-term borrowings, as well as higher market interest rates on new borrowings.

Short-term borrowings, which include federal funds purchased and short-term FHLB advances, have an original maturity of one year or less. At September 30, 2019, short-term borrowings were $775.0 million, compared to $100.0 million at September 30, 2018. Interest expense on short-term borrowings was $12.5 million and $36.8 million for the quarter and nine months ended September 30, 2019, compared to $2.2 million and $11.4 million for the quarter and nine months ended September 30, 2018, respectively, an increase of $10.3 million for the quarter and an increase of $25.4 million for the nine months. The increases were due to increases in both average short-term borrowings and their average cost. Average short-term borrowings for the quarters ended September 30, 2019 and 2018 were $2.2 billion and $423.4 million, and were $2.0 billion and $841.8 million for the nine months ended September 30, 2019 and 2018, respectively. The average cost of short-term borrowings was 2.25% and 2.11% for the quarters ended September 30, 2019 and 2018, and was 2.44% and 1.81% for the nine months ended September 30, 2019 and 2018, respectively.

At September 30, 2019, long-term FHLB advances outstanding were $10.9 billion, compared to $9.6 billion at September 30, 2018. Interest expense on long-term FHLB advances was $54.9 million and $147.7 million for the quarter and nine months ended September 30, 2019, compared to $46.9 million and $118.7 million for the quarter and nine months ended September 30, 2018, respectively, an increase of $8.0 million, or 17%, for the quarter, and an increase of $29.0 million, or 24%, for the nine months. The increases were primarily due to increases in the average cost of long-term FHLB advances as a result of higher interest rates on new advances, compared to the interest rates on matured borrowings. The average cost of long-term FHLB advances was 2.22% and 1.92% for the third quarter of 2019 and 2018, respectively, and was 2.16% and 1.77% for the nine months ended September 30, 2019 and 2018, respectively. Average long-term FHLB advances for the third quarter of 2019 were $9.8 billion, compared to $9.7 billion for the third quarter of 2018, and were $9.1 billion for the nine months ended September 30, 2019, compared to $9.0 billion for the nine months ended September 30, 2018, a slight increase for both the quarter and nine months. Average long-term FHLB advances as a proportion of total average interest-bearing liabilities were 10% for both the quarter and nine months ended September 30, 2019, compared to 12% and 11% for the quarter and nine months ended September 30, 2018, respectively.

At September 30, 2019, the carrying value of unsecured senior notes was $497.5 million, compared to $896.0 million at September 30, 2018. Interest expense on our fixed-rate senior notes was $3.4 million and $14.8 million for the quarter and nine months ended September 30, 2019, compared to $5.9 million and $17.8 million for the quarter and nine months ended September 30, 2018, respectively, and includes contractual interest, increased by amortization of issuance discounts and offering costs. The 2.375% fixed-rate senior notes issued in June 2014 of $400.0 million were repaid at their maturity date in the second quarter of 2019, which resulted in a decrease in interest expense for the quarter and nine months ended September 30, 2019.

At September 30, 2019, the carrying value of unsecured subordinated notes totaled $777.8 million, compared to $777.4 million at September 30, 2018. Interest expense on our fixed-rate subordinated notes was $9.1 million for the quarters ended September 30, 2019 and 2018, and $27.3 million for the nine months ended September 30, 2019 and 2018, respectively, and includes contractual interest, increased by amortization of issuance discounts and offering costs.

***Provision for Loan Losses***

The provision for loan losses was $16.7 million and $52.1 million for the quarter and nine months ended September 30, 2019, compared to $18.6 million and $51.0 million for the quarter and nine months ended September 30, 2018, respectively. The provision for loan losses is related primarily to growth in loans outstanding and reflects management's continuing assessment of the credit quality of the Bank's loan portfolio and our overall allowance methodology, which considers, among other things, the Bank's loan growth, level and type of loans originated and current trends in the Bank's markets.

***Noninterest Income***

The following table presents noninterest income:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Investment management fees | $ 83,582 | $ 88,560 | $ 262,226 | $ 249,602 |
| Brokerage and investment fees | 12,673 | 7,207 | 28,619 | 23,770 |
| Insurance fees | 2,712 | 1,851 | 8,522 | 4,646 |
| Trust fees | 4,105 | 3,599 | 12,221 | 10,694 |
| Foreign exchange fee income | 11,685 | 8,439 | 30,661 | 25,383 |
| Deposit fees | 6,563 | 6,225 | 19,462 | 18,490 |
| Loan and related fees | 5,341 | 4,091 | 13,644 | 11,842 |
| Loan servicing fees, net | 2,347 | 3,151 | 9,560 | 9,856 |
| Gain on sale of loans | 122 | 303 | 466 | 5,037 |
| Gain (loss) on investment securities | (683) | (1,655) | (1,895) | 6,515 |
| Income from investments in life insurance | 12,152 | 11,608 | 31,536 | 30,697 |
| Other income | 1,608 | 996 | 4,853 | 3,366 |
| Total noninterest income | $ 142,207 | $ 134,375 | $ 419,875 | $ 399,898 |

Noninterest income for the quarter and nine months ended September 30, 2019 was $142.2 million and $419.9 million, compared to $134.4 million and $399.9 million for the quarter and nine months ended September 30, 2018, respectively, an increase of $7.8 million, or 6%, for the quarter and an increase of $20.0 million, or 5%, for the nine months. The increase for the quarter was primarily due to an increase in brokerage and investment fees and foreign exchange fee income, partially offset by a decrease in investment management fees attributable to the departure of wealth managers in the second quarter of 2019. The increase for the nine months was primarily due to an increase in wealth management fees, partially offset by a decrease in gain on investment securities from the repositioning of the Bank's investment portfolio in the first quarter of 2018.

***Wealth Management Fees***

Wealth management fees consist of fees earned for the management or administration of clients' assets, as well as commissions and trading revenues generated from the execution of client-related brokerage and investment activities and fees earned for assisting clients with foreign exchange transactions. For additional information on the AUM and AUA for the entities comprising the Wealth Management segment, see "—Business Segments."

*Investment management fees.* We provide traditional portfolio management and customized client portfolios through First Republic Investment Management, Inc. ("FRIM"). We earn fee income from the management of equity securities, fixed income securities, balanced portfolios and alternative investments for our clients. In addition, we employ experienced wealth managers to work with our relationship managers to generate new AUM using an open architecture platform. Investment management fees for the quarter and nine months ended September 30, 2019 were $83.6 million and $262.2 million, compared to $88.6 million and $249.6 million for the quarter and nine months ended September 30, 2018, respectively, a 6% decrease for the quarter and a 5% increase for the nine months. The decrease in investment management fees for the quarter was primarily driven by the departure of wealth managers in the second quarter of 2019. The increase in investment management fees for the nine months was primarily driven by growth in AUM. Investment management fees vary with the amount of assets managed and the type of services and investments chosen by the client, which are impacted by market conditions. Generally, higher fees are earned for managing equity securities than for managing a fixed income portfolio. FRIM's AUM were $61.2 billion at September 30, 2019, compared to $62.5 billion at September 30, 2018, a decrease of 2% primarily driven by the departure of wealth managers in the second quarter of 2019, partially offset by the addition of assets from existing and new clients, and market appreciation. The addition of client assets was the result of growth in investment management services to Bank clients, acquiring new clients, the successful marketing efforts of existing wealth managers and the hiring of experienced wealth managers who brought their clients with them. The future level of these fees depends on the level and mix of AUM, conditions in the equity markets and our ability to attract new clients.

*Brokerage and investment fees.* We perform brokerage and investment activities for clients through First Republic Securities Company, LLC ("FRSC"). We employ wealth managers to acquire treasury securities, municipal bonds, money market mutual funds and other shorter-term liquid investments at the request of clients or their financial advisors, and to offer sales of insurance and annuity products to clients. These wealth managers can also execute transactions for a full array of longer-term equity and fixed income securities. Brokerage and investment fees for the quarter and nine months ended September 30, 2019 were $12.7 million and $28.6 million, compared to $7.2 million and $23.8 million for the quarter and nine months ended September 30, 2018, respectively, a 76% increase for the quarter and a 20% increase for the nine months. Such fees vary based on the volume and type of transaction activity, conditions in the securities markets and our ability to attract new clients. At September 30, 2019, we held $67.5 billion of client assets in brokerage accounts through FRSC and in third-party money market mutual funds, compared to $58.0 billion at September 30, 2018, an increase of 16%.

*Insurance fees*. We earn revenue from selling life insurance and annuity policies to our clients through FRSC and FRIM. Insurance fees consist of initial commissions when a policy is sold and subsequent commissions each year that a policy is renewed. Insurance fees for the quarter and nine months ended September 30, 2019 were $2.7 million and $8.5 million, compared to $1.9 million and $4.6 million for the quarter and nine months ended September 30, 2018, respectively, an increase of $861,000 for the quarter and an increase of $3.9 million for the nine months. Such fees vary based on the level of sales of insurance and annuity products and our ability to attract new clients. There is no underwriting risk for the Bank from the sale of insurance products.

*Trust fees.* First Republic Trust Company, a division of the Bank, and First Republic Trust Company of Delaware LLC ("FRTC Delaware") (collectively, the "Trust Company") specializes in personal trusts and custody services and operates in California, Oregon, Washington, New York, Massachusetts, Delaware, Florida and Connecticut. The Trust Company draws new trust clients from our Preferred Banking and wealth management client base, as well as from outside of our organization. Trust fees were $4.1 million and $12.2 million for the quarter and nine months ended September 30, 2019, compared to $3.6 million and $10.7 million for the quarter and nine months ended September 30, 2018, respectively, a 14% increase for both the quarter and nine months. The increases were primarily due to increases in assets under custody or administration from existing and new clients and market appreciation. At September 30, 2019, assets under custody or administration were $11.6 billion, compared to $10.5 billion at September 30, 2018, an increase of 10%. Trust fees are primarily based on the level and mix of assets under custody or administration and will vary in the future based on these factors.

*Foreign exchange fee income.* Foreign exchange fee income represents fees we earn from transacting foreign exchange business on behalf of our clients. We earned foreign exchange fee income of $11.7 million and $30.7 million for the quarter and nine months ended September 30, 2019, compared to $8.4 million and $25.4 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 38% for the quarter and an increase of 21% for the nine months. The amount of foreign exchange fees is primarily driven by volume of activity from both existing and new clients.

We execute foreign exchange trades with clients and then offset those trades with other financial institution counterparties, such as major investment banks or large commercial banks. We do not retain significant foreign exchange risk associated with these transactions, as the trades with the client and the financial institution counterparty are matched on our books. We do retain credit risk, both to the client and the counterparty institution, which is evaluated and managed by us in the normal course of our operations. In addition, we have foreign exchange contracts associated with client deposits denominated in various foreign currencies.

***Other Noninterest Income***

*Deposit fees.* We earn fees from our clients for deposit services. Deposit fees were $6.6 million and $19.5 million for the quarter and nine months ended September 30, 2019, compared to $6.2 million and $18.5 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 5% for both the quarter and nine months. The increases in deposit fees were primarily driven by volume of activity from both existing and new clients and growth in overall deposits.

*Loan and related fees.* Loan and related fee income was $5.3 million and $13.6 million for the quarter and nine months ended September 30, 2019, compared to $4.1 million and $11.8 million for the quarter and nine months ended September 30, 2018, respectively. Loan and related fee income includes: late charge income, which generally increases with growth in the average loan and servicing portfolios; loan-related processing fees that vary with market conditions and loan origination volumes; prepayment penalties on sold loans; and payoff fees that vary with loan repayment activity and market conditions such as the general level of longer-term interest rates.

*Loan servicing fees, net.* Net loan servicing fees are derived from the amount of loans serviced, the fees earned from servicing such loans (expressed as a percent of loans serviced that are retained), the amortization rate of mortgage servicing rights ("MSRs") and the amount of provisions for, or reversal of, the MSR valuation allowance. The following table presents net loan servicing fees:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Contractually specified servicing fees | $ 6,517 | $ 7,511 | $ 20,458 | $ 22,795 |
| MSR amortization expense | (3,540) | (4,360) | (10,268) | (12,939) |
| MSR provision for valuation allowance | (630) | — | (630) | — |
| Loan servicing fees, net | $ 2,347 | $ 3,151 | $ 9,560 | $ 9,856 |

Contractual servicing fees were $6.5 million and $20.5 million for the quarter and nine months ended September 30, 2019, compared to $7.5 million and $22.8 million for the quarter and nine months ended September 30, 2018, respectively, a decrease of 13% for the quarter and a decrease of 10% for the nine months. The decreases in net loan servicing fees were primarily due to the decline in the servicing portfolio and an MSR provision for valuation allowance, as a result of higher prepayments due to the interest rate environment. The average servicing portfolio was $10.5 billion and $11.1 billion for the quarter and nine months ended September 30, 2019, compared to $12.1 billion and $12.2 billion for the quarter and nine months ended September 30, 2018, respectively, a decrease of 13% for the quarter and a decrease of 9% for the nine months. The amount of contractual servicing fees depends upon the size of the servicing portfolio, the terms of the loans at origination, the interest rate environment and conditions in the secondary market when the loans are sold, as well as the rate of loan payoffs. Annualized weighted average servicing fees collected as a percentage of loans serviced were 0.25% for both the third quarter of 2019 and 2018, and for both the nine months ended September 30, 2019 and 2018.

The amount of net loan servicing fees that we record is affected by the rate of repayment of loans in the servicing portfolio. The overall annualized repayment speed experienced on loans serviced was 24% and 19% for the quarter and nine months ended September 30, 2019, compared to 15% for both the quarter and nine months ended September 30, 2018, respectively. If actual repayments of loans serviced are lower than our estimate of future repayments, we could reduce the amortization of MSRs and release a valuation allowance, if any, which would increase our expected level of future earnings. If actual repayments on loans serviced are higher than our estimates of future repayments, we may be required to increase the amortization of MSRs and reduce the carrying value of MSRs through the establishment of a valuation allowance, thereby decreasing our expected level of current and future earnings.

*Gain on sale of loans.* The net gain on sales of loans fluctuates with the amount and type of loans sold. The amount of loans that we sell depends upon conditions in the mortgage origination, loan securitization and secondary loan sales markets, the interest rate environment, as well as our as well as our pricing and asset/liability management strategy. Gain on sale of loans also includes adjustments made to loans held for sale from any adjustments to the cost of loans based on current market prices. The following table presents loan sales activity and gain on sale of loans:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Gain on sale of loans | $ 122 | $ 303 | $ 466 | $ 5,037 |
| Loans sold | $ 37,146 | $ 92,137 | $ 246,811 | $ 975,469 |
| Gain as a percentage of loans sold | 0.33% | 0.33% | 0.19% | 0.52% |

The lower level of gain on sale of loans for both the quarter and nine months ended September 30, 2019 compared to the same periods a year ago was primarily the result of the lower volume of loans sold. The decrease for the nine months was also driven by lower margins.

*Gain (loss) on investment securities.* The gain (loss) on investment securities consists of activity from sales of investment securities and also includes changes in fair value of the Bank's marketable equity securities. The gain (loss) varies based on the amount and type of investments sold and market conditions. The following table presents net gain (loss) on investment securities:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Net gain (loss) on sales of investment securities | $ (890) | $ (779) | $ (2,912) | $ 7,711 |
| Net change in fair value of equity securities | 207 | (876) | 1,017 | (1,196) |
| Gain (loss) on investment securities | $ (683) | $ (1,655) | $ (1,895) | $ 6,515 |

The gain on sales of investment securities for the nine months ended September 30, 2018 was primarily due to the repositioning of the Bank's investment portfolio.

*Income from investments in life insurance.* Income from investments in bank-owned life insurance was $12.2 million and $31.5 million for the quarter and nine months ended September 30, 2019, compared to $11.6 million and $30.7 million for the quarter and nine months ended September 30, 2018, respectively. The book value of this portfolio of tax-exempt investments was $1.4 billion at both September 30, 2019 and 2018.

***Noninterest Expense***

The following table presents noninterest expense:

| ($ in thousands) | Quarter Ended September 30, 2019 | Quarter Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Salaries and employee benefits | $ 309,655 | $ 279,248 | $ 920,432 | $ 828,207 |
| Information systems | 66,612 | 59,259 | 204,059 | 177,753 |
| Occupancy | 50,722 | 38,792 | 142,204 | 112,180 |
| Professional fees | 17,507 | 15,718 | 45,623 | 44,720 |
| Advertising and marketing | 15,912 | 13,527 | 48,346 | 40,575 |
| FDIC assessments | 9,748 | 17,679 | 27,847 | 49,275 |
| Other expenses | 63,794 | 59,776 | 199,105 | 165,427 |
| Total noninterest expense | $ 533,950 | $ 483,999 | $ 1,587,616 | $ 1,418,137 |

Noninterest expense for the quarter and nine months ended September 30, 2019 was $534.0 million and $1.6 billion, compared to $484.0 million and $1.4 billion for the quarter and nine months ended September 30, 2018, respectively, an increase of $50.0 million, or 10%, for the quarter and an increase of $169.5 million, or 12%, for the nine months. The increases in noninterest expense were primarily due to higher salaries and employee benefits, occupancy expenses, investments in information systems and other expenses from the continued investments in the expansion of the franchise.

Noninterest expense was reduced by certain general and administrative costs, primarily compensation costs directly related to loan originations, which have been capitalized in accordance with Accounting Standards Codification ("ASC") 310-20, "Nonrefundable Fees and Other Costs." We capitalized loan origination costs of $47.9 million and $123.0 million for the quarter and nine months ended September 30, 2019, compared to $31.8 million and $96.5 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 51% for the quarter and an increase of 27% for the nine months. The amount of capitalized costs varies directly with the volume of loan originations and the costs incurred to make new loans. The capitalized costs are reported as net deferred loan fees and costs on our balance sheet and are amortized to interest income over the contractual life of the loans.

Our efficiency ratio, the ratio of noninterest expense to the sum of net interest income and noninterest income, was 63.8% for the third quarter of 2019, compared to 63.0% for the third quarter of 2018, and was 64.4% for the nine months ended September 30, 2019, compared to 63.5% for the nine months ended September 30, 2018. The increases in the efficiency ratio were primarily attributable to increased salaries and employee benefits, occupancy expenses and information systems costs from the continued investments in the expansion of the franchise. The increase in the efficiency ratio was further attributable to the reduction of the net interest margin for the quarter and nine months, which impacted the growth in total revenues.

*Salaries and employee benefits.* Salaries and employee benefits is the largest component of noninterest expense and includes the cost of salaries, incentive compensation, benefit plans, health insurance and payroll taxes, which have collectively increased as we hired additional personnel to support our growth and our enhanced regulatory infrastructure. Salaries and employee benefit expenses were $309.7 million and $920.4 million for the quarter and nine months ended September 30, 2019, compared to $279.2 million and $828.2 million for the quarter and nine months ended September 30, 2018, respectively, an 11% increase for both the quarter and nine months. The increases were primarily the result of the addition of new personnel to support higher levels of lending, deposit growth, expansion of wealth management and higher incentive compensation related to the continued expansion of our franchise. At September 30, 2019, we had 4,880 full-time equivalent employees, including temporary employees and independent contractors, a 12% increase from 4,340 at September 30, 2018.

*Information systems.* These expenses include payments to vendors that provide software and services on an outsourced basis, costs related to supporting and developing digital platforms and the costs associated with telecommunications for ATMs, office activities and internal networks. These expenses also include equipment depreciation and amortization costs of software and licenses. Expenses for information systems were $66.6 million and $204.1 million for the quarter and nine months ended September 30, 2019, compared to $59.3 million and $177.8 million for the quarter and nine months ended September 30, 2018, respectively, a 12% increase for the quarter, and a 15% increase for the nine months. The increases in information systems costs were primarily due to continued technology initiatives to upgrade our systems, including our mobile and online banking platform, enhance the client experience and support our growth.

*Occupancy.* Occupancy costs were $50.7 million and $142.2 million for the quarter and nine months ended September 30, 2019, compared to $38.8 million and $112.2 million for the quarter and nine months ended September 30, 2018, respectively, a 31% increase for the quarter and a 27% increase for the nine months. The increases were primarily due to expanding our office space in existing markets for new employees, increased rental costs in certain locations and rental costs for additional banking office locations. We expect the level of occupancy costs to vary with the number of offices and our staffing levels.

*Professional fees.* Professional fees include legal services required to complete certain transactions, resolve legal matters or delinquent loans, and the cost of loan review professionals, co-sourced internal audit, external auditors and other consultants, including consulting services dedicated to technology initiatives. Such expenses were $17.5 million and $45.6 million for the quarter and nine months ended September 30, 2019, compared to $15.7 million and $44.7 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 11% for the quarter and a slight increase for the nine months. The increase in professional fees for the quarter was primarily due to higher consulting fees.

*Advertising and marketing.* We advertise in various forms of media, including digital media, newspapers, radio, and television, primarily to support growth in our Preferred Banking offices and for advertising and marketing initiatives related to the Bank's next generation of clients. Advertising and marketing expenses were $15.9 million and $48.3 million for the quarter and nine months ended September 30, 2019, compared to $13.5 million and $40.6 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 18% for the quarter and an increase of 19% for the nine months. These expenses vary based on the number of marketing initiatives, level of advertising costs and costs associated with holding client events to support our growth. The increases for the quarter and nine months were primarily due to advertising and marketing initiatives associated with the Bank's next generation of clients and costs associated with holding client events to support our growth. The increase for the quarter was partially offset by a decrease in deposit-related promotions.

*FDIC assessments.* FDIC assessments were $9.7 million and $27.8 million for the quarter and nine months ended September 30, 2019, compared to $17.7 million and $49.3 million for the quarter and nine months ended September 30, 2018, respectively, a 45% decrease for the quarter and a 43% decrease for the nine months. The decreases were primarily due to the elimination of the FDIC assessment surcharge in the fourth quarter of 2018, partially offset by growth in the assessment base as a result of the growth in average total assets.

*Other expenses.* Other expenses were $63.8 million and $199.1 million for the quarter and nine months ended September 30, 2019, compared to $59.8 million and $165.4 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 7% for the quarter and an increase of 20% for the nine months. These expenses include costs related to lending and deposit activities, client service, amortization of intangibles, insurance, hiring, training and other costs related to expanding operations. Other operating expenses include postage, charitable contributions, cash management, custody and clearing, and other miscellaneous expenses. Expenses in this category have increased primarily due to higher transaction volumes of loans, deposits and AUM and AUA, as well as an increase in the number of office locations and employees. The following table presents the main components of other expenses:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Deposit client related costs | $ 18,489 | $ 13,804 | $ 59,013 | $ 37,071 |
| Travel and entertainment | 6,429 | 5,278 | 19,518 | 15,465 |
| Loan related costs | 4,551 | 4,612 | 12,676 | 15,474 |
| Subscriptions | 4,513 | 4,038 | 12,607 | 10,798 |
| Training | 2,923 | 3,307 | 10,928 | 9,586 |
| Recruiting fees | 2,733 | 3,130 | 9,623 | 6,432 |
| Amortization of intangibles | 2,832 | 3,925 | 9,316 | 12,596 |
| Insurance | 2,983 | 2,903 | 8,709 | 8,533 |
| Other operating expenses | 18,341 | 18,779 | 56,715 | 49,472 |
| Total other expenses | $ 63,794 | $ 59,776 | $ 199,105 | $ 165,427 |

### *Provision for Income Taxes*

The provision for income taxes varies from statutory rates due to the amount of income for financial statement and tax purposes and the rates charged by federal and state authorities.

The Bank's effective tax rate for the third quarter of 2019 was 18.0%, compared to 19.8% for the third quarter of 2018. The Bank's effective tax rate for the nine months ended September 30, 2019 was 17.0%, compared to 18.6% for the nine months ended September 30, 2018. The effective tax rate varies based on the level of tax credit investments, tax-exempt securities, tax-advantaged loans, investments in life insurance and the amount of excess tax benefits from exercise or vesting of share-based awards. The decreases for the quarter and nine months were primarily due to higher excess tax benefits from an increase in stock option exercises by employees.

The following table presents additional information about the effective tax rate:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Effective Tax Rate** | **2019** | **2018** | **2019** | **2018** |
| Effective tax rate, prior to excess tax benefits | 21.4% | 20.8% | 21.4% | 21.1% |
| Excess tax benefits—stock options | (3.3)% | (0.9)% | (3.6)% | (1.3)% |
| Excess tax benefits—other stock awards | (0.1)% | (0.1)% | (0.8)% | (1.2)% |
| Total excess tax benefits | (3.4)% | (1.0)% | (4.4)% | (2.5)% |
| Effective tax rate | 18.0% | 19.8% | 17.0% | 18.6% |

The number of options exercised or stock awards that vest, as well as the fair value at grant date and vesting date impact the amount of excess tax benefits recorded as a reduction in provision for income taxes. The following table presents excess tax benefits recognized for stock options exercised and other stock awards that vested during the periods indicated:

| | Quarter Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| ($ in thousands) | Number of Awards Exercised or Vested | Related Excess Tax Benefit | Number of Awards Exercised or Vested | Related Excess Tax Benefit | Number of Awards Exercised or Vested | Related Excess Tax Benefit | Number of Awards Exercised or Vested | Related Excess Tax Benefit |
| Stock options | 432,822 | $ 9,579 | 105,006 | $ 2,579 | 1,304,375 | $ 30,016 | 456,230 | $ 10,386 |
| Other stock awards | 49,094 | 34 | 17,427 | 177 | 1,187,185 | 6,164 | 1,048,030 | 8,946 |
| Total | 481,916 | $ 9,613 | 122,433 | $ 2,756 | 2,491,560 | $ 36,180 | 1,504,260 | $ 19,332 |

## Business Segments

We currently conduct our business through two reportable business segments: Commercial Banking and Wealth Management.

The principal business activities of the Commercial Banking segment are attracting funds from the general public, originating loans (primarily real estate secured mortgage loans) and investing in investment securities. The primary sources of revenue for this segment are: (1) interest earned on loans and investment securities, (2) gains on sales of loans, (3) fees earned in connection with loan and deposit services and (4) income earned on loans serviced for investors. Principal expenses for this segment are interest incurred on interest-bearing liabilities, including deposits and borrowings, general and administrative costs and provision for loan losses.

Our Wealth Management segment consists of (i) FRIM; (ii) our money market mutual fund activities through third-party providers and the brokerage activities of FRSC (these two activities collectively, "Brokerage and Investment"); (iii) our insurance services through FRSC and FRIM; (iv) the Trust Company; and (v) our foreign exchange activities. The Wealth Management segment's primary sources of revenue are fees earned for the management or administration of clients' assets, as well as commissions and trading revenues generated from the execution of client-related brokerage and investment activities and fees earned for assisting clients with foreign exchange transactions. In addition, Wealth Management earns fee income from sales of insurance and annuity products to clients and managing the Bank's investment portfolio and earns a deposit earnings credit for client deposit accounts that are maintained at the Bank, including sweep deposit accounts. The Wealth Management segment's principal expenses are personnel-related costs and other general and administrative expenses. For complete segment information, see Note 17 to "Item 1. Financial Statements."

### *Commercial Banking*

Net interest income for Commercial Banking for the quarter and nine months ended September 30, 2019 was $673.8 million and $2.0 billion, compared to $613.7 million and $1.8 billion for the quarter and nine months ended September 30, 2018, respectively, an increase of 10% for the quarter and an increase of 11% for the nine months primarily due to increases in interest-earning assets.

The provision for loan losses for Commercial Banking for the quarter and nine months ended September 30, 2019 was $16.7 million and $52.1 million, compared to $18.6 million and $51.0 million for the quarter and nine months ended September 30, 2018, respectively. The provision for loan losses is related primarily to growth in loans outstanding and reflects management's continuing assessment of the credit quality of the Bank's loan portfolio and our overall allowance methodology, which considers, among other things, the Bank's loan growth, level and type of loans originated and current trends in the Bank's markets.

Noninterest income for Commercial Banking was $27.2 million and $76.4 million for the quarter and nine months ended September 30, 2019, compared to $24.4 million and $84.5 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 11% for the quarter and a decrease of 10% for the nine months. The increase for the quarter was primarily due to an increase in loan and related fees. The decrease for the nine months was primarily due to a loss on investment securities, while noninterest income for the nine months ended September 30, 2018 included a gain on investment securities from the repositioning of the Bank's investment portfolio.

Noninterest expense for Commercial Banking was $435.9 million and $1.3 billion for the quarter and nine months ended September 30, 2019, compared to $383.4 million and $1.1 billion for the quarter and nine months ended September 30, 2018, respectively, an increase of 14% for the quarter and an increase of 13% for the nine months. The increases were primarily due to higher salaries and employee benefits, occupancy expenses, investments in information systems and other expenses from the continued investments in the expansion of the franchise. The increases were primarily attributable to the addition of new personnel, higher incentive compensation and other activities that support lending and deposit growth.

Provision for income taxes for Commercial Banking for the quarter and nine months ended September 30, 2019 was $40.5 million and $112.5 million, compared to $43.9 million and $118.2 million for the quarter and nine months ended September 30, 2018, respectively, a decrease of 8% for the quarter and a decrease of 5% for the nine months. The decreases for the quarter and nine months were the result of higher tax benefits from an increase in stock option exercises by employees, partially offset by higher pre-tax income. In addition, the provision for income taxes varies based on the level of tax-advantaged investments.

***Wealth Management***

Net interest income for Wealth Management was $21.2 million and $66.9 million for the quarter and nine months ended September 30, 2019, compared to $20.8 million and $58.4 million for the quarter and nine months ended September 30, 2018, respectively, a slight increase for the quarter and an increase of 15% for the nine months. Net interest income is earned from Wealth Management client deposits with the Bank, for which Wealth Management earns a deposit earnings credit and fees earned for Wealth Management sweep deposit accounts. Net interest income increased primarily as a result of growth in Wealth Management client deposits, including sweep deposit accounts.

Wealth Management client deposits totaled $9.4 billion and $8.0 billion at September 30, 2019 and 2018, respectively, including sweep deposits. Wealth Management client deposits, including sweep accounts, averaged $9.7 billion and $7.5 billion for the third quarter of 2019 and 2018, respectively, and averaged $9.7 billion and $7.3 billion for the nine months ended September 30, 2019 and 2018, respectively. As noted above, Wealth Management is allocated a deposit earnings credit and fees as net interest income, which is included in the Wealth Management results. Annualized net interest income as a percentage of the average deposits generated by Wealth Management represented 0.86% for the third quarter of 2019, compared to 1.10% for the third quarter of 2018, and 0.93% for the nine months ended September 30, 2019, compared to 1.07% for the nine months ended September 30, 2018.

The allocated earnings credit represents only a portion of the total net interest income generated by these deposits for the Bank. The Bank's holistic approach to generating a full relationship with our clients is reflected in the total impact that these Wealth Management deposits have to the Bank's overall net interest income. The Bank's consolidated net interest margin was 2.80% and 2.94% for the third quarter of 2019 and 2018, respectively, and was 2.87% and 2.95% for the nine months ended September 30, 2019 and 2018, respectively. Using this overall net interest margin and the average Wealth Management deposits for each respective period, the Wealth Management deposits, on a consolidated basis, contributed net interest income of $68.8 million and $55.7 million for the third quarter of 2019 and 2018, respectively, and $207.2 million and $160.4 million for the nine months ended September 30, 2019 and 2018, respectively.

Noninterest income for Wealth Management was $123.5 million and $368.4 million for the quarter and nine months ended September 30, 2019, compared to $118.3 million and $341.8 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 4% for the quarter and an increase of 8% for the nine months. The increase for the quarter was primarily due to higher brokerage and investments fees and foreign exchange fee income, partially offset by lower investment management fees due to the departure of wealth managers in the second quarter of 2019. The increase for the nine months was primarily due to higher investment management fees, foreign exchange fee income and brokerage and investments fees. Investment management fees increased as a result of an increase in AUM and AUA from the addition of assets from existing and new clients, and the hiring of new wealth managers, who brought in additional clients. Foreign exchange fee income and brokerage and investments fees increased primarily due to volume of activity from both existing and new clients.

Noninterest expense for Wealth Management was $106.6 million and $336.4 million for the quarter and nine months ended September 30, 2019, compared to $108.9 million and $314.6 million for the quarter and nine months ended September 30, 2018, respectively, a slight decrease for the quarter and an increase of 7% for the nine months. The decrease for the quarter was primarily due to lower salaries and benefits, including incentive compensation, as a result of the departure of wealth managers in the second quarter of 2019. The increase for the nine months was primarily due to higher salaries and benefits, including incentive compensation, as a result of overall growth in our business and the addition of new wealth managers. We continue to expand our client base and capabilities in all markets to grow this segment.

Provision for income taxes for Wealth Management for the quarter and nine months ended September 30, 2019 was $11.2 million and $27.7 million, compared to $8.7 million and $24.1 million for the quarter and nine months ended September 30, 2018, respectively, an increase of 28% for the quarter and an increase of 15% for the nine months. The increases were primarily the result of higher pre-tax income.

AUM and AUA in the Wealth Management segment, in aggregate, were $140.2 billion at September 30, 2019, compared to $131.0 billion a year ago, an increase of 7% driven by net new assets from new and existing clients, and market appreciation. Our Wealth Management strategy is focused on both managing investment portfolios for our clients and keeping custody of such assets in brokerage accounts at FRSC. By providing multiple services, we are able to better develop a full Wealth Management and banking relationship, as well as the ability to gather deposits, including sweep accounts. As described above, client deposits from Wealth Management generate net interest income for the Bank. Certain Wealth Management client assets that are held or managed by different areas within our Wealth Management business generate multiple revenue streams for the Bank. As a result of having these multiple revenue streams from certain client assets, such assets are included in more than one type of Wealth Management asset category in the table below. The following table presents the AUM and AUA by the entities comprising our Wealth Management segment:

| ($ in millions) | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
|---|---|---|---|---|---|
| First Republic Investment Management | $ 61,204 | $ 61,192 | $ 66,675 | $ 60,591 | $ 62,506 |
| Brokerage and investment: | | | | | |
| Brokerage | 63,053 | 61,583 | 59,391 | 53,046 | 54,823 |
| Money market mutual funds | 4,402 | 3,312 | 2,818 | 2,358 | 3,149 |
| Total brokerage and investment | 67,455 | 64,895 | 62,209 | 55,404 | 57,972 |
| Trust Company: | | | | | |
| Trust | 6,366 | 6,319 | 5,955 | 5,350 | 5,406 |
| Custody | 5,210 | 5,225 | 5,060 | 4,868 | 5,105 |
| Total Trust Company | 11,576 | 11,544 | 11,015 | 10,218 | 10,511 |
| Total AUM and AUA | $ 140,235 | $ 137,631 | $ 139,899 | $ 126,213 | $ 130,989 |

The following table presents changes in AUM and AUA for our Wealth Management segment. Net client flow includes adding to the balance in existing accounts by the depositing of additional funds and the opening of new accounts, offset by the closing of accounts or the withdrawing of funds. The portion of the net change that cannot be attributed to the deposit or withdrawal of funds is reported in market appreciation.

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| ($ in millions) | 2019 | 2018 | 2019 | 2018 |
| Beginning balance | $ 137,631 | $ 121,124 | $ 126,213 | $ 106,961 |
| Net client flow | 309 | 6,416 | (2,605) | 18,748 |
| Market appreciation | 2,295 | 3,449 | 16,627 | 5,280 |
| Ending balance | $ 140,235 | $ 130,989 | $ 140,235 | $ 130,989 |

The following table presents a distribution of FRIM's AUM by type of investment:

| | % of AUM | | | | |
|---|---|---|---|---|---|
| Investment Type | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
| Equities | 49% | 49% | 48% | 46% | 51% |
| Fixed income | 30% | 29% | 33% | 33% | 31% |
| Alternative investments | 12% | 14% | 12% | 12% | 11% |
| Cash and cash equivalents | 9% | 8% | 7% | 9% | 7% |
| Total | 100% | 100% | 100% | 100% | 100% |

The following table presents fee income as an annualized percentage of average AUM and AUA for Wealth Management:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 [(1)] | 2019 | 2018 [(1)] |
| First Republic Investment Management | 0.55% | 0.58% | 0.56% | 0.58% |
| Brokerage and investment: | | | | |
| Brokerage | 0.06% | 0.04% | 0.05% | 0.05% |
| Money market mutual funds | 0.32% | 0.36% | 0.35% | 0.39% |
| Total brokerage and investment | 0.08% | 0.05% | 0.06% | 0.06% |
| Trust Company: | | | | |
| Trust | 0.20% | 0.19% | 0.20% | 0.21% |
| Custody | 0.07% | 0.09% | 0.08% | 0.08% |
| Total Trust Company | 0.14% | 0.14% | 0.15% | 0.14% |
| Total | 0.29% | 0.32% | 0.30% | 0.32% |

[(1)] The quarter and nine months ended September 30, 2018 have been revised to exclude insurance fees, to conform to the current period presentation.

## Balance Sheet Analysis

### *Investments*

The following table presents the investment portfolio:

| ($ in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **Available-for-sale:** | | |
| Agency residential MBS | $ 420,945 | $ 26,095 |
| Other residential MBS | 4,429 | 4,552 |
| Agency commercial MBS | 928,282 | 1,701,021 |
| Securities of U.S. states and political subdivisions—taxable | 47,449 | 47,448 |
| Total | $ 1,401,105 | $ 1,779,116 |
| **Held-to-maturity:** | | |
| U.S. Government-sponsored agency securities | $ 558,459 | $ 1,044,912 |
| Agency residential MBS | 2,052,012 | 1,868,587 |
| Agency commercial MBS | 3,377,375 | 3,375,409 |
| Securities of U.S. states and political subdivisions: | | |
| Tax-exempt municipal securities | 9,637,134 | 7,952,605 |
| Tax-exempt nonprofit debentures | 139,830 | 142,508 |
| Taxable municipal securities | 213,832 | 52,952 |
| Corporate debt securities | 24,080 | — |
| Total | $ 16,002,722 | $ 14,436,973 |
| **Equity (fair value):** | | |
| Mutual funds and marketable equity securities | $ 19,736 | $ 18,719 |

The total combined investment securities portfolio represented 16% of total assets at both September 30, 2019 and December 31, 2018.

The average duration of the available-for-sale portfolio was 3.4 and 1.5 years at September 30, 2019 and December 31, 2018, respectively. The average duration of the held-to-maturity portfolio was 7.7 years at both September 30, 2019 and December 31, 2018.

At September 30, 2019, the tax-exempt and taxable municipal securities had an average credit rating of AA and the portfolio was well-diversified with an average issuer position of approximately $19.0 million. The tax-exempt nonprofit debentures are securities issued through state and local agencies where we have a banking relationship with nonprofit entities. The debentures are reviewed, approved and monitored by our business banking group, similar to business loans.

***Loan Portfolio***

The following table presents the recorded investment in the Bank's loan portfolio and allowance for loan losses:

| ($ in millions) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Single family (1-4 units) | $ 44,882 | $ 37,955 |
| Home equity lines of credit | 2,531 | 2,543 |
| Multifamily (5+ units) | 11,725 | 10,358 |
| Commercial real estate | 7,504 | 6,677 |
| Single family construction | 744 | 645 |
| Multifamily/commercial construction | 1,443 | 1,577 |
| Total real estate mortgages | 68,829 | 59,755 |
| Business | 11,565 | 10,999 |
| Stock secured | 1,611 | 1,433 |
| Other secured | 1,293 | 1,106 |
| Unsecured | 3,006 | 2,572 |
| Total other loans | 17,475 | 16,110 |
| Total loans | 86,304 | 75,865 |
| Less: | | |
| Allowance for loan losses | (485) | (439) |
| Loans, net | 85,819 | 75,426 |
| Loans held for sale | 32 | 99 |
| Total | $ 85,851 | $ 75,525 |

The following table presents an analysis of the recorded investment in our loan portfolio at September 30, 2019, by category and major geographic location:

| ($ in millions) | San Francisco Bay Area | New York Metro Area | Los Angeles Area | Boston Area | San Diego Area | Other California Areas | Other | Total | % |
|---|---|---|---|---|---|---|---|---|---|
| Single family (1-4 units) [(1)] | $ 18,010 | $ 9,593 | $ 7,652 | $ 4,677 | $ 1,334 | $ 408 | $ 3,215 | 44,889 | 52% |
| Home equity lines of credit | 1,046 | 475 | 455 | 277 | 65 | 14 | 199 | 2,531 | 3% |
| Multifamily (5+ units) [(1)] | 4,805 | 2,520 | 1,990 | 362 | 1,111 | 355 | 607 | 11,750 | 14% |
| Commercial real estate | 3,275 | 1,528 | 1,339 | 311 | 193 | 155 | 703 | 7,504 | 9% |
| Business | 4,424 | 2,594 | 1,809 | 736 | 321 | 16 | 1,665 | 11,565 | 13% |
| Construction | 539 | 393 | 772 | 77 | 114 | 29 | 263 | 2,187 | 3% |
| Stock and other secured | 657 | 688 | 402 | 301 | 69 | 24 | 763 | 2,904 | 3% |
| Unsecured | 808 | 809 | 645 | 297 | 130 | 46 | 271 | 3,006 | 3% |
| Total | $ 33,564 | $ 18,600 | $ 15,064 | $ 7,038 | $ 3,337 | $ 1,047 | $ 7,686 | $ 86,336 | 100% |
| % by location at September 30, 2019 | 39% | 22% | 17% | 8% | 4% | 1% | 9% | 100% | |
| % by location at December 31, 2018 | 39% | 21% | 17% | 8% | 4% | 2% | 9% | 100% | |

(1) Includes loans held for sale.

At September 30, 2019 and December 31, 2018, approximately 51% and 50%, respectively, of total loans (based on recorded investment) were secured by real estate properties located in California. Future economic or political conditions, natural disasters or other developments in California could adversely affect the value of real estate secured mortgage loans.

The Bank's loan portfolio includes: (1) adjustable-rate loans tied to Prime, LIBOR, COFI, and other reference rates such as 1-year Constant Maturity Treasury ("CMT"), which are currently adjustable; (2) hybrid-rate loans, for which the initial rate is fixed for a period from one year to as many as ten years, and thereafter the rate becomes adjustable; and (3) fixed-rate loans, for which the interest rate does not change through the life of the loan. The following table presents the recorded investment in our loan portfolio at September 30, 2019, by rate type:

| | Adjustable Rate | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Prime | LIBOR | COFI | Other | Total | Hybrid Rate | Fixed Rate | Total |
| Single family (1-4 units) [1] | $ 174 | $ 2,226 | $ 2,819 | $ 190 | $ 5,409 | $ 33,832 | $ 5,648 | $ 44,889 |
| Home equity lines of credit | 2,523 | 5 | — | — | 2,528 | — | 3 | 2,531 |
| Multifamily (5+ units) [1] | 346 | 385 | 2,121 | 132 | 2,984 | 5,709 | 3,057 | 11,750 |
| Commercial real estate | 325 | 350 | 449 | 14 | 1,138 | 2,644 | 3,722 | 7,504 |
| Business | 4,700 | 1,917 | 10 | 1 | 6,628 | 388 | 4,549 | 11,565 |
| Construction | 683 | 127 | — | 5 | 815 | 15 | 1,357 | 2,187 |
| Stock and other secured | 643 | 1,579 | — | 495 | 2,717 | 7 | 180 | 2,904 |
| Unsecured | 425 | 44 | — | 1 | 470 | — | 2,536 | 3,006 |
| Total | $ 9,819 | $ 6,633 | $ 5,399 | $ 838 | $ 22,689 | $ 42,595 | $ 21,052 | $ 86,336 |
| % by rate type at September 30, 2019 | 11% | 8% | 6% | 1% | 26% | 49% | 25% | 100% |
| % by rate type at December 31, 2018 | 12% | 9% | 8% | 0% | 29% | 47% | 24% | 100% |

[1] Includes loans held for sale.

At September 30, 2019, included in the hybrid-rate and fixed-rate loan portfolios are $3.1 billion, or 4% of the total loan portfolio, that either (1) mature within one year; (2) are within one year of adjusting from the initial fixed-rate period; or (3) are committed for sale.

Many of our loan products determine the amount of interest by reference to certain benchmark rates or indices. The Financial Conduct Authority ("FCA"), which regulates LIBOR, has announced that it will no longer compel banks to submit rates for the calculation of LIBOR after December 31, 2021. In addition, the Federal Home Loan Bank of San Francisco has announced that it will no longer calculate and publish COFI after January 29, 2021. The Bank ceased offering new loans indexed to LIBOR in the first half of 2019 (with some limited exceptions for business loans) and to COFI in the first half of 2018 and the Bank has a transition plan in place with respect to existing loans indexed to LIBOR and COFI. In lieu of LIBOR or COFI, new loan originations are indexed to Prime or a 12 month average of 1-year CMT.

*Single Family*

Our single family loans include loans that have an initial interest-only period. Subsequent to the initial interest-only period, these loans fully and evenly amortize until maturity. Underwriting standards for all such loans require substantial borrower net worth, substantial post-loan liquidity, excellent credit scores and significant down payments. As part of our underwriting standards, we verify the ability of the borrowers to repay our loans. At September 30, 2019, approximately $29.9 billion, or 67%, of the unpaid principal balance of our single family loan portfolio, including loans held for sale, fully and evenly amortize until maturity following an initial interest-only period of generally ten years. Such loans were $25.6 billion, or 68%, of the unpaid principal balance of our single family loan portfolio, at December 31, 2018. At September 30, 2019, loans of this type had a weighted average loan-to-value ratio ("LTV") of approximately 56%, based on appraised value at the time of origination, and had credit scores averaging 762 at origination. At September 30, 2019, interest-only home loans with an LTV at origination of more than 80% comprised less than 1% of the unpaid principal balance of our single family loan portfolio, including loans held for sale.

The following table presents additional LTV information at origination for all single family loans, including loans held for sale:

| ($ in thousands) | September 30, 2019 Unpaid Principal Balance | September 30, 2019 % of Total |
|---|---|---|
| **LTV at Origination** | | |
| Less than or equal to 60% | $ 23,203,098 | 51.9% |
| Greater than 60% to 70% | 14,163,664 | 31.7% |
| Greater than 70% to 80% | 6,973,289 | 15.5% |
| Greater than 80% | 383,333 | 0.9% |
| Total | $ 44,723,384 | 100.0% |

We do not originate single family loans with the characteristics generally described as "subprime" or "high cost." Subprime loans are typically made to borrowers with little or no cash reserves and poor or limited credit. Often, subprime loans are underwritten using limited documentation. Over the past two years, the single family loans originated by us had a weighted average credit score of 766, and all of our home loans were underwritten using full documentation.

*HELOCs*

Our single family HELOC product requires the payment of interest each month on the outstanding balance. During the first ten years of the loan term, principal amounts may be repaid or drawn at the borrower's option; thereafter, the unpaid principal balance fully and evenly amortizes over a period of fifteen years. We underwrite HELOCs based on the same standards as single family home loans. As a result, our delinquency and loss experience on HELOCs has been similar to the experience for single family loans.

For HELOCs that are in second lien position, the LTVs in the table below are presented on a combined LTV ("CLTV") basis, including the total HELOC commitment and any balance on a first residential mortgage. As of September 30, 2019, approximately 37% of HELOCs are in first lien position, and approximately 47% of HELOCs are in second lien position behind a first residential mortgage originated by us, including loans subsequently sold to investors. The following table presents CLTV information at origination for HELOCs, including both the unpaid principal balance and total commitment:

| ($ in thousands) | September 30, 2019 Unpaid Principal Balance | September 30, 2019 Total Commitment | September 30, 2019 % of Unpaid Principal Balance |
|---|---|---|---|
| **CLTV at Origination** | | | |
| Less than or equal to 60% | $ 1,570,866 | $ 5,379,772 | 62.6% |
| Greater than 60% to 70% | 686,759 | 1,909,479 | 27.4% |
| Greater than 70% to 80% | 247,105 | 628,341 | 9.8% |
| Greater than 80% | 5,520 | 9,850 | 0.2% |
| Total | $ 2,510,250 | $ 7,927,442 | 100.0% |

*Multifamily*

The following table presents the unpaid principal balance of all multifamily loans and multifamily loans (excluding lines of credit), including loans held for sale, for which interest-only payments may be made for a period of up to ten years, depending upon the borrower, specific underwriting criteria and terms of the loans:

| | Unpaid Principal Balance | |
|---|---|---|
| ($ in thousands) | September 30, 2019 | December 31, 2018 |
| Multifamily (5+ units) [1] | $ 11,760,203 | $ 10,379,260 |
| Multifamily (5+ units) - interest-only [1], [2] | $ 5,134,958 | $ 4,674,114 |

[1] Includes loans held for sale.
[2] Excludes lines of credit.

At September 30, 2019, interest-only multifamily loans (excluding lines of credit), including loans held for sale, had a weighted average LTV of 51% based on the appraised value at the time of origination.

Additionally, certain multifamily lines of credit allow for interest-only payments for an initial period. The following table presents the unpaid principal balance, total commitment and percentage of interest-only lines of credit secured by the equity in multifamily real estate:

| | September 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Unpaid Principal Balance | Total Commitment | % of Total Multifamily | Unpaid Principal Balance | Total Commitment | % of Total Multifamily |
| Multifamily lines of credit (5+ units) - interest-only | $ 152,906 | $ 395,701 | 1.3% | $ 134,406 | $ 351,320 | 1.3% |

*Commercial Real Estate*

The following table presents the unpaid principal balance of all commercial real estate loans and commercial real estate loans (excluding lines of credit) for which interest-only payments may be made for a period of up to ten years, depending upon the borrower, specific underwriting criteria and terms of the loans:

| | Unpaid Principal Balance | |
|---|---|---|
| ($ in thousands) | September 30, 2019 | December 31, 2018 |
| Commercial real estate | $ 7,521,060 | $ 6,689,958 |
| Commercial real estate - interest-only [1] | $ 2,314,391 | $ 1,936,337 |

[1] Excludes lines of credit.

At September 30, 2019, interest-only commercial real estate loans (excluding lines of credit) that allow for interest-only payments had a weighted average LTV of 45% based on the appraised value at the time of origination.

Additionally, certain commercial real estate lines of credit allow for interest-only payments for an initial period. The following table presents the unpaid principal balance, total commitment and percentage of interest-only lines of credit secured by the equity in commercial real estate:

| | September 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Unpaid Principal Balance | Total Commitment | % of Total Commercial Real Estate | Unpaid Principal Balance | Total Commitment | % of Total Commercial Real Estate |
| Commercial real estate lines of credit - interest-only | $ 198,827 | $ 450,123 | 2.6% | $ 120,240 | $ 336,237 | 1.8% |

*Business*

Business loans provide funding for investment opportunities, bridge capital calls from investors, and meet the working capital cash flow requirements and various other financing needs of our business and non-profit clients. The business loan portfolio is comprised primarily of capital call lines to private equity and venture capital funds, and loans to independent schools and other non-profit organizations, which include social service organizations, the performing arts, museums, historical societies and community foundations. In addition, we provide operating lines of credit and term loans to other business clients to meet their working capital needs. The following table presents the recorded investment and total commitment for business loans by type:

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| **($ in thousands)** | **Recorded Investment** | **Total Commitment** | **Recorded Investment** | **Total Commitment** |
| Private Equity/Venture Capital Funds | $ 5,794,269 | $ 16,830,908 | $ 5,116,390 | $ 13,425,814 |
| Schools/Non-profit Organizations | 3,450,081 | 4,273,781 | 3,356,479 | 4,107,191 |
| Investment Firms | 256,632 | 869,026 | 400,609 | 894,772 |
| Real Estate Related Entities | 439,854 | 876,360 | 339,278 | 737,221 |
| Entertainment Industry | 172,468 | 296,208 | 333,334 | 534,223 |
| Aviation/Marine | 390,904 | 400,465 | 360,926 | 367,591 |
| Professional Service Firms | 166,607 | 424,949 | 204,718 | 417,625 |
| Vineyards/Wine | 194,028 | 256,230 | 192,402 | 254,085 |
| Clubs and Membership Organizations | 149,145 | 228,249 | 155,921 | 207,960 |
| Other | 550,875 | 944,533 | 538,446 | 840,704 |
| Total | $ 11,564,863 | $ 25,400,709 | $ 10,998,503 | $ 21,787,186 |

The following table presents the unpaid principal balance, total commitment and utilization percentages for business lines of credit by type:

| | Lines of Credit | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2019 | | | December 31, 2018 | | |
| **($ in thousands)** | **Unpaid Principal Balance** | **Total Commitment** | **Utilization Percentage** | **Unpaid Principal Balance** | **Total Commitment** | **Utilization Percentage** |
| Private Equity/Venture Capital Funds | $ 5,653,574 | $ 16,683,151 | 33.9% | $ 5,050,905 | $ 13,357,100 | 37.8% |
| Schools/Non-profit Organizations | 275,233 | 1,096,560 | 25.1% | 359,624 | 1,107,614 | 32.5% |
| Investment Firms | 91,905 | 703,962 | 13.1% | 221,658 | 715,583 | 31.0% |
| Real Estate Related Entities | 193,054 | 628,140 | 30.7% | 146,650 | 543,066 | 27.0% |
| Entertainment Industry | 173,574 | 295,817 | 58.7% | 326,338 | 524,610 | 62.2% |
| Aviation/Marine | 14,190 | 23,038 | 61.6% | 5,767 | 11,760 | 49.0% |
| Professional Service Firms | 55,182 | 313,417 | 17.6% | 86,088 | 298,832 | 28.8% |
| Vineyards/Wine | 60,827 | 122,691 | 49.6% | 63,088 | 124,467 | 50.7% |
| Clubs and Membership Organizations | 21,104 | 100,001 | 21.1% | 25,244 | 77,025 | 32.8% |
| Other | 204,966 | 598,284 | 34.3% | 208,768 | 508,084 | 41.1% |
| Total | $ 6,743,609 | $ 20,565,061 | 32.8% | $ 6,494,130 | $ 17,268,141 | 37.6% |

Included within business lines of credit are capital call lines of credit, which are credit facilities that enable private equity and venture capital funds to bridge the timing between funding investments and receiving funds from limited partner capital calls. As of September 30, 2019, the unpaid principal balance and total commitment for capital call lines of credit was $5.5 billion and $16.5 billion, respectively, resulting in a utilization rate for these lines of credit of 33.1% at September 30, 2019.

The following table presents the unpaid principal balance of business term loans by type:

| | Term Loans Unpaid Principal Balance | |
|---|---|---|
| **($ in thousands)** | **September 30, 2019** | **December 31, 2018** |
| Private Equity/Venture Capital Funds | $ 147,757 | $ 68,714 |
| Schools/Non-profit Organizations | 3,177,221 | 2,999,577 |
| Investment Firms | 165,064 | 179,189 |
| Real Estate Related Entities | 248,220 | 194,155 |
| Entertainment Industry | 391 | 9,613 |
| Aviation/Marine | 377,427 | 355,831 |
| Professional Service Firms | 111,532 | 118,793 |
| Vineyards/Wine | 133,539 | 129,618 |
| Clubs and Membership Organizations | 128,248 | 130,935 |
| Other | 346,249 | 332,620 |
| Total | $ 4,835,648 | $ 4,519,045 |

*Loan Originations*

Our strategy is to originate relationship-based loans. While we emphasize loans secured by single family residences, we also selectively originate multifamily mortgages, commercial real estate mortgages and other loans, including business loans. At September 30, 2019, approximately 30% of our total loans, including loans held for sale, were currently adjustable-rate and reprice with indices or mature within one year. Some single family loans are originated for sale in the secondary market. From the inception of our predecessor institution in mid-1985 through September 30, 2019, we have originated approximately $257 billion of loans, of which approximately $35 billion have been sold to investors.

Loan origination volume was $11.1 billion for the third quarter of 2019, compared to $7.0 billion for the third quarter of 2018, an increase of 58%, and was $27.3 billion for the nine months ended September 30, 2019, compared to $23.7 billion for the nine months ended September 30, 2018, an increase of 15%. The increase for the quarter was due to increases in single family, business, stock and other secured, commercial real estate and construction lending. The increase for the nine months was primarily due to increases in single family and commercial real estate lending, partially offset by a decrease in multifamily lending. The volume and type of loan originations depend on the level of interest rates, the demand for loans in our markets and other economic conditions.

We focus on originating specific loan types in our primary markets. The majority of our mortgage loans are secured by properties located in close proximity to one of our offices. The following table presents loan originations, by product type:

| ($ in thousands) | Quarter Ended September 30, 2019 | Quarter Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Single family (1-4 units) | $ 4,872,598 | $ 2,623,429 | $ 11,129,819 | $ 8,075,457 |
| Home equity lines of credit | 359,154 | 399,606 | 1,067,881 | 1,162,037 |
| Multifamily (5+ units) | 710,983 | 781,450 | 2,113,864 | 2,464,757 |
| Commercial real estate | 556,151 | 263,292 | 1,376,433 | 880,682 |
| Construction | 549,518 | 373,842 | 1,215,536 | 1,222,884 |
| Business | 2,983,097 | 1,978,596 | 7,352,635 | 7,133,106 |
| Stock and other secured | 662,522 | 321,020 | 1,960,146 | 1,736,016 |
| Unsecured | 438,278 | 287,748 | 1,068,959 | 1,034,317 |
| Total loans originated | $ 11,132,301 | $ 7,028,983 | $ 27,285,273 | $ 23,709,256 |

The following table presents the weighted average LTVs for new loans secured by real estate originated during each of the periods indicated based on the appraised value at the time of origination. The single family loan category also includes loans originated and subsequently sold to investors.

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| LTVs for New Originations | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
| Single family (1-4 units) | 58% | 60% | 59% | 59% | 59% |
| Home equity lines of credit [1] | 52% | 52% | 52% | 53% | 52% |
| Multifamily (5+ units) | 53% | 55% | 51% | 55% | 51% |
| Commercial real estate | 45% | 48% | 38% | 51% | 51% |
| Construction | 56% | 56% | 53% | 56% | 56% |

[1] Presented on a CLTV basis, including the first residential mortgage and a second lien, where applicable.

The weighted average LTVs in all categories have remained consistent and conservative over the periods and are indicative of the high quality of the Bank's underwriting standards.

The following table presents the weighted average credit scores for home loans originated during each of the periods indicated. The single family loan category also includes loans originated and subsequently sold to investors.

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| Weighted Average Credit Scores | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
| Single family (1-4 units) | 767 | 767 | 765 | 764 | 766 |
| Home equity lines of credit | 762 | 766 | 764 | 763 | 768 |

The following table presents purchase loans and refinance loans as a percentage of total single family mortgage originations (excluding HELOCs) for each of the periods indicated:

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| Purchase and Refinance Composition | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
| Purchase loans | 37% | 52% | 50% | 52% | 55% |
| Refinance loans | 63% | 48% | 50% | 48% | 45% |
| Total | 100% | 100% | 100% | 100% | 100% |

We have approved a limited group of third-party appraisers to appraise all of the properties on which we make loans. Certain larger single family loans require two appraisals (with the lower value used for underwriting purposes). Our practice is to seldom exceed an 80% LTV on single family loans and an 80% CLTV on HELOCs. LTV ratios generally decline as the size of the loan increases. At origination, we generally do not exceed a 75% LTV on multifamily loans and a 70% LTV on commercial real estate loans.

The following table presents the weighted average LTVs based on the appraised value at the time of origination for our entire portfolio of loans secured by real estate at the dates indicated:

| Portfolio LTVs | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
|---|---|---|---|---|---|
| Single family (1-4 units) (1) | 58% | 58% | 58% | 58% | 58% |
| Home equity lines of credit (2) | 52% | 52% | 52% | 52% | 52% |
| Multifamily (5+ units) (1) | 51% | 51% | 51% | 51% | 51% |
| Commercial real estate | 47% | 48% | 48% | 48% | 48% |
| Construction | 55% | 55% | 55% | 55% | 55% |

(1) Includes loans held for sale.

(2) Presented on a CLTV basis, including the first residential mortgage and a second lien, where applicable.

We either retain originated home loans in our loan portfolio or sell the loans in whole loan or loan participation arrangements, either in the secondary market or in loan securitizations. Loan sales are highly dependent upon market conditions. We have retained in our loan portfolio both ARMs and intermediate-fixed rate loans. As interest rates rise, payments on ARMs increase, which may be financially burdensome to some borrowers and could increase the risk of default. Subject to market conditions, our ARMs generally provide for a life cap that is 5% to 9% above the initial interest rate, thereby protecting borrowers from unlimited interest rate increases. As part of our standard underwriting guidelines, borrowers undergo a qualification process for an ARM loan assuming an interest rate that is higher than the initial rate.

***Asset Quality***

We place an asset on nonaccrual status when any installment of principal or interest is 90 days or more past due (except for single family loans that are well secured and in the process of collection) or when management determines the ultimate collection of all contractually due principal or interest to be unlikely. Restructured loans for which we grant payment or significant interest rate concessions ("troubled debt restructurings") are placed on nonaccrual status until collectibility improves and a satisfactory payment history is established, generally by the receipt of at least six consecutive timely payments.

Our collection policies are highly focused with respect to both our portfolio loans and loans serviced for others. We have policies requiring rapid notification of delinquency and the prompt initiation of collection actions. Our practice is to attempt to resolve problem assets quickly, including the aggressive pursuit of foreclosure, other workout procedures or the sale of such problem assets as rapidly as possible at prices available in the prevailing market. For certain properties, we may make repairs and engage management companies in order to reach stabilized levels of occupancy prior to asset disposition. We believe our collection and foreclosure procedures comply with all applicable laws and regulations. We currently have a low level of loans in foreclosure and have not needed to suspend any of our foreclosure activities.

The following table presents nonaccrual loans, other real estate owned, restructured accruing loans and accruing loans 90 days or more past due, as well as the ratio of nonperforming assets to total assets:

| ($ in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Nonaccrual loans: | | |
| Single family (1-4 units) | $ 51,986 | $ 23,830 |
| Home equity lines of credit | 11,154 | 9,526 |
| Multifamily (5+ units) | — | 2,056 |
| Commercial real estate | — | 266 |
| Single family construction | — | — |
| Multifamily/commercial construction | 70,044 | — |
| Business | 2,936 | 6,540 |
| Stock secured | — | — |
| Other secured | — | — |
| Unsecured | 808 | 4,247 |
| Total nonaccrual loans | 136,928 | 46,465 |
| Other real estate owned | — | — |
| Total nonperforming assets | $ 136,928 | $ 46,465 |
| Nonperforming assets to total assets | 0.12% | 0.05% |
| Restructured accruing loans | $ 14,964 | $ 11,514 |
| Accruing loans 90 days or more past due | $ — | $ — |

See Note 3 in "Item 1. Financial Statements" for information related to interest income on nonaccrual loans for the quarters ended September 30, 2019 and 2018.

Of the loans on nonaccrual status, $111.5 million were current at September 30, 2019, compared to $21.1 million at December 31, 2018. The increase in nonaccrual loans at September 30, 2019 was from one lending relationship totaling $91.4 million, consisting of single family, home equity lines of credit and non-owner occupied single family construction loans.

The future level of nonperforming assets depends upon a number of factors, including the performance of borrowers under loan terms, the timing of the sale of future other real estate owned properties and economic conditions nationally and in our primary markets.

***Allowance for Loan Losses***

We establish an allowance for loan losses for the inherent risk of probable losses, based upon established criteria, including the type of loan, loan characteristics, our and the industry's historical loss experience, and economic trends. Our allowance for loan losses is adjusted quarterly to maintain a level estimated by management to be appropriate to provide for losses that can be reasonably anticipated based upon specific conditions at the time. Our allowance for loan losses methodology, including allocation to specific loans and between the loan portfolio categories, requires management's consideration of a number of factors.

We evaluate any allowance for loan losses that would be required on acquired loans, which were recorded at fair value on the acquisition date, by evaluating whether the loans had experienced a deterioration in credit such as a decline in the fair value of the underlying collateral, the worsening of a borrower's financial condition, or a delinquency in payment. If the loan has experienced a credit deterioration, we provide an allowance by comparing any reserve required to the basis in the loans. In addition, we provide for any loan losses associated with new loan originations based upon our assessment of credit losses inherent in the portfolio.

We also maintain a qualitative reserve, which represents the qualitative portion of the allowance for loan losses. This qualitative reserve is determined based on management's assessments of the risks that may lead to a loan loss experience different than our historical loss experience and therefore not reflected in the quantitative model. We use qualitative factors that are intended to address developing external and internal environmental trends and include considerations such as changes in current economic and business conditions, the nature and volume of the Bank's loan portfolio, the existence and effects of credit concentrations, and problem loan trends, along with other external factors, such as competition and the legal and regulatory environment.

The provision for loan losses is related primarily to growth in loans outstanding and reflects management's continuing assessment of the credit quality of the Bank's loan portfolio and our overall allowance methodology, which considers, among other things, the Bank's loan growth, level and type of loans originated and current trends in the Bank's markets.

The following table presents an analysis of our allowance for loan losses, including provisions for loan losses, charge-offs and recoveries:

| | At or for the Quarter Ended September 30, | | At or for the Nine Months Ended September 30, | |
|---|---|---|---|---|
| ($ in thousands) | 2019 | 2018 | 2019 | 2018 |
| Allowance for loan losses: | | | | |
| Balance at beginning of period | $ 473,095 | $ 397,377 | $ 439,048 | $ 365,932 |
| Provision | 16,711 | 18,633 | 52,111 | 51,003 |
| Charge-offs: | | | | |
| Single family (1-4 units) | (961) | — | (992) | — |
| Home equity lines of credit | — | (146) | — | (497) |
| Multifamily (5+ units) | — | — | — | — |
| Commercial real estate | — | — | — | — |
| Single family construction | — | — | — | — |
| Multifamily/commercial construction | — | — | — | — |
| Business | (3,329) | (78) | (4,558) | (639) |
| Stock secured | — | — | — | — |
| Other secured | — | — | — | — |
| Unsecured | (331) | (127) | (861) | (430) |
| Total charge-offs | (4,621) | (351) | (6,411) | (1,566) |
| Recoveries: | | | | |
| Single family (1-4 units) | 35 | 11 | 217 | 17 |
| Home equity lines of credit | 25 | 24 | 100 | 85 |
| Multifamily (5+ units) | — | — | — | — |
| Commercial real estate | — | — | — | — |
| Single family construction | — | — | — | — |
| Multifamily/commercial construction | — | — | — | — |
| Business | 17 | 115 | 46 | 239 |
| Stock secured | — | — | — | — |
| Other secured | — | — | — | — |
| Unsecured | 203 | 16 | 354 | 115 |
| Total recoveries | 280 | 166 | 717 | 456 |
| Net loan charge-offs | (4,341) | (185) | (5,694) | (1,110) |
| Balance at end of period | $ 485,465 | $ 415,825 | $ 485,465 | $ 415,825 |
| Average total loans for the period | $ 83,951,137 | $ 70,745,497 | $ 80,024,466 | $ 67,228,279 |
| Total loans at period end | $ 86,304,810 | $ 72,328,497 | $ 86,304,810 | $ 72,328,497 |
| Total nonaccrual loans | $ 136,928 | $ 42,578 | $ 136,928 | $ 42,578 |
| Ratios: | | | | |
| Net charge-offs to: | | | | |
| Average total loans (annualized) | 0.02% | 0.00% | 0.01% | 0.00% |
| Allowance for loan losses to: | | | | |
| Total loans | 0.56% | 0.57% | 0.56% | 0.57% |
| Nonaccrual loans | 354.5% | 976.6% | 354.5% | 976.6% |

***Mortgage Banking Activities***

In addition to originating loans for our own portfolio, we conduct mortgage banking activities. We have sold whole loans and participations in loans in the secondary market and in loan securitizations. We originate, on a direct flow basis, single family mortgages that are priced and underwritten to conform to previously agreed-upon criteria prior to loan funding and are delivered to the investor shortly after funding. We have also identified secondary market sources that seek to acquire loans of the type we originate for our loan portfolio.

The following table presents information on single family loans originated, loans sold and gain on sale of loans:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in thousands)** | **2019** | **2018** | **2019** | **2018** |
| Single family loans originated | $ 4,872,598 | $ 2,623,429 | $ 11,129,819 | $ 8,075,457 |
| Loans sold: | | | | |
| Flow sales: | | | | |
| Agency | $ 25,214 | $ 15,365 | $ 51,426 | $ 37,136 |
| Non-agency | 11,932 | 76,772 | 43,266 | 165,292 |
| Total flow sales | 37,146 | 92,137 | 94,692 | 202,428 |
| Bulk sales: | | | | |
| Non-agency | — | — | 152,119 | 773,041 |
| Total loans sold | $ 37,146 | $ 92,137 | $ 246,811 | $ 975,469 |
| Gain on sale of loans: | | | | |
| Amount | $ 122 | $ 303 | $ 466 | $ 5,037 |
| Gain as a percentage of loans sold | 0.33% | 0.33% | 0.19% | 0.52% |

The level of loan originations, loan sales and gain on loan sales depend upon market conditions and the interest rate environment, as well as our pricing and asset/liability management strategies. The lower level of gain on sale of loans for both the quarter and nine months ended September 30, 2019 compared to the same periods a year ago was primarily the result of the lower volume of loans sold. The decrease for the nine months was also driven by lower margins. The level of future loan originations, loan sales and gain on loan sales will depend on overall credit availability, the interest rate environment, the strength of the general economy, local real estate markets and the housing industry, and conditions in the secondary loan sale market.

In connection with loan sales, we retain all the loan servicing in order to maintain the primary contact with our clients and to generate recurring fee income. We retain MSRs on loans that we sell to institutional investors and governmental agencies. We generally do not provide any financial or performance guarantees to the investors who purchase our loans and the purchasers do not have any recourse to the Bank on the loans that we have sold. In accordance with secondary market standards, we make customary representations and warranties related to the origination and documentation of sold loans. We have not been required to make any significant loan repurchases or incur any other significant costs subsequent to the sale of loans for any breach of these customary representations and warranties.

As of September 30, 2019, the Bank has an obligation to reimburse the Federal Home Loan Mortgage Corporation ("Freddie Mac") for losses up to $30.2 million, or 12% of the multifamily loans securitized in 2018. As of September 30, 2019, the weighted average LTV of those loans was 56% based on the appraised value at the time of origination. The liability for estimated losses related to this reimbursement obligation was only $312,000 at September 30, 2019.

The following table presents information on loans serviced for others and net loan servicing fees:

| | At or for the Quarter Ended September 30, | | At or for the Nine Months Ended September 30, | |
|---|---|---|---|---|
| ($ in thousands) | 2019 | 2018 | 2019 | 2018 |
| Loans serviced for others | $ 10,079,610 | $ 11,733,493 | $ 10,079,610 | $ 11,733,493 |
| Loan servicing fees, net | $ 2,347 | $ 3,151 | $ 9,560 | $ 9,856 |

Mortgage loans serviced for investors decreased to $10.1 billion at September 30, 2019, from $11.7 billion at September 30, 2018, due to repayments in the servicing portfolio exceeding loan sales over the past twelve months. MSRs are recognized as separate assets on our balance sheet and are reported at the lower of amortized cost or fair value. At September 30, 2019, MSRs were $45.7 million (45 basis points of loans serviced), compared to $57.7 million (49 basis points of loans serviced) at September 30, 2018.

Our loan origination policies and consistent underwriting standards have resulted in a low historical loan loss experience on single family loans sold in the secondary market. Since our inception in 1985, we have experienced cumulative net loan losses of only $9.6 million on single family loans sold. At September 30, 2019, single family loans serviced for investors that are 90 days or more past due were $5.3 million, or 5 basis points of such loans serviced.

***Deposit Gathering***

We obtain funds from depositors by offering consumer and business checking, money market and passbook accounts, and term CDs. Our accounts are federally insured by the FDIC up to the maximum limit. At September 30, 2019, our total deposits were $85.7 billion, an 8% increase from $79.1 billion at December 31, 2018, as we continued to expand relationships with existing clients and acquire new deposit clients, both business and consumer.

Core deposits, which include checking accounts, money market accounts, savings accounts and CDs (excluding CDs greater than $250,000 and all brokered deposits), provide a stable source of low cost funding. Core deposits totaled $77.0 billion and $72.6 billion at September 30, 2019 and December 31, 2018, respectively, and represented 90% of total deposits at September 30, 2019, compared to 92% at December 31, 2018. At September 30, 2019, total deposits included $2.6 billion of brokered deposits, an increase from $1.7 billion at December 31, 2018. At September 30, 2019, brokered deposits primarily consist of brokered CDs.

Our deposit base consists of: (1) deposits from Preferred Banking Offices, which are retail locations that gather deposits and service all of our clients; (2) Preferred Banking deposits, which are placed by clients who enter into deposit relationships directly with a relationship manager, business banker, preferred banker or wealth management professional; (3) wealth management sweep deposits, which primarily consist of deposits swept from clients' brokerage or other investment accounts; and (4) other deposits, which primarily consist of brokered deposits, municipal deposits, and other deposits that are not attributable to any specific deposit location.

The following table presents deposits by channel, and by region in which the accounts are domiciled:

| ($ in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Preferred Banking Offices: | | |
| Northern California | $ 16,225,471 | $ 15,485,330 |
| Metropolitan New York | 5,146,255 | 5,088,101 |
| Southern California | 4,049,296 | 3,666,699 |
| Boston | 1,543,968 | 1,575,127 |
| Subtotal | 26,964,990 | 25,815,257 |
| Preferred Banking: | | |
| Northern California | 22,816,005 | 18,761,256 |
| Metropolitan New York | 12,321,451 | 12,144,755 |
| Southern California | 6,803,280 | 6,171,983 |
| Boston | 7,015,666 | 8,300,381 |
| Subtotal | 48,956,402 | 45,378,375 |
| Wealth management sweep | 5,232,456 | 4,503,092 |
| Other | 4,566,671 | 3,366,512 |
| Total deposits | $ 85,720,519 | $ 79,063,236 |

The following table presents consumer and business deposits:

| ($ in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Consumer deposits: | | |
| Checking | $ 14,085,590 | $ 15,342,539 |
| Money market checking | 4,484,318 | 3,776,018 |
| Money market savings and passbooks | 5,463,473 | 6,048,923 |
| CDs | 11,869,817 | 9,636,575 |
| | 35,903,198 | 34,804,055 |
| Business deposits: | | |
| Checking | 36,073,129 | 31,780,639 |
| Money market checking | 6,757,887 | 6,541,418 |
| Money market savings | 4,813,776 | 4,196,184 |
| CDs | 2,172,529 | 1,740,940 |
| | 49,817,321 | 44,259,181 |
| Total | $ 85,720,519 | $ 79,063,236 |

We fund a portion of our assets with CDs that have balances greater than $250,000. At September 30, 2019 and December 31, 2018, our CDs having balances greater than $250,000 totaled $6.1 billion and $4.8 billion, respectively. The following table presents the maturities of our CDs greater than $250,000:

| ($ in thousands) | September 30, 2019 |
|---|---|
| Remaining maturity: | |
| Three months or less | $ 3,248,453 |
| Over three through six months | 1,903,392 |
| Over six through twelve months | 538,375 |
| Over twelve months | 386,486 |
| Total | $ 6,076,706 |
| Percent of total deposits | 7% |

At September 30, 2019 and December 31, 2018, the weighted average contractual rate paid on CDs was 2.17% and 2.05%, respectively, and the weighted average remaining maturity of CDs was 5.1 months and 9.1 months at the same respective period ends. The contractual maturities and weighted average contractual rate of our CDs were as follows:

| | September 30, 2019 | |
|---|---|---|
| ($ in thousands) | Amount | Rate |
| Certificates of deposit maturing in: | | |
| October 1 - December 31, 2019 | $ 6,887,330 | 2.16% |
| 2020 | 6,319,370 | 2.17% |
| 2021 | 433,102 | 2.14% |
| 2022 | 152,241 | 2.18% |
| 2023 | 88,554 | 2.41% |
| 2024 and thereafter | 161,749 | 2.64% |
| Total | $ 14,042,346 | 2.17% |

***Other Funding***

Other sources of funding include federal funds purchased, short-term and long-term FHLB advances and unsecured, term, fixed-rate senior notes and subordinated notes. Short-term borrowings, which include federal funds purchased and short-term FHLB advances, have an original maturity of one year or less. Long-term debt, which include long-term FHLB advances, senior notes and subordinated notes, have an original maturity in excess of one year.

As of September 30, 2019, we had short-term borrowings of $775.0 million, which consisted of $475.0 million in federal funds purchased and $300.0 million in short-term FHLB advances.

*FHLB Advances*

FHLB advances may be either adjustable-rate in nature or fixed for a specific term. Our long-term, laddered maturity, fixed-rate FHLB advances as of September 30, 2019 were $10.9 billion. The weighted average remaining maturity of long-term FHLB advances was 1.2 years at September 30, 2019. The following table presents the contractual maturities and weighted average contractual rate of our long-term FHLB advances:

| | September 30, 2019 | |
|---|---|---|
| ($ in thousands) | Amount | Rate |
| FHLB advances maturing in: | | |
| October 1 - December 31, 2019 | $ 1,050,000 | 1.89% |
| 2020 | 3,950,000 | 2.25% |
| 2021 | 5,900,000 | 2.18% |
| Total | $ 10,900,000 | 2.18% |

*Senior Notes and Subordinated Notes*

The following table presents the carrying values, coupon rates and maturity dates of the Bank's unsecured, term, fixed-rate senior notes and subordinated notes outstanding as of September 30, 2019. The 2.375% fixed-rate senior notes issued in June 2014 of $400.0 million matured in the second quarter of 2019, and, therefore, were no longer outstanding as of September 30, 2019.

| | September 30, 2019 | | |
|---|---|---|---|
| **($ in thousands)** | **Carrying Value [1]** | **Rate** | **Maturity Date** |
| **Senior notes:** | | | |
| Fixed rate, issued June 2017 | $ 497,494 | 2.500% | June 2022 |
| **Subordinated notes:** | | | |
| Fixed rate, issued August 2016 | $ 387,981 | 4.375% | August 2046 |
| Fixed rate, issued February 2017 | $ 389,800 | 4.625% | February 2047 |

[1] Principal balance, net of unamortized issuance discounts and deferred issuance costs.

*Available Borrowing Capacity*

Our unused, available borrowing capacity at the FHLB and the Federal Reserve Bank discount window at September 30, 2019 was $24.1 billion and $2.3 billion, respectively. This available borrowing capacity is supported by pledged loans at the FHLB and investment securities at the Federal Reserve Bank. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk Management" for additional information regarding our funding practices.

**Liquidity**

Liquidity refers to our capacity to meet our cash and collateral obligations and to manage both expected and unexpected cash flows without adversely impacting the operations or financial health of the Bank. Sources of liquidity include both unencumbered assets, such as marketable loans and securities, and traditional forms of funding, such as deposits, borrowings and equity. At September 30, 2019, our investment securities portfolio of $17.4 billion and cash and cash equivalents of $2.2 billion collectively comprised 18% of total assets. At September 30, 2019, assets that are considered HQLA, including eligible cash, were $13.6 billion. HQLA include $5.7 billion of municipal securities.

At September 30, 2019, we had $24.1 billion of unused, available borrowing capacity at the FHLB supported by pledged loans. In addition, we had $2.3 billion of unused, available borrowing capacity at the Federal Reserve Bank discount window collateralized by pledged investment securities. This unused, available borrowing capacity at the FHLB and the Federal Reserve Bank discount window equaled 24% of total assets.

We may also, from time to time, issue additional common stock, preferred stock, senior or subordinated notes or other forms of capital or debt instruments, depending on our capital, funding, asset-liability management or other needs as market conditions warrant and subject to any required regulatory approvals. Management believes that the sources of available liquidity are adequate to meet all reasonably foreseeable short-term and intermediate-term demands.

During the nine months ended September 30, 2019, our loan originations and purchases, net of repayments, were $10.9 billion. This activity was primarily funded by a net increase in deposits of $6.7 billion, a net increase in FHLB advances of $2.4 billion, and a net increase in federal funds purchased of $475.0 million. In addition, during the nine months ended September 30, 2019, we issued 2,000,000 shares of common stock in an "at-the-market" offering, which added $170.6 million to equity. During the nine months ended September 30, 2019, our 2.375% fixed-rate senior notes issued in June 2014 of $400.0 million were repaid at maturity.

At September 30, 2019, we had $475.0 million in federal funds purchased and $300.0 million in short-term FHLB advances outstanding. We generally use these short-term borrowings to fund short-term assets, such as loans that have been committed for sale and floating rate investments, or to bridge temporary funding needs, such as those resulting from client investment activity or seasonal deposit fluctuations.

We primarily sell single family mortgage loans in the secondary market directly to a variety of investors. We originate single family mortgages in part to attract new clients for other banking and wealth management services. Selling mortgages allows us to originate more loans without growing our balance sheet loan portfolio and creating the need for additional funding and capital. All loans sold are performing loans and meet all underwriting standards required by us and the secondary market. We sold $246.8 million of loans during the nine months ended September 30, 2019.

**Capital Resources**

The Bank maintains capital levels to satisfy regulatory capital requirements and support asset growth. As described in our 2018 Form 10-K under "Item 1. Business—Supervision and Regulation—Capital Requirements," the Basel III Capital Rules determine the components of regulatory capital and the approach for risk weighting assets.

The following table represents the components of our regulatory capital:

| ($ in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Shareholders' equity | $ 9,431,206 | $ 8,677,777 |
| CET1 capital adjustments and deductions: | | |
| Preferred stock | (940,000) | (940,000) |
| Goodwill and other intangible assets, net of deferred taxes | (247,322) | (260,077) |
| Deferred tax assets that arise from net operating loss and tax credit carryforwards, net of deferred tax liabilities | (109,875) | (117,086) |
| Accumulated other comprehensive loss (income) | (9,830) | 19,383 |
| CET1 capital | 8,124,179 | 7,379,997 |
| Preferred stock | 940,000 | 940,000 |
| Additional Tier 1 capital | 940,000 | 940,000 |
| Tier 1 capital | 9,064,179 | 8,319,997 |
| Tier 2 capital instruments—subordinated notes [1] | 777,781 | 777,475 |
| Qualifying allowance for loan losses [2] | 498,942 | 452,266 |
| Tier 2 capital | 1,276,723 | 1,229,741 |
| Total risk-based capital | $ 10,340,902 | $ 9,549,738 |

[1] Subordinated notes mature in 2046 and 2047.
[2] Includes the reserve for unfunded commitments.

At September 30, 2019 and December 31, 2018, the Bank's noncumulative perpetual preferred stock was 10% and 11% of Tier 1 capital, respectively.

During the nine months ended September 30, 2019, we issued 2,000,000 shares of common stock in an "at-the-market" offering, which added $170.6 million to common equity. In addition, on October 18, 2019, we redeemed all outstanding shares of our 5.50% Noncumulative Perpetual Series D Preferred Stock at an aggregate amount of $190.0 million plus all accrued and unpaid dividends as of the redemption date.

A "capital conservation buffer" is also required under the Basel III Capital Rules. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum requirement but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Our capital ratios exceeded all applicable regulatory requirements at September 30, 2019 for well-capitalized institutions, and our capital conservation buffer exceeded the minimum requirement of 2.5%. The following table presents our capital ratios and regulatory requirements:

| | Actual | | Regulatory Requirements | | |
|---|---|---|---|---|---|
| ($ in thousands) | September 30, 2019 | December 31, 2018 | Well-Capitalized Ratio | Minimum Capital Ratio | Minimum Capital Conservation Buffer (1) |
| **Capital Ratios** | | | | | |
| Tier 1 leverage ratio (Tier 1 capital to average assets) | 8.50% | 8.68% | 5.00% | 4.00% | —% |
| CET1 capital to risk-weighted assets | 9.91% | 10.38% | 6.50% | 4.50% | 2.50% |
| Tier 1 capital to risk-weighted assets | 11.05% | 11.70% | 8.00% | 6.00% | 2.50% |
| Total capital to risk-weighted assets | 12.61% | 13.43% | 10.00% | 8.00% | 2.50% |
| **Regulatory Capital (2)** | | | | | |
| CET1 capital | $ 8,124,179 | $ 7,379,997 | | | |
| Tier 1 capital | $ 9,064,179 | $ 8,319,997 | | | |
| Total capital | $ 10,340,902 | $ 9,549,738 | | | |
| **Assets (2)** | | | | | |
| Average assets | $ 106,659,003 | $ 95,905,266 | | | |
| Risk-weighted assets | $ 81,994,651 | $ 71,116,459 | | | |

(1) As of September 30, 2019, our capital conservation buffer was 4.61%, which exceeded the minimum requirement of 2.5% required to be held by banking institutions.

(2) As defined by regulatory capital rules.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

### Interest Rate Risk Management

We seek to measure and manage the potential impact of changes in interest rates on our net interest income and net interest margin, known as interest rate risk. Interest rate risk primarily occurs when interest-earning assets and interest-bearing liabilities mature or reprice at different times, on a different basis or in unequal amounts. The Bank's Board of Directors approves policies and limits governing the management of interest rate risk at least annually. Our Asset Liability Management ("ALM") and Investment Committees further establish risk management guidelines and procedures within the broader policies and limits established by the Bank's Board of Directors. Compliance with these policies and limits is reported to the Bank's Board of Directors on an ongoing basis and decisions on the management of interest rate risk are made as needed. We utilize a variety of interest rate risk management tools to evaluate our interest rate risk.

We manage interest rate risk primarily by originating and retaining adjustable-rate loans and hybrid ARM loans with initial short- or intermediate-term fixed rates and funding these assets with checking and savings accounts, short- and intermediate-term CDs, long-term laddered maturity fixed-rate FHLB advances and unsecured, term, fixed-rate senior notes and subordinated notes. We may also utilize overnight and short-term borrowings to fund certain short-term assets, such as loans that have been committed for sale and floating rate investments, or to bridge temporary funding needs, such as those resulting from client investment activity or seasonal deposit fluctuations. As an active and ongoing part of our ALM strategy, we sell long-term fixed-rate single family mortgage loans into the secondary market through ongoing, or "flow," transactions. We also sell portions of our single family hybrid ARM and fixed-rate loans in bulk loan transactions or securitizations. We sold $246.8 million of loans during the nine months ended September 30, 2019.

In addition to the mix and pricing of interest-earning assets and interest-bearing liabilities, our net interest income and net interest margin may also be affected by factors such as competition, conditions in loan markets, levels of loan sales and repayment rates, levels of cash held on the balance sheet, overall growth of assets and liabilities, general interest rate trends, including movements in interest rates and the shape of the yield curve, level and cost of FHLB advances, market rates of new capital or debt offerings and any nonaccrual loans. Our net interest margin may also be affected by our overall business model or strategy.

There is also interest rate risk inherent in the estimated fair value of our MSRs. Movements in interest rates affect the servicing fees from MSRs, which are recorded in noninterest income as opposed to net interest income. In a decreasing interest rate environment, loans in the servicing portfolio may repay more rapidly, which reduces current and future servicing income. Inversely, in an increasing interest rate environment, repayments may decrease, which increases expected future servicing income.

*Balance Sheet Overview*

Our net interest income and net interest margin may be affected by the mix of interest-earning assets and interest-bearing liabilities. The Bank has earning assets with reset periods or maturity of less than one year totaling $28.9 billion, or 27% of total earning assets at September 30, 2019. Of these earning assets, the Bank has loans, including loans held for sale, which are currently adjustable and reprice with indices or mature within one year totaling $25.8 billion, or 30% of the total loan portfolio at September 30, 2019. The loan portfolio that reprices at least quarterly to market rate indices, such as Prime or LIBOR, totaled $16.4 billion, or 19% of the total loan portfolio at September 30, 2019. The loan portfolio with lagging indices, such as COFI and the CMT, totaled $6.3 billion, or 7% of the total loan portfolio at September 30, 2019. Additionally, the loan portfolio that either (1) matures within one year; (2) is within one year of adjusting from the initial fixed-rate period; or (3) is committed for sale totaled $3.1 billion, or 4% of the total loan portfolio at September 30, 2019. In addition, at September 30, 2019, the Bank held $1.8 billion in cash and $1.4 billion in investment securities (collectively, 16% of total cash and investment securities), that reprice to market rates at least quarterly or are callable in less than one year.

Total checking deposits were $50.2 billion, or 59% of total deposits at September 30, 2019. Total checking deposits include both noninterest-bearing checking accounts and interest-bearing checking accounts, which currently pay a nominal rate of 6 basis points, but exclude money market checking accounts. We do not expect the rate paid on interest-bearing checking deposits to fluctuate much with changes in overall interest rates, consistent with our history. The rates paid on money market savings, money market checking and passbook deposit accounts generally move directionally with changes in short-term prevailing interest rates and may be subject to competitive pricing pressure. Money market savings, money market checking and passbook deposit accounts together totaled $21.5 billion, or 25% of total deposits at September 30, 2019. CDs were $14.0 billion, or 16% of total deposits and had a weighted average remaining maturity of 5.1 months at September 30, 2019.

We utilize long-term FHLB advances as a source of fixed-rate, term funding to help manage our overall interest rate risk. Such advances totaled $10.9 billion at September 30, 2019 and had a weighted average remaining maturity of 1.2 years. In addition, the Bank has also issued unsecured, term, fixed-rate senior notes and unsecured, term, fixed-rate subordinated notes. At September 30, 2019, the senior notes had a carrying value of $497.5 million and mature in June 2022. Also, at September 30, 2019, the subordinated notes had a carrying value of $777.8 million and mature in August 2046 and February 2047.

*Net Interest Income Simulation*

In addition to evaluating our current balance sheet, we also perform net interest income simulations to measure and evaluate our potential exposure to changes in interest rates. Based on the results of such analysis, we may decide to make changes in our asset/liability mix, to draw down longer-term advances with the FHLB, to issue long-term senior notes or long-term subordinated notes, to sell loans, to enter into interest rate exchange agreements or to otherwise seek to better protect ourselves against potential adverse effects from changes in interest rates.

We use a simulation model to measure and evaluate potential changes in our net interest income. We run various hypothetical interest rate scenarios at least quarterly and compare these results against a scenario with no changes in interest rates. Our net interest income simulation model incorporates various assumptions, which management believes to be reasonable but which may have a significant impact on results, such as: (1) the timing and magnitude of changes in interest rates, (2) the yield curve evolution and shape, (3) repricing characteristics, other than contractual, for market rate sensitive instruments, (4) non-interest bearing checking deposit balance behavior and the possibility of shifts in preference towards interest-bearing products, (5) varying sensitivities of financial instruments due to differing underlying rate indices, (6) loan prepayment speeds for different interest rate scenarios, (7) the effect of interest rate floors, periodic loan caps and lifetime loan caps, (8) the levels of cash held on our balance sheet and (9) overall growth, product mix and repayment rates of assets and liabilities. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a precise forecast of the actual effect of a change in market interest rates on our results, but rather as a means to better understand interest rate risk exposure and plan and execute the appropriate ALM strategies.

Potential changes to our net interest income in hypothetical rising and declining rate scenarios, measured over a two-year period beginning September 30, 2019, are presented in the following table. The projections assume both (a) instantaneous parallel shifts upward of 100 and 200 basis points and instantaneous parallel shifts downward of the yield curve of 100 and 200 basis points occurring immediately ("Shock") and (b) gradual parallel shifts upward and downward of the yield curve in even increments over the first twelve months, followed by rates held constant thereafter ("Ramp"). In downward shifts of the yield curve, interest rates are not modeled to decline lower than 0%.

| | **Estimated Increase (Decrease) in Net Interest Income** | |
|---|---|---|
| **Change in Market Interest Rates** | **Twelve Months Ending September 30, 2020** | **Twelve Months Ending September 30, 2021** |
| Shock: | | |
| +200 basis points immediately | (2.2)% | 2.4 % |
| +100 basis points immediately | (0.9)% | 1.8 % |
| -100 basis points immediately | (1.7)% | (5.7)% |
| -200 basis points immediately | (6.5)% | (16.3)% |
| Ramp: | | |
| +200 basis points over next 12 months | (1.0)% | 0.6 % |
| +100 basis points over next 12 months | (0.4)% | 0.8 % |
| -100 basis points over next 12 months | (0.7)% | (3.7)% |
| -200 basis points over next 12 months | (2.5)% | (12.5)% |

As of September 30, 2019, the Bank's short-term net interest income position is relatively neutral, indicating that parallel shifts in interest rates are estimated to be neither materially beneficial, nor materially detrimental to net interest income over the short term. Longer-term net interest income exposure remains mildly asset-sensitive.

With respect to deposit balances, we expect non-interest bearing and interest-bearing checking balances, which exclude money market checking, to migrate from the current level of 59% of total deposits to approximately 55% of total deposits over the two-year horizon, depicting a shift in preference by some account holders towards higher yielding deposit products.

Excluding certificates of deposit, the remaining deposits include money market checking, money market savings and passbook accounts and are assumed to reprice with a modest lag by approximately 71% of short-term interest rate increases or 66% of short-term rate decreases over the two-year period, which is also consistent with our historical experience.

The results of this earnings simulation analysis are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from our projections or theoretical scenarios, our net interest income might vary significantly. Non-parallel yield curve shifts, such as a steepening, flattening, or inversion of the yield curve or changes in interest rate spreads, would also cause our net interest income to be different from that depicted. Actual results could also differ from those projected if we grow assets and liabilities faster or slower than estimated, if we experience a net outflow of deposit liabilities, or if our mix of assets and liabilities otherwise changes materially. Actual results could also differ from those projected if we experience repayment speeds in our loan portfolio substantially different from those assumed in the simulation model.

Finally, these simulation results do not contemplate all the actions that we may undertake in response to potential or actual changes in interest rates, such as changes to our loan, investment, deposit, funding, or hedging strategies.

Although we believe we are effectively managing our current exposure to changes in interest rates, we may decide to take further action depending on subsequent interest rate and economic developments, the growth rates and mix of loans and deposits, the future level of loan repayments, purchases of investment securities, and changes in other assets.

## Item 4. Controls and Procedures.

### Evaluation of Disclosure Controls and Procedures

As required by Securities and Exchange Commission rules, we carried out an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Exchange Act as of the end of the period covered by this report. Our management, including our chief executive officer and chief financial officer, supervised and participated in the evaluation. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures, as of September 30, 2019, were effective for providing reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act was accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control Over Financial Reporting

There was no significant change in our internal control over financial reporting during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

# PART II - OTHER INFORMATION

## Item 1. Legal Proceedings.

There are no material pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our property is subject. We are subject to ordinary routine litigation incidental to our business but we believe the results of such matters will not have a material effect on our business or financial condition.

## Item 1A. Risk Factors.

There are risks, many beyond our control, which could cause our results to differ significantly from management's expectations. For a description of these risks, please see the risk factors previously described in Part I, "Item 1A. Risk Factors" in our 2018 Form 10-K. Any of the risks described in our 2018 Form 10-K or in this Quarterly Report on Form 10-Q could, by itself or together with one or more other factors, materially and adversely affect our business, results of operations or financial condition. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, results of operations or financial condition.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

### Recent Sales of Unregistered Securities

During the third quarter of 2019, we sold 53,098 shares of common stock to eligible employees under our Employee Stock Purchase Plan for aggregate cash consideration of $4.2 million. These sales were exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section (3)(a)(2) thereof because the sales involved securities issued by a bank.

During the third quarter of 2019, we granted 24,060 restricted stock units, net of forfeitures, that are time vesting. In addition, we granted 14,100 restricted stock units, net of forfeitures, that vest over time, provided certain performance criteria are achieved. These awards were granted to certain employees and had an aggregate grant date fair value of $3.5 million. We did not receive any cash consideration in connection with these grants. These grants were exempt from registration under the Securities Act, pursuant to Section (3)(a)(2) thereof because the grants involved securities issued by a bank.

**Purchases of Equity Securities By the Issuer and Affiliated Purchasers**

We did not repurchase any of our common stock during the third quarter of 2019 or at any time since our inception on July 1, 2010.

On October 18, 2019 (the "Series D Redemption Date"), we redeemed all outstanding depositary shares, each representing a 1/40th interest in a share of the Bank's 5.50% Noncumulative Perpetual Series D Preferred Stock ("Series D Preferred Stock"). In total, 7,600,000 depositary shares were redeemed at a redemption price of $25.00 per share, representing an aggregate amount of $190,000,000 plus all accrued and unpaid dividends as of the Series D Redemption Date. As of the Series D Redemption Date, the Series D Preferred Stock was deemed no longer outstanding, and no further dividends will be declared on the Series D Preferred Stock.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

An Index to Exhibits listing the exhibits filed or furnished with this report is presented prior to the signature page to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

## INDEX TO EXHIBITS

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. [1] |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. [1] |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. [1] |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. [1] |

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[1] Filed herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**FIRST REPUBLIC BANK**

| | |
|---|---|
| November 8, 2019 | /s/ Michael J. Roffler |
| | **Michael J. Roffler** |
| | Executive Vice President and Chief Financial Officer |
| | (Principal Financial Officer) |

**EXHIBIT 31.1**

**CERTIFICATION**

I, James H. Herbert, II, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Republic Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant, and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

/s/ James H. Herbert, II

Name: James H. Herbert, II

Title: Chairman and Chief Executive Officer

**EXHIBIT 31.2**

# CERTIFICATION

I, Michael J. Roffler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Republic Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant, and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

/s/ Michael J. Roffler

Name: Michael J. Roffler
Title: Executive Vice President and Chief Financial Officer

**EXHIBIT 32.1**

**Certification of Chief Executive Officer**
**Pursuant to §906 of The Sarbanes-Oxley Act of 2002**

The undersigned, the Chairman and Chief Executive Officer of First Republic Bank (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| Date: November 8, 2019 | /s/ James H. Herbert, II | |
| | Name: | James H. Herbert, II |
| | Title: | Chairman and Chief Executive Officer |

**EXHIBIT 32.2**

**Certification of Chief Financial Officer**
**Pursuant to §906 of The Sarbanes-Oxley Act of 2002**

The undersigned, the Executive Vice President and Chief Financial Officer of First Republic Bank (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2019

/s/ Michael J. Roffler

Name: Michael J. Roffler
Title: Executive Vice President and
Chief Financial Officer