

WESTERN ALLIANCE BANCORPORATION
Form 10-Q
April 30, 2014
Table of Contents

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2014
or

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

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

Nevada
(State or other jurisdiction of
incorporation or organization)

88-0365922
(I.R.S. Employer
Identification No.)

One E. Washington Street Suite 1400, Phoenix, AZ
(Address of principal executive offices)
(602) 389-3500
(Registrant's telephone number, including area code)

85004
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Edgar Filing: WESTERN ALLIANCE BANCORPORATION - Form 10-Q

Non-accelerated filer

Smaller reporting company

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

Common stock issued and outstanding: 87,588,436 shares as of April 25, 2014.

Table of Contents

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	<u>4</u>
<u>Consolidated Income Statements</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>7</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows</u>	<u>9</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>11</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
Item 4.	<u>Controls and Procedures</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>
Item 1A.	<u>Risk Factors</u>
Item 6.	<u>Exhibits</u>
<u>SIGNATURES</u>	<u>75</u>

Table of Contents

PART I. FINANCIAL INFORMATION

GLOSSARY OF ENTITIES AND TERMS

The acronyms and abbreviations identified below are used in various sections of this Form 10-Q, including the Consolidated Financial Statements and the Notes to Unaudited Consolidated Financial Statements in Item 1 and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Item 2 of this Form 10-Q.

ENTITIES:

AAB	Alliance Association Bank	Parent	WAL Holding Company
ABA	Alliance Bank of Arizona	TPB	Torrey Pines Bank
Company	Western Alliance Bancorporation and Subsidiaries	WAB	Western Alliance Bank
BON	Bank of Nevada	WAEF	Western Alliance Equipment Finance
FIB	First Independent Bank	WAL	Western Alliance Bancorporation
LVSP	Las Vegas Sunset Properties		
TERMS:			
AFS	Available-for-Sale	FVO	Fair Value Option
AMT	Alternative Minimum Tax	GAAP	U.S. Generally Accepted Accounting Principles
ALCO	Asset and Liability Management Committee	GSE	Government-Sponsored Enterprise
AOCI	Accumulated Other Comprehensive Income	HTM	Held-to-Maturity
ARPS	Adjustable-Rate Preferred Stock	ICS	Insured Cash Sweep Service
ASC	Accounting Standards Codification	IRC	Internal Revenue Code
ASU	Accounting Standards Update	LIBOR	London Interbank Offered Rate
BOLI	Bank Owned Life Insurance	LIHTC	Low-Income Housing Tax Credit
CDARS	Certificate Deposit Account Registry Service	MBS	Mortgage-Backed Securities
CDO	Collateralized Debt Obligation	NOL	Net Operating Loss
CEO	Chief Executive Officer	NPV	Net Present Value
CFO	Chief Financial Officer	NUBILs	Net Unrealized Built In Losses
CMO	Collateralized Mortgage Obligations	OCI	Other Comprehensive Income
Company	Western Alliance Bancorporation	OREO	Other Real Estate Owned
CRA	Community Reinvestment Act	OTTI	Other-than-Temporary Impairment
CRE	Commercial Real Estate	Parent	WAL Holding Company
FASB	Financial Accounting Standards Board	PCI	Purchased Credit Impaired
FDIC	Federal Deposit Insurance Corporation	SEC	Securities and Exchange Commission
FHLB	Federal Home Loan Bank	TDR	Troubled Debt Restructuring
Form 10-Q	Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2014	TEB	Tax Equivalent Basis
FRB	Federal Reserve Bank	XBRL	eXtensible Business Reporting Language

Table of Contents

Item 1. Financial Statements.

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2014 (Unaudited) (in thousands, except per share amounts)	December 31, 2013
Assets:		
Cash and due from banks	\$ 161,302	\$ 134,906
Securities purchased under agreement to resell	111,085	—
Interest-bearing deposits in other financial institutions	193,538	170,608
Cash and cash equivalents	465,925	305,514
Money market investments	851	2,632
Investment securities—measured at fair value	2,943	3,036
Investment securities—AFS, at fair value; amortized cost of \$1,384,219 at March 31, 2014 and \$1,404,048 at December 31, 2013	1,366,433	1,370,696
Investment securities—HTM, at amortized cost; fair value of \$281,483 at March 31, 2014 and \$281,704 at December 31, 2013	275,738	283,006
Investments in restricted stock, at cost	25,275	30,186
Loans, net of deferred loan fees and costs	7,108,599	6,801,415
Less: allowance for credit losses	(103,899)	(100,050)
Total loans	7,004,700	6,701,365
Premises and equipment, net	106,579	105,565
Other assets acquired through foreclosure, net	56,450	66,719
Bank owned life insurance	141,511	140,562
Goodwill	23,224	23,224
Other intangible assets, net	3,553	4,150
Deferred tax assets, net	78,322	80,688
Prepaid expenses	4,660	4,778
Other assets	190,460	185,221
Total assets	\$ 9,746,624	\$ 9,307,342
Liabilities:		
Deposits:		
Non-interest-bearing demand	\$ 2,093,604	\$ 2,199,983
Interest-bearing	6,055,369	5,638,222
Total deposits	8,148,973	7,838,205
Customer repurchase agreements	57,407	71,192
Securities sold short	109,793	—
Other borrowings	342,816	341,096
Junior subordinated debt, at fair value	42,836	41,858
Other liabilities	149,994	159,493
Total liabilities	8,851,819	8,451,844
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock - par value \$0.0001 and liquidation value per share of \$1,000; 20,000,000 authorized; 141,000 shares issued and outstanding at March 31, 2014	141,000	141,000

Edgar Filing: WESTERN ALLIANCE BANCORPORATION - Form 10-Q

and December 31, 2013

Common stock - par value \$0.0001; 200,000,000 authorized; 87,553,976 shares issued and outstanding at March 31, 2014 and 87,186,403 at December 31, 2013	9	9
Additional paid in capital	795,306	797,146
Accumulated deficit	(30,379	) (61,111)
Accumulated other comprehensive loss	(11,131	) (21,546)
Total stockholders' equity	894,805	855,498
Total liabilities and stockholders' equity	\$9,746,624	\$9,307,342

See accompanying Notes to Unaudited Consolidated Financial Statements.

4

Table of ContentsWESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(in thousands, except per share amounts)	
Interest income:		
Loans, including fees	\$86,804	\$74,725
Investment securities	10,226	6,961
Dividends	1,099	1,197
Other	572	225
Total interest income	98,701	83,108
Interest expense:		
Deposits	4,665	3,732
Other borrowings	2,819	2,672
Junior subordinated debt	421	466
Customer repurchase agreements	19	35
Total interest expense	7,924	6,905
Net interest income	90,777	76,203
Provision for credit losses	3,500	5,439
Net interest income after provision for credit losses	87,277	70,764
Non-interest income:		
Service charges and fees	2,530	2,534
Income from bank owned life insurance	949	1,036
Gain on sales of investment securities, net	366	147
Unrealized losses on assets / liabilities measured at fair value, net	(1,276	) (471
Other fee revenue	1,108	957
Other income	1,158	596
Total non-interest income	4,835	4,799
Non-interest expense:		
Salaries and employee benefits	29,555	26,574
Occupancy	4,682	4,846
Legal, professional and directors' fees	3,639	3,023
Data processing	2,674	1,865
Insurance	2,393	2,370
Loan and repossessed asset expenses	1,234	1,596
Customer service	620	643
Marketing	559	667
Net (gain) loss on sales / valuations of repossessed and other assets	(2,547	) 519
Intangible amortization	597	597
Merger / restructure expenses	157	195
Other expense	6,186	4,034
Total non-interest expense	49,749	46,929
Income from continuing operations before provision for income taxes	42,363	28,634
Income tax expense	10,624	7,787
Income from continuing operations	31,739	20,847
(Loss) gain from discontinued operations, net of tax	(654	) 38
Net income	31,085	20,885
Dividends on preferred stock	353	353

Edgar Filing: WESTERN ALLIANCE BANCORPORATION - Form 10-Q

Net income available to common shareholders	\$30,732	\$20,532
---------------------------------------------	----------	----------

5

Table of Contents

	Three Months Ended March 31,	
	2014	2013
	(in thousands, except per share amounts)	
Earnings per share from continuing operations:		
Basic	\$0.36	\$0.24
Diluted	0.36	0.24
Loss per share from discontinued operations:		
Basic	(0.01) —
Diluted	(0.01) —
Earnings per share applicable to common shareholders:		
Basic	0.35	0.24
Diluted	0.35	0.24
Weighted average number of common shares outstanding:		
Basic	86,256	85,324
Diluted	87,123	85,980
Dividends declared per common share	\$—	\$—
See accompanying Notes to Unaudited Consolidated Financial Statements.		

Table of ContentsWESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Net income	\$31,085	\$20,885
Other comprehensive income (loss), net:		
Unrealized gain (loss) on AFS securities, net of tax effect of \$(6,365) and \$459, respectively	10,644	(890)
Unrealized loss on cash flow hedge, net of tax effect of \$0 and \$18, respectively	—	(34)
Realized gain on sale of AFS securities included in income, net of tax effect of \$137 and \$50, respectively	(229	) (97)
Net other comprehensive income (loss)	10,415	(1,021)
Comprehensive income	\$41,500	\$19,864
See accompanying Notes to Unaudited Consolidated Financial Statements.		

Table of ContentsWESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
					(in thousands)			
December 31, 2012 (1)	141	\$ 141,000	86,465	\$9	\$784,852	\$ 8,226	\$ (174,666)	\$ 759,421
Net income	—	—	—	—	—	—	20,885	20,885
Exercise of stock options	—	—	156	—	1,118	—	—	1,118
Stock-based compensation	—	—	59	—	803	—	—	803
Restricted stock grants, net	—	—	399	—	168	—	—	168
Other	—	—	—	—	—	—	—	—
Dividends on preferred stock	—	—	—	—	—	—	(353)	(353)
Other comprehensive income, net	—	—	—	—	—	(1,021)	—	(1,021)
Balance, March 31, 2013	141	\$ 141,000	87,079	\$9	\$786,941	\$ 7,205	\$ (154,134)	\$ 781,021
December 31, 2013	141	\$ 141,000	87,186	\$9	\$797,146	\$ (21,546)	\$ (61,111)	\$ 855,498
Net income	—	—	—	—	—	—	31,085	31,085
Exercise of stock options	—	—	64	—	703	—	—	703
Stock-based compensation	—	—	37	—	854	—	—	854
Restricted stock grants, net	—	—	267	—	(3,397)	—	—	(3,397)
Dividends on preferred stock	—	—	—	—	—	—	(353)	(353)
Other comprehensive income, net	—	—	—	—	—	10,415	—	10,415
Balance, March 31, 2014	141	\$ 141,000	87,554	\$9	\$795,306	\$ (11,131)	\$ (30,379)	\$ 894,805

(1) As adjusted, see "Note 10. Income Taxes" to the Unaudited Consolidated Financial Statements. See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of ContentsWESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Cash flows from operating activities:		
Net income	\$31,085	\$20,885
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	3,500	5,439
Depreciation and amortization	2,044	2,153
Stock-based compensation	332	971
Deferred income taxes and income taxes receivable	(1,696	) (1,754
Net amortization of discounts and premiums for investment securities	2,050	2,577
Accretion and amortization of fair market value adjustments due to acquisitions	(3,305	) (3,288
Income from bank owned life insurance	(949	) (1,036
(Gains) / losses on:		
Sales of securities, AFS	(366	) (147
Other assets acquired through foreclosure, net	(1,168	) (455
Valuation adjustments of other repossessed assets, net	35	1,017
Sale of premises and equipment and other assets, net	(1,411	) (43
Changes in:		
Other assets	3,191	18,475
Other liabilities	5,359	828
Fair value of assets and liabilities measured at fair value	1,276	471
Net cash provided by operating activities	39,977	46,093
Cash flows from investing activities:		
Investment securities - measured at fair value		
Principal pay downs and maturities	112	279
Investment securities - AFS		
Purchases	(24,082	) (124,909
Principal pay downs and maturities	38,332	51,196
Proceeds from sales	4,196	4,072
Investment securities - HTM		
Principal pay downs and maturities	6,600	—
Purchase of investment tax credits	(10,529	) (5,084
Sale / (purchase) of money market investments, net	1,781	(132
Liquidation of restricted stock	4,911	1,169
Loan fundings and principal collections, net	(322,640	) (124,390
Sale and purchase of premises and equipment, net	(1,103	) (761
Proceeds from sale of other real estate owned and repossessed assets, net	13,512	5,343
Net cash used in investing activities	(288,910	) (193,217

Table of Contents

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Cash flows from financing activities:		
Net increase in deposits	310,939	279,737
Net increase in borrowings	98,055	218,272
Proceeds from exercise of common stock options	703	1,118
Cash dividends paid on preferred stock	(353	) (353
Net cash provided by financing activities	409,344	498,774
Net increase in cash and cash equivalents	160,411	351,650
Cash and cash equivalents at beginning of year	305,514	204,625
Cash and cash equivalents at end of period	\$465,925	\$556,275
Supplemental disclosure:		
Cash paid during the period for:		
Interest	\$5,916	\$7,132
Income taxes	2,501	1,450
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	2,110	6,609
Unfunded commitments to purchase investment tax credits	12,298	46,582
Change in unrealized gain (loss) on AFS securities, net of tax	10,415	(1,021
Change in unrealized loss on cash flow hedge, net of tax	—	(34
Change in unfunded obligations	16,625	35,451
See accompanying Notes to Unaudited Consolidated Financial Statements.		

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operation

WAL, incorporated under the laws of the state of Nevada, is a bank holding company providing full service banking and related services to locally owned businesses, professional firms, real estate developers and investors, local non-profit organizations, high net worth individuals and other consumers through its wholly-owned subsidiary bank: WAB, doing business as ABA in Arizona, as FIB in Northern Nevada, as AAB throughout the U.S., as BON in Southern Nevada, and as TPB in California. In addition, the Company has two non-bank subsidiaries, WAEF, which offers equipment finance services nationwide, and LVSP, which holds and manages certain non-performing loans and OREO.

Basis of presentation

The accounting and reporting policies of the Company are in accordance with GAAP and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in the unaudited Consolidated Financial Statements.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; estimated cash flows related to PCI loans; fair value determinations related to acquisitions; and determination of the valuation allowance related to deferred tax assets. Although management believes these estimates to be reasonably accurate, actual amounts may differ. In the opinion of management, all adjustments considered necessary have been reflected in the unaudited Consolidated Financial Statements during their preparation.

Principles of consolidation

On December 31, 2013, the Company consolidated its three bank subsidiaries under one bank charter, WAB. As the subsidiary bank mergers did not meet the definition of a business combination under the guidance of FASB ASC 805, Business Combinations, the entities were combined in a method similar to a pooling of interests.

WAL has nine wholly-owned subsidiaries: WAB, WAEF, LVSP and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities.

WAB has the following wholly-owned subsidiaries: WAB Investments, Inc., BON Investments, Inc., and TPB Investments, Inc., which hold certain investment securities, municipal loans and leases; BW Real Estate, Inc., which operates as a real estate investment trust and holds certain of WAB's real estate loans and related securities; and BW Nevada Holdings, LLC, which owns the Company's 2700 West Sahara Avenue, Las Vegas, Nevada office building. The Company does not have any other significant entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2013 and for the three months ended March 31, 2013 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

Table of Contents

Interim financial information

The accompanying unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2014 and 2013 have been prepared in condensed format and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to the Company's audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal, recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the Company's audited Consolidated Financial Statements.

Investment securities

Investment securities may be classified as HTM, AFS or trading. The appropriate classification is initially decided at the time of purchase. Securities classified as HTM are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions. These securities are carried at amortized cost. The sale of a security within three months of its maturity date or after the majority of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities classified as AFS or trading are reported as an asset on the Consolidated Balance Sheets at their estimated fair value. As the fair value of AFS securities changes, the changes are reported net of income tax as an element of OCI, except for impaired securities. When AFS securities are sold, the unrealized gain or loss is reclassified from OCI to non-interest income. The changes in the fair values of trading securities are reported in non-interest income.

Securities classified as AFS are both equity and debt securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, decline in credit quality, and regulatory capital considerations.

Interest income is recognized based on the coupon rate and increased by accretion of discounts earned or decreased by the amortization of premiums paid over the contractual life of the security using the interest method. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations.

In estimating whether there are any OTTI losses, management considers the 1) length of time and the extent to which the fair value has been less than amortized cost; 2) financial condition and near term prospects of the issuer; 3) impact of changes in market interest rates; and 4) intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value and it is not more likely than not the Company would be required to sell the security.

Declines in the fair value of individual debt securities AFS that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other than temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings; and 2) market or other factors is recognized in other comprehensive income or loss. Credit loss is recorded if the present value of cash flows is less than amortized cost.

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

Loans, interest and fees from loans

The Company generally holds loans for investment and has the intent and ability to hold loans until their maturity. Therefore, they are reported at book value. Net loans are stated at the amount of unpaid principal, reduced by

unearned loan fees and allowance for credit losses. Purchased loans are recorded at estimated fair value on the date of purchase.

The Company may acquire loans through a business combination or in a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. Loans are evaluated individually to determine if there is credit deterioration since origination. Such loans may then be aggregated and accounted for

Table of Contents

as a pool of loans based on common characteristics. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over the cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan's yield over the remaining life. Subsequent decreases to cash flows expected to be collected are recognized as impairment. The Company may not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. For additional information, see "Note 3. Loans, Leases and Allowance for Credit Losses" of these Notes to Unaudited Consolidated Financial Statements.

Interest income on loans is accrued daily using the effective interest method and recognized over the terms of the loans. Loan fees collected for the origination of loans less direct loan origination costs (net deferred loan fees) are amortized over the contractual life of the loan through interest income. If the loan has scheduled payments, the amortization of the net deferred loan fee is calculated using the interest method over the contractual life of the loan. If the loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer's unused line of credit and fees related to standby letters of credit are recognized over the commitment period.

When loans are repaid, any remaining unamortized balances of unearned fees, deferred fees and costs and premiums and discounts paid on purchased loans are accounted for through interest income.

Nonaccrual loans: For all loan types except credit cards, when a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. Generally, the Company places loans in a nonaccrual status and ceases recognizing interest income when the loan has become delinquent by more than 90 days or when management determines that the full repayment of principal and collection of interest is unlikely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if they are well secured by collateral and in the process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days delinquent.

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

Impaired loans: A loan is identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the original loan agreement. Generally, impaired loans are classified as nonaccrual. However, in certain instances, impaired loans may continue on an accrual basis, such as loans classified as impaired due to doubt regarding collectability according to contractual terms, that are both fully secured by collateral and are current in their interest and principal payments. Impaired loans are measured for reserve requirements in accordance with FASB ASC 310, Receivables, based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral less applicable disposition costs if the loan is collateral dependent. The amount of an impairment reserve, if any, and any subsequent changes are charged against the allowance for credit losses. In addition to our own internal loan review process, the FDIC may from time to time direct the Company to modify loan grades, loan impairment calculations or loan impairment methodology.

Troubled Debt Restructured Loans: A TDR loan is a loan on which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms that have been modified or restructured due to a borrower's financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, extensions, deferrals, renewals and rewrites. A TDR loan is also considered impaired. Generally, a loan that is modified at an effective market rate of

interest may no longer be disclosed as a TDR in years subsequent to the restructuring if it is performing based on the terms specified by the restructuring agreement.

Table of Contents

Allowance for credit losses

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

The Company's allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in the level of nonperforming loans and other factors. Qualitative factors include the economic condition of our operating markets and the state of certain industries. Specific changes in the risk factors are based on actual loss experience, as well as perceived risk of similar groups of loans classified by collateral type, purpose and term. An internal five-year loss history is also incorporated into the allowance calculation model. Due to the credit concentration of our loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona and California, which, in some cases, have declined substantially from their peak. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, the FDIC and state bank regulatory agency, as an integral part of their examination processes, periodically review the bank's allowances for credit losses, and may require us to make additions to our allowance based on their judgment about information available to them at the time of their examination. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

The allowance consists of specific and general components. The specific allowance relates to impaired loans. In general, impaired loans include those where interest recognition has been suspended, loans that are more than 90 days delinquent but because of adequate collateral coverage, income continues to be recognized, and other criticized and classified loans not paying substantially according to the original contract terms. For such loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan are lower than the carrying value of that loan, pursuant to FASB ASC 310, Receivables. Loans not collateral dependent are evaluated based on the expected future cash flows discounted at the original contractual interest rate. The amount to which the present value falls short of the current loan obligation will be set up as a reserve for that account or charged-off.

The Company uses an appraised value method to determine the need for a reserve on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. Generally, the Company obtains independent collateral valuation analysis for each loan every twelve months.

The general allowance covers all non-impaired loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above.

Off-balance sheet instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets. Losses would be experienced when the Company is contractually obligated to make a payment under these instruments and must seek repayment from the borrower, which may not be as financially sound in the current period as they were when the commitment was originally made. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected

to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral. As with outstanding loans, the Company applies qualitative factors and utilization rates to its off-balance sheet obligations in determining an estimate of losses inherent in these contractual obligations. The estimate for credit losses on off-balance sheet

Table of Contents

instruments is included within other liabilities and the charge to income that establishes this liability is included in non-interest expense.

Other assets acquired through foreclosure

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

Business combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. Under the acquisition method the acquiring entity in a business combination recognizes all of the acquired assets and assumed liabilities at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including identified intangible assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Derivative financial instruments

The Company uses interest-rate swaps to mitigate interest-rate risk associated with changes to 1) the fair value of certain fixed-rate financial instruments (fair value hedges) and 2) certain cash flows related to future interest payments on variable rate financial instruments (cash flow hedges).

The Company recognizes derivatives as assets or liabilities in the Consolidated Balance Sheets at their fair value in accordance with FASB ASC 815, Derivatives and Hedging. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. On the date the derivative contract is entered into, the Company designates the derivative as a fair value hedge or cash flow hedge. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset or liability attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For a fair value hedge, the change in the fair value of the derivative instrument is recognized in non-interest income in the Consolidated Income Statement. For a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the change in fair value of a cash flow hedge is recognized immediately in non-interest income in the Consolidated Income Statement. Under both the fair value and cash flow hedge scenarios, changes in the fair value of derivatives not considered to be highly effective in hedging the change in fair value or the expected cash flows of the hedged item are recognized in earnings as non-interest income during the period of the change.

The Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. Both at inception and at least quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in either the fair value or cash flows of the hedged item. Retroactive effectiveness is assessed, as well as the continued expectation that the hedge will remain effective prospectively. The Company discontinues hedge accounting prospectively when it is determined that a hedge is no longer highly effective. When hedge accounting is discontinued on a fair value hedge that no longer qualifies as an effective hedge, the derivative continues to be reported at fair value

on the Consolidated Balance Sheets, but the carrying amount of the hedged item is no longer adjusted for future changes in fair value. The adjustment to the carrying amount of the hedged item that existed at the date hedge accounting is discontinued is amortized over the remaining life of the hedged item into earnings.

Derivative instruments that are not designated as hedges per the accounting guidance are reported in the Consolidated Balance Sheets at fair value and the changes in fair value are recognized in earnings as non-interest income during the period of change.

Table of Contents

The Company occasionally purchases a financial instrument or originates a loan that contains an embedded derivative instrument. Upon purchasing the instrument or originating the loan, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that 1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and 2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and carried at fair value. However, in cases where 1) the host contract is measured at fair value, with changes in fair value reported in current earnings, or 2) the Company is unable to reliably identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the Consolidated Balance Sheet at fair value and is not designated as a hedging instrument.

Income taxes

The Company and its subsidiaries, other than BW Real Estate, Inc., file a consolidated federal tax return. Due to tax regulations, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent temporary differences. Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and tax credit carryovers and deferred tax liabilities are recognized for taxable temporary differences. A temporary difference is the difference between the reported amount of an asset or liability and its tax basis. A deferred tax asset is reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Fair values of financial instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities. ASC 820 establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The Company uses various valuation approaches, including market, income and/or cost approaches. FASB ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would consider in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

• Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, prepayment speeds, volatilities, etc.) or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market.

• Level 3 - Valuation is generated from model-based techniques where one or more significant inputs are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models and similar techniques.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair

value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability, rather than an entity-specific measure. When market assumptions are available, FASB ASC 820 requires the Company

Table of Contents

to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

FASB ASC 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at March 31, 2014 and December 31, 2013. The estimated fair value amounts for March 31, 2014 and December 31, 2013 have been measured as of period-end, and have not been reevaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end. The information in "Note 11. Fair Value Accounting" in these Notes to Unaudited Consolidated Financial Statements should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities.

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

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

Cash and cash equivalents

The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks approximate their fair value.

Money market and certificates of deposit investments

The carrying amounts reported in the Consolidated Balance Sheets for money market investments approximate their fair value.

Investment securities

The fair values of U.S. Treasuries, corporate debt securities, mutual funds, and exchange-listed preferred stock are based on quoted market prices and are categorized as Level 1 in the fair value hierarchy.

The fair values of other investment securities were determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings and prepayment speeds. Fair values determined using matrix pricing are generally categorized as Level 2 in the fair value hierarchy.

The Company owns certain CDOs for which quoted prices are not available. Quoted prices for similar assets are also not available for these investment securities. In order to determine the fair value of these securities, the Company has estimated the future cash flows and discount rate using third party quotes adjusted based on assumptions regarding the adjustments a market participant would assume necessary for each specific security. As a result of the lack of an active market, the resulting fair values have been categorized as Level 3 in the fair value hierarchy.

Restricted stock

WAB is a member of the FHLB system and maintains an investment in capital stock of the FHLB. WAB also maintains an investment in its primary correspondent bank. These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of its FHLB stock to determine if any impairment exists. The fair values have been categorized as Level 2 in the fair value hierarchy.

Loans

Fair value for loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality with adjustments that the Company believes a market participant would consider in determining fair value based on a third party independent valuation. As a result, the fair value for certain loans disclosed in "Note 11. Fair Value Accounting" of these Notes to Unaudited Consolidated Financial Statements is categorized as Level 2 in the fair value hierarchy, excluding impaired loans that are categorized as Level 3.

Table of Contents

Accrued interest receivable and payable

The carrying amounts reported in the Consolidated Balance Sheets for accrued interest receivable and payable approximate their fair value. Accrued interest receivable and payable fair value measurements are classified as Level 3 in the fair value hierarchy.

Derivative financial instruments

All derivatives are recognized in the Consolidated Balance Sheets at their fair value. The fair value for derivatives is determined based on market prices, broker-dealer quotations on similar products or other related input parameters. As a result, the fair values have been categorized as Level 2 in the fair value hierarchy.

Deposits

The fair value disclosed for demand and savings deposits is by definition equal to the amount payable on demand at their reporting date (that is, their carrying amount), which the Company believes a market participant would consider in determining fair value. The carrying amount for variable-rate deposit accounts approximates their fair value. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits. The fair value measurement of the deposit liabilities disclosed in "Note 11. Fair Value Accounting" of these Notes to Unaudited Consolidated Financial Statements is categorized as Level 2 in the fair value hierarchy.

Federal Home Loan Bank advances and other borrowings

The fair values of the Company's borrowings are estimated using discounted cash flow analyses, based on the market rates for similar types of borrowing arrangements. The FHLB advances have been categorized as Level 2 in the fair value hierarchy due to their short durations. The other borrowings have been categorized as Level 3 in the fair value hierarchy.

Junior subordinated debt

Junior subordinated debt and subordinated debt are valued by comparing interest rates and spreads to an index relative to the ten year treasury rate and discounting the contractual cash flows on the Company's debt using these market rates. The junior subordinated debt has been categorized as Level 3 in the fair value hierarchy.

Off-balance sheet instruments

Fair values for the Company's off-balance sheet instruments (lending commitments and standby letters of credit) are based on quoted fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Recent accounting pronouncements

In February 2013, the FASB issued guidance within ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. The amendments in ASU 2013-04 to Topic 405, Liabilities, provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the Update is fixed at the reporting date, except for obligations addressed with existing GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation, as well as other information about those obligations. The amendment is effective retrospectively for reporting periods beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In July 2013, the FASB issued guidance within ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in ASU 2013-11 to Topic 740, Income Taxes, provide guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued guidance within ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The amendments in ASU 2014-01 to Topic 323, Equity Investments and Joint Ventures, provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or

invest in affordable

18

Table of Contents

housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 and should be applied retrospectively to all periods presented, with early adoption permitted. All of the Company's LIHTC investments are within the scope of this guidance and the Company has adopted this amended guidance beginning on January 1, 2014. As a result, prior period financial information has been adjusted to conform to the amended guidance. See "Note 10. Income Taxes" for the impact that adoption had on the Company's financial condition and results of operations as well as additional disclosures required under these amendments. The adoption of this amended guidance did not have a significant impact on the Company's cash flows.

In January 2014, the FASB issued guidance within ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The objective of the amendments in ASU 2014-04 to Topic 310, Receivables - Troubled Debt Restructurings by Creditors, is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014. An entity can elect to adopt the amendments using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

Table of Contents

2. INVESTMENT SECURITIES

Carrying amounts and fair values of investment securities at March 31, 2014 and December 31, 2013 are summarized as follows:

	March 31, 2014			
Held-to-maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Collateralized debt obligations	\$50	\$4,869	\$—	\$4,919
Corporate debt securities	97,776	821	(3,156)	) 95,441
Municipal obligations	177,912	4,490	(1,279)	) 181,123
Total HTM securities	\$275,738	\$10,180	\$(4,435)	) \$281,483
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
U.S. Government-sponsored agency securities	\$59,112	\$—	\$(1,440)	) \$57,672
Municipal obligations	121,242	1,048	(3,412)	) 118,878
Preferred stock	75,902	1,313	(3,268)	) 73,947
Mutual funds	37,422	256	(435)	) 37,243
Residential MBS issued by GSEs	989,705	5,799	(8,097)	) 987,407
Commercial MBS issued by GSEs	2,088	—	(54)	) 2,034
Private label residential MBS	37,611	30	(2,026)	) 35,615
Private label commercial MBS	5,225	187	—	5,412
Trust preferred securities	32,000	—	(7,272)	) 24,728
CRA investments	23,912	—	(415)	) 23,497
Total AFS securities	\$1,384,219	\$8,633	\$(26,419)	) \$1,366,433
Securities measured at fair value				
Residential MBS issued by GSEs				\$2,460
Private label residential MBS				483
Total securities measured at fair value				\$2,943

Table of Contents

	December 31, 2013			
Held-to-maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Collateralized debt obligations	\$50	\$1,346	\$—	\$1,396
Corporate debt securities	97,777	775	(3,826)	) 94,726
Municipal obligations	183,579	2,773	(2,370)	) 183,982
CRA investments	1,600	—	—	1,600
Total HTM securities	\$283,006	\$4,894	\$(6,196)	) \$281,704
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
U.S. Government-sponsored agency securities	\$49,110	\$—	\$(2,135)	) \$46,975
Municipal obligations	121,671	316	(6,322)	) 115,665
Preferred stock	68,110	853	(7,479)	) 61,484
Mutual funds	37,423	93	(984)	) 36,532
Residential MBS issued by GSEs	1,028,402	5,567	(12,548)	) 1,021,421
Private label residential MBS	38,250	—	(2,151)	) 36,099
Private label commercial MBS	5,252	181	—	5,433
Trust preferred securities	32,000	—	(8,195)	) 23,805
CRA investments	23,830	—	(548)	) 23,282
Total AFS securities	\$1,404,048	\$7,010	\$(40,362)	) \$1,370,696

Securities measured at fair value

Residential MBS issued by GSEs \$3,036

For additional information on the fair value changes of the securities measured at fair value, see the trading securities table in "Note 11. Fair Value Accounting" of these Notes to Unaudited Consolidated Financial Statements.

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

For debt securities and for ARPS that are treated as debt securities for the purpose of OTTI analysis, the Company also considers the cause of the price decline (general level of interest rates and industry and issuer specific factors), the issuer's financial condition, near-term prospects and current ability to make future payments in a timely manner, the issuer's ability to service debt, and any change in agencies' ratings at evaluation date from acquisition date and any likely imminent action. For ARPS with a fair value below cost that is not attributable to the credit deterioration of the issuer, such as a decline in cash flows from the security or a downgrade in the security's rating below investment grade, the Company does not recognize an OTTI charge where it is able to assert that it has the intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company has reviewed securities on which there is an unrealized loss in accordance with its accounting policy for OTTI described above and determined that there were no impairment charges for the three months ended March 31, 2014 and 2013.

The Company does not consider any securities to be other-than-temporarily impaired as of March 31, 2014 and December 31, 2013. No assurance can be made that additional OTTI will not occur in future periods.

Table of Contents

Information pertaining to securities with gross unrealized losses at March 31, 2014 and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	March 31, 2014					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity						
Corporate debt securities	\$—	\$—	\$3,156	\$71,844	\$3,156	\$71,844
Municipal obligations	480	17,233	799	8,486	1,279	25,719
Total HTM securities	\$480	\$17,233	\$3,955	\$80,330	\$4,435	\$97,563
Available-for-sale						
U.S. government sponsored agency securities	\$298	\$40,117	\$1,142	\$17,555	\$1,440	\$57,672
Preferred stock	3,268	36,712	—	—	3,268	36,712
Mutual funds	435	25,648	—	—	435	25,648
Residential MBS issued by GSEs	7,247	489,288	850	13,788	8,097	503,076
Commercial MBS issued by GSEs	54	2,034	—	—	54	2,034
Municipal obligations	1,290	46,367	2,122	20,761	3,412	67,128
Private label residential MBS	1,986	29,349	40	3,393	2,026	32,742
Trust preferred securities	—	—	7,272	24,728	7,272	24,728
CRA investments	415	23,442	—	—	415	23,442
Total AFS securities	\$14,993	\$692,957	\$11,426	\$80,225	\$26,419	\$773,182
December 31, 2013						
	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity						
Corporate debt securities	\$163	\$9,837	\$3,663	\$71,337	\$3,826	\$81,174
Municipal obligations	1,624	50,740	746	5,102	2,370	55,842
Total HTM securities	\$1,787	\$60,577	\$4,409	\$76,439	\$6,196	\$137,016
Available-for-sale						
U.S. government sponsored agency securities	\$2,135	\$46,976	\$—	\$—	\$2,135	\$46,976
Preferred stock	7,479	44,637	—	—	7,479	44,637
Mutual funds	984	30,101	—	—	984	30,101
Residential MBS issued by GSEs	11,934	601,756	614	8,984	12,548	610,740
Municipal obligations	3,545	72,300	2,777	17,923	6,322	90,223
Private label residential MBS	2,009	32,517	142	3,583	2,151	36,100

Edgar Filing: WESTERN ALLIANCE BANCORPORATION - Form 10-Q

Trust preferred securities	—	—	8,195	23,807	8,195	23,807
Other	548	23,823	—	—	548	23,823
Total AFS securities	\$28,634	\$852,110	\$11,728	\$54,297	\$40,362	\$906,407

At March 31, 2014 and December 31, 2013, the Company's unrealized losses relate primarily to interest rate fluctuations, credit spread widening and reduced liquidity in applicable markets. The total number of securities in an unrealized loss position at March 31, 2014 was 192, compared to 252 at December 31, 2013. In analyzing an issuer's financial condition, management

Table of Contents

considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and industry analysis reports. Since material downgrades have not occurred and management does not intend to sell the debt securities in the foreseeable future, none of the securities described in the above table or in this paragraph were deemed to be other than temporarily impaired.

At March 31, 2014, the net unrealized loss on trust preferred securities classified as AFS was \$7.3 million, compared with \$8.2 million at December 31, 2013. The Company actively monitors its debt and other structured securities portfolios classified as AFS for declines in fair value. At March 31, 2014, the gross unrealized loss on corporate bond portfolio classified as HTM was \$3.2 million, compared to \$3.8 million at December 31, 2013. The FRB continues to express its intention to keep interest rates at historically low levels into 2015. The yields of most of the bonds in the portfolio are tied to LIBOR, thus negatively affecting their anticipated returns.

The amortized cost and fair value of securities as of March 31, 2014, by contractual maturities, are shown below. The actual maturities of the MBS may differ from their contractual maturities because the loans underlying the securities may be repaid without any penalties due to borrowers that have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are listed separately in the maturity summary.

	March 31, 2014	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held-to-Maturity		
Due in one year or less	\$3,608	\$3,673
After one year through five years	17,596	18,191
After five years through ten years	146,688	145,735
After ten years	107,846	113,884
Total HTM	\$275,738	\$281,483
Available-for-Sale		
Due in one year or less	\$66,543	\$65,949
After one year through five years	16,920	17,513
After five years through ten years	64,404	63,021
After ten years	201,723	189,482
Mortgage backed securities	1,034,629	1,030,468
Total AFS	\$1,384,219	\$1,366,433

Table of Contents

The following tables summarize the carrying amounts of the Company's investment ratings position as March 31, 2014 and December 31, 2013:

	As of March 31, 2014						Totals
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	
	(in thousands)						
Municipal obligations	\$7,928	\$—	\$131,355	\$150,004	\$7,288	\$215	\$296,790
Residential MBS issued by GSEs	—	989,867	—	—	—	—	989,867
Commercial MBS issued by GSEs	—	2,034	—	—	—	—	2,034
Private label residential MBS	23,343	—	107	4,143	5,028	3,477	36,098
Private label commercial MBS	5,412	—	—	—	—	—	5,412
Mutual funds (3)	—	—	—	—	37,243	—	37,243
U.S. government sponsored agency	—	57,672	—	—	—	—	57,672
Preferred stock	—	—	—	—	46,452	19,385	65,837
Trust preferred securities	—	—	—	—	24,728	—	24,728
Collateralized debt obligations	—	—	—	—	—	50	50
Corporate debt securities	—	—	2,698	25,098	69,980	—	97,776
Total (1) (2)	\$36,683	\$1,049,573	\$134,160	\$179,245	\$190,719	\$23,127	\$1,613,507

(1) The Company used the average credit rating of the combination of S&P, Moody's and Fitch in the above table where ratings differed.

(2) Securities values are shown at carrying value as of March 31, 2014. Unrated securities consist of CRA investments with a carrying value of \$23.5 million and preferred stock with a carrying value of \$8.1 million.

(3) At least 80% of mutual funds are investment grade corporate debt securities.

	December 31, 2013						Totals
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	
	(in thousands)						
Municipal obligations	\$7,965	\$—	\$129,810	\$153,949	\$7,305	\$215	\$299,244
Residential MBS issued by GSEs	—	1,024,457	—	—	—	—	1,024,457
Private label residential MBS	23,646	—	125	4,101	4,625	3,602	36,099
Private label commercial MBS	5,433	—	—	—	—	—	5,433
Mutual funds (3)	—	—	—	—	36,532	—	36,532
U.S. government sponsored agency	—	46,975	—	—	—	—	46,975
Preferred stock	—	—	—	—	45,847	13,244	59,091
Trust preferred securities	—	—	—	—	23,805	—	23,805
Collateralized debt obligations	—	—	—	—	—	50	50
Corporate debt securities	—	—	2,697	35,102	59,978	—	97,777

Total (1) (2)	\$37,044	\$1,071,432	\$132,632	\$193,152	\$178,092	\$17,111	\$1,629,463
---------------	----------	-------------	-----------	-----------	-----------	----------	-------------

(1) The Company used the average credit rating of the combination of S&P, Moody's and Fitch in the above table where ratings differed.

Securities values are shown at carrying value as of December 31, 2013. Unrated securities consist of CRA

(2) investments with a carrying value of \$23.3 million, one ARPS with a carrying value of \$2.4 million and an other investment of \$1.6 million.

(3) At least 80% of mutual funds are investment grade corporate debt securities.

Securities with carrying amounts of approximately \$739.2 million and \$662.5 million at March 31, 2014 and December 31, 2013, respectively, were pledged for various purposes as required or permitted by law.

Table of Contents

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

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Gross gains	\$366	\$200
Gross losses	—	(53)
Net gains	\$366	\$147

3. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

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

	March 31,	December 31,
	2014	2013
	(in thousands)	
Commercial and industrial	\$2,501,499	\$2,236,740
Commercial real estate - non-owner occupied	1,849,211	1,843,415
Commercial real estate - owner occupied	1,606,243	1,561,862
Construction and land development	553,655	537,231
Residential real estate	344,859	350,312
Commercial leases	221,916	235,968
Consumer	38,330	45,153
Deferred fees and costs	(7,114)	(9,266)
Loans, net of deferred fees and costs	7,108,599	6,801,415
Allowance for credit losses	(103,899)	(100,050)
Total	\$7,004,700	\$6,701,365

The following table presents the contractual aging of the recorded investment in past due loans by class of loans and excluding deferred fees and costs:

	March 31, 2014					Total
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	
	(in thousands)					
Commercial real estate						
Owner occupied	\$1,597,539	\$4,416	\$996	\$3,292	\$8,704	\$1,606,243
Non-owner occupied	1,651,963	17,824	1,548	6,454	25,826	1,677,789
Multi-family	171,422	—	—	—	—	171,422
Commercial and industrial						
Commercial	2,499,734	651	216	898	1,765	2,501,499
Leases	221,916	—	—	—	—	221,916
Construction and land development						
Construction	310,599	479	—	—	479	311,078
Land	241,234	—	—	1,343	1,343	242,577
Residential real estate	330,550	2,764	4,286	7,259	14,309	344,859
Consumer	37,882	270	11	167	448	38,330
Total loans	\$7,062,839	\$26,404	\$7,057	\$19,413	\$52,874	\$7,115,713

Table of Contents

	December 31, 2013				Total Past Due	Total
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due		
	(in thousands)					
Commercial real estate						
Owner occupied	\$1,555,210	\$1,759	\$406	\$4,487	\$6,652	\$1,561,862
Non-owner occupied	1,627,062	8,774	4,847	15,767	29,388	1,656,450
Multi-family	186,965	—	—	—	—	186,965
Commercial and industrial						
Commercial	2,232,186	1,868	233	2,453	4,554	2,236,740
Leases	235,618	—	—	350	350	235,968
Construction and land development						
Construction	291,883	—	—	—	—	291,883
Land	243,741	264	1,343	—	1,607	245,348
Residential real estate	339,566	2,423	1,368	6,955	10,746	350,312
Consumer	44,018	466	155	514	1,135	45,153
Total loans	\$6,756,249	\$15,554	\$8,352	\$30,526	\$54,432	\$6,810,681

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

	March 31, 2014				December 31, 2013			
	Current	Past Due/ Delinquent	Total Non-accrual	Loans past due 90 days or more and still accruing	Current	Past Due/ Delinquent	Total Non-accrual	Loans past due 90 days or more and still accruing
	(in thousands)							
Commercial real estate								
Owner occupied	\$6,663	\$4,460	\$11,123	\$ —	\$9,330	\$3,600	\$12,930	\$ 887
Non-owner occupied	15,454	22,306	37,760	—	17,930	23,996	41,926	—
Multi-family	—	—	—	—	—	—	—	—
Commercial and industrial								
Commercial	1,534	1,104	2,638	—	622	2,682	3,304	125
Leases	432	—	432	—	99	350	449	—
Construction and land development								
Construction	—	—	—	—	—	—	—	—
Land	2,277	1,341	3,618	—	3,133	1,392	4,525	—
Residential real estate	2,751	12,051	14,802	—	5,067	7,413	12,480	47
Consumer	28	—	28	167	27	39	66	475
Total	\$29,139	\$41,262	\$70,401	\$ 167	\$36,208	\$39,472	\$75,680	\$ 1,534

The reduction in interest income associated with loans on nonaccrual status was approximately \$1.0 million and \$1.2 million for the three months ended March 31, 2014 and 2013, respectively.

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard," "Doubtful," and "Loss." Substandard loans include those characterized by well-defined weaknesses

and carry the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, or risk rated eight, have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The final rating of Loss covers loans considered uncollectible and having such little recoverable value that it is not practical to defer writing off the asset. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve

Table of Contents

management's close attention, are deemed to be Special Mention. Risk ratings are updated, at a minimum, quarterly.

The following tables present gross loans by risk rating:

March 31, 2014						
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
(in thousands)						
Commercial real estate						
Owner occupied	\$1,525,617	\$33,638	\$46,355	\$633	\$—	\$1,606,243
Non-owner occupied	1,539,862	53,132	84,795	—	—	1,677,789
Multi-family	170,948	—	474	—	—	171,422
Commercial and industrial						
Commercial	2,474,755	9,249	17,495	—	—	2,501,499
Leases	217,460	4,024	432	—	—	221,916
Construction and land development						
Construction	310,599	479	—	—	—	311,078
Land	208,513	13,509	20,555	—	—	242,577
Residential real estate	317,513	3,044	24,302	—	—	344,859
Consumer	37,515	339	476	—	—	38,330
Total	\$6,802,782	\$117,414	\$194,884	\$633	\$—	\$7,115,713
March 31, 2014						
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
(in thousands)						
Current (up to 29 days past due)	\$6,800,191	\$115,223	\$146,792	\$633	\$—	\$7,062,839
Past due 30 - 59 days	2,472	2,090	21,842	—	—	26,404
Past due 60 - 89 days	119	101	6,837	—	—	7,057
Past due 90 days or more	—	—	19,413	—	—	19,413
Total	\$6,802,782	\$117,414	\$194,884	\$633	\$—	\$7,115,713
December 31, 2013						
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
(in thousands)						
Commercial real estate						
Owner occupied	\$1,483,190	\$33,065	\$44,649	\$958	\$—	\$1,561,862
Non-owner occupied	1,498,500	64,588	93,362	—	—	1,656,450
Multi-family	186,479	—	486	—	—	186,965
Commercial and industrial						
Commercial	2,208,947	10,058	16,231	1,504	—	2,236,740
Leases	231,344	4,175	449	—	—	235,968
Construction and land development						
Construction	291,402	481	—	—	—	291,883
Land	210,615	13,762	20,971	—	—	245,348
Residential real estate	323,333	3,037	23,942	—	—	350,312
Consumer	43,516	799	838	—	—	45,153
Total	\$6,477,326	\$129,965	\$200,928	\$2,462	\$—	\$6,810,681

Table of Contents

	December 31, 2013					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	\$6,471,951	\$129,208	\$154,441	\$649	\$—	\$6,756,249
Past due 30 - 59 days	4,205	602	10,747	—	—	15,554
Past due 60 - 89 days	1,123	155	7,074	—	—	8,352
Past due 90 days or more	47	—	28,666	1,813	—	30,526
Total	\$6,477,326	\$129,965	\$200,928	\$2,462	\$—	\$6,810,681

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

	March 31, 2014	December 31, 2013
	(in thousands)	
Impaired loans with a specific valuation allowance under FASB ASC 310	\$22,127	\$25,754
Impaired loans without a specific valuation allowance under FASB ASC 310	149,135	152,623
Total impaired loans	\$171,262	\$178,377
Valuation allowance related to impaired loans	\$(3,925)	\$(5,280)

The following table presents the impaired loans by class:

	March 31, 2014	December 31, 2013
	(in thousands)	
Commercial real estate		
Owner occupied	\$35,329	\$37,902
Non-owner occupied	68,756	73,152
Multi-family	—	—
Commercial and industrial		
Commercial	15,233	449
Leases	432	16,892
Construction and land development		
Construction	—	—
Land	22,012	23,069
Residential real estate	29,026	26,376
Consumer	474	537