

WESTERN ALLIANCE BANCORPORATION
Form 10-Q
May 02, 2016
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, 2016
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)

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

One E. Washington Street Suite 1400, Phoenix, AZ 85004
(Address of principal executive offices) (Zip Code)
(602) 389-3500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

As of April 25, 2016, Western Alliance Bancorporation had 103,510,488 shares of common stock outstanding.

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>6</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>10</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>55</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>79</u>
Item 4. <u>Controls and Procedures</u>	<u>81</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>82</u>
Item 1A. <u>Risk Factors</u>	<u>82</u>
Item 5. <u>Other Information</u>	<u>82</u>
Item 6. <u>Exhibits</u>	<u>83</u>
<u>SIGNATURES</u>	<u>84</u>

Table of Contents

PART I

GLOSSARY OF ENTITIES AND TERMS

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

ENTITIES:

AAB	Alliance Association Bank	FIB	First Independent Bank
ABA	Alliance Bank of Arizona	LVSP	Las Vegas Sunset Properties
BON	Bank of Nevada	TPB	Torrey Pines Bank
Bridge	Bridge Bank	WAB or Bank	Western Alliance Bank
Centennial	Centennial Bank	WAL or Parent	Western Alliance Bancorporation
Company	Western Alliance Bancorporation and subsidiaries	Western Liberty	Western Liberty Bancorp

TERMS:

AFS	Available-for-Sale	HOA	Homeowner Associations
ALCO	Asset and Liability Management Committee	HTM	Held-to-Maturity
AOCI	Accumulated Other Comprehensive Income	ICS	Insured Cash Sweep Service
ASC	Accounting Standards Codification	IRC	Internal Revenue Code
ASU	Accounting Standards Update	ISDA	International Swaps and Derivatives Association
ATM	At-the-Market	LIBOR	London Interbank Offered Rate
BOD	Board of Directors	LIHTC	Low-Income Housing Tax Credit
CAMELS	Capital Adequacy, Assets, Management Capability, Earnings, Liquidity, Sensitivity	MBS	Mortgage-Backed Securities
CDARS	Certificate Deposit Account Registry Service	NBL	National Business Lines
CDO	Collateralized Debt Obligation	NOL	Net Operating Loss
CEO	Chief Executive Officer	NPV	Net Present Value
CFO	Chief Financial Officer	NUBILs	Net Unrealized Built In Losses
CRA	Community Reinvestment Act	OCI	Other Comprehensive Income
CRE	Commercial Real Estate	OREO	Other Real Estate Owned
EPS	Earnings per share	OTTI	Other-than-Temporary Impairment
EVE	Economic Value of Equity	PCI	Purchased Credit Impaired
Exchange Act	Securities Exchange Act of 1934, as amended	PPNR	Pre-Provision Net Revenue
FASB	Financial Accounting Standards Board	SBA	Small Business Administration
FDIC	Federal Deposit Insurance Corporation	SBIC	Small Business Investment Company
FHLB	Federal Home Loan Bank	SEC	Securities and Exchange Commission
FRB	Federal Reserve Bank	SERP	Supplemental Executive Retirement Plan
FVO	Fair Value Option adjustment on junior subordinated debt	SSAE	Statement on Standards for Attestation Engagements
GAAP	U.S. Generally Accepted Accounting Principles	TDR	Troubled Debt Restructuring
GSE	Government-Sponsored Enterprise	TEB	Tax Equivalent Basis
HFI	Held-for-Investment	XBRL	eXtensible Business Reporting Language
HFS	Held-for-Sale		

Table of Contents

Item 1. Financial Statements

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015
	(in thousands, except per share amounts)	
Assets:		
Cash and due from banks	\$ 136,685	\$ 133,709
Interest-bearing deposits in other financial institutions	894,292	90,931
Cash and cash equivalents	1,030,977	224,640
Money market investments	5,920	122
Investment securities - measured at fair value; amortized cost of \$1,294 at March 31, 2016 and \$1,389 at December 31, 2015	1,381	1,481
Investment securities - AFS, at fair value; amortized cost of \$1,979,368 at March 31, 2016 and \$1,966,034 at December 31, 2015	2,012,820	1,982,523
Investment securities - HTM, at amortized cost; fair value of \$22,024 at March 31, 2016 and \$0 at December 31, 2015	21,514	—
Investments in restricted stock, at cost	58,235	58,111
Loans - HFS	23,603	23,809
Loans - HFI, net of deferred loan fees and costs	11,217,860	11,112,854
Less: allowance for credit losses	(119,227)	(119,068)
Net loans held for investment	11,098,633	10,993,786
Premises and equipment, net	119,759	118,535
Other assets acquired through foreclosure, net	52,776	43,942
Bank owned life insurance	163,388	162,458
Goodwill	288,943	289,638
Other intangible assets, net	15,019	15,716
Deferred tax assets, net	73,979	86,352
Other assets	281,092	273,976
Total assets	\$ 15,248,039	\$ 14,275,089
Liabilities:		
Deposits:		
Non-interest-bearing demand	\$ 4,635,172	\$ 4,093,976
Interest-bearing	8,446,483	7,936,648
Total deposits	13,081,655	12,030,624
Customer repurchase agreements	36,106	38,155
Other borrowings	200	150,000
Qualifying debt	210,447	210,328
Other liabilities	259,468	254,480
Total liabilities	13,587,876	12,683,587
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock - par value \$0.0001; 200,000,000 authorized; 104,799,300 shares issued at March 31, 2016 and 104,082,230 at December 31, 2015	10	10
Additional paid in capital	1,328,678	1,323,473
Treasury stock, at cost (1,285,618 shares at March 31, 2016 and 995,186 shares at December 31, 2015)	(25,828)	(16,879)

Edgar Filing: WESTERN ALLIANCE BANCORPORATION - Form 10-Q

Accumulated other comprehensive income	33,333	22,260
Retained earnings	323,970	262,638
Total stockholders' equity	1,660,163	1,591,502
Total liabilities and stockholders' equity	\$ 15,248,039	\$ 14,275,089

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,	
	2016	2015
	(in thousands, except per share amounts)	
Interest and dividend income:		
Loans, including fees	\$ 139,786	\$ 100,391
Investment securities	12,026	8,513
Dividends	2,013	2,005
Other	431	53
Total interest income	154,256	110,962
Interest expense:		
Deposits	6,243	5,146
Qualifying debt	2,184	441
Other borrowings	102	2,244
Other	16	23
Total interest expense	8,545	7,854
Net interest income	145,711	103,108
Provision for credit losses	2,500	700
Net interest income after provision for credit losses	143,211	102,408
Non-interest income:		
Service charges and fees	4,466	2,889
Lending related income and gains (losses) on sale of loans, net	3,941	201
Card income	1,013	813
Gain (loss) on sales of investment securities, net	1,001	589
Income from bank owned life insurance	930	977
Other income	1,782	773
Total non-interest income	13,133	6,242
Non-interest expense:		
Salaries and employee benefits	44,855	32,541
Occupancy	6,257	4,813
Legal, professional, and directors' fees	5,572	3,995
Data processing	4,561	3,126
Insurance	3,323	2,090
Loan and repossessed asset expenses	902	1,090
Card expense	887	474
Intangible amortization	697	281
Marketing	657	377
Net (gain) loss on sales / valuations of repossessed and other assets	(302)	(351)
Acquisition / restructure expense	—	159
Other expense	8,084	5,438
Total non-interest expense	75,493	54,033
Income before provision for income taxes	80,851	54,617
Income tax expense	19,519	14,234
Net income	61,332	40,383
Dividends on preferred stock	—	176
Net income available to common stockholders	\$ 61,332	\$ 40,207

Earnings per share available to common stockholders:

Basic	0.60	0.46
Diluted	0.60	0.45
Weighted average number of common shares outstanding:		
Basic	101,895	87,941
Diluted	102,538	88,452
Dividends declared per common share	\$—	\$—

See accompanying Notes to Unaudited Consolidated Financial Statements.

5

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Net income	\$61,332	\$40,383
Other comprehensive income (loss), net:		
Unrealized gain (loss) on AFS securities, net of tax effect of \$(4,501) and \$(4,277), respectively	11,019	7,153
Unrealized gain (loss) on SERP, net of tax effect of \$(2) and zero, respectively	6	—
Unrealized gain (loss) on junior subordinated debt, net of tax effect of \$(453) and \$115, respectively	759	(194)
Realized (gain) loss on sale of AFS securities included in income, net of tax effect of \$290 and \$220, respectively	(711)	(369)
Net other comprehensive income (loss)	11,073	6,590
Comprehensive income	\$72,405	\$46,973

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Preferred Stock Shares	Amount	Common Stock Outstanding Shares	Amount	Additional Paid in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
(all amounts in thousands)									
Balance, January 1, 2015 (1)	71	\$70,500	88,691	\$ 9	\$837,603	\$(9,276)	\$ 32,948	\$69,144	\$ 1,000,928
Net income	—	—	—	—	—	—	—	40,383	40,383
Exercise of stock options	—	—	51	—	793	—	—	—	793
Restricted stock, performance stock units, and other grants, net	—	—	691	—	9,699	—	—	—	9,699
Restricted stock surrendered	—	—	(253)	—	—	(6,888)	—	—	(6,888)
Dividends on preferred stock	—	—	—	—	—	—	—	(176)	(176)
Other comprehensive income, net	—	—	—	—	—	—	6,590	—	6,590
Balance, March 31, 2015	71	\$70,500	89,180	\$ 9	\$848,095	\$(16,164)	\$ 39,538	\$109,351	\$ 1,051,329
Balance, December 31, 2015	—	\$—	103,087	\$ 10	\$1,323,473	\$(16,879)	\$ 22,260	\$262,638	\$1,591,502
Net income	—	—	—	—	—	—	—	61,332	61,332
Exercise of stock options	—	—	39	—	305	—	—	—	305
Restricted stock, performance stock units, and other grants, net	—	—	678	—	4,900	—	—	—	4,900
Restricted stock surrendered	—	—	(290)	—	—	(8,949)	—	—	(8,949)
Other comprehensive income, net	—	—	—	—	—	—	11,073	—	11,073
Balance, March 31, 2016	—	\$—	103,514	\$ 10	\$1,328,678	\$(25,828)	\$ 33,333	\$323,970	\$1,660,163

(1) As adjusted, see Treasury Shares section in "Note 1. Summary of Significant Accounting Policies" for further discussion.

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,	
	2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income	\$61,332	\$40,383
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	2,500	700
Depreciation and amortization	2,606	2,115
Stock-based compensation	5,394	4,129
Excess tax benefit of stock-based compensation	(3,871)	(4,579)
Deferred income taxes	4,887	208
Amortization of net premiums for investment securities	2,766	2,030
Accretion of fair market value adjustments on loans acquired from business combinations	(5,315)	(1,478)
Accretion and amortization of fair market value adjustments on other assets and liabilities acquired from business combinations, net	774	78
Income from bank owned life insurance	(930)	(977)
(Gains) / Losses on:		
Sales of investment securities	(1,001)	(589)
Sale of loans	(2,671)	(201)
Other assets acquired through foreclosure, net	(160)	(1,115)
Valuation adjustments of other repossessed assets, net	(177)	786
Sale of premises, equipment, and other assets, net	35	(22)
Changes in:		
Other assets	21,271	12,555
Other liabilities	(16,125)	18,564
Net cash provided by operating activities	71,315	72,587
Cash flows from investing activities:		
Investment securities - measured at fair value		
Principal pay downs and maturities	95	65
Investment securities - AFS		
Purchases	(128,101)	(1,000)
Principal pay downs and maturities	78,751	53,172
Proceeds from sales	34,304	78,040
Investment securities - HTM		
Purchases	(21,514)	—
Purchase of investment tax credits	(6,782)	(9,381)
(Purchase) sale of money market investments, net	(5,798)	(212)
(Purchase) liquidation of restricted stock	(124)	(26,499)
Loan fundings and principal collections, net	(105,402)	(440,408)
Purchase of premises, equipment, and other assets, net	(3,086)	(2,237)
Proceeds from sale of other real estate owned and repossessed assets, net	2,141	1,440
Net cash used in investing activities	(155,516)	(347,020)

Table of Contents

Three Months Ended
March 31,
2016 2015
(in thousands)

Cash flows from financing activities:		
Net increase (decrease) in deposits	\$1,051,031	\$731,374
Net (decrease) increase in borrowings	(151,849)	(122,664)
Proceeds from exercise of common stock options	305	793
Cash paid for tax withholding on vested restricted stock	(8,949)	(6,888)
Cash dividends paid on preferred stock	—	(176)
Net cash provided by financing activities	890,538	602,439
Net increase (decrease) in cash and cash equivalents	806,337	328,006
Cash and cash equivalents at beginning of period	224,640	164,396
Cash and cash equivalents at end of period	\$1,030,977	\$492,402
Supplemental disclosure:		
Cash paid during the period for:		
Interest	\$13,892	\$11,499
Income tax (refunds) payments	(6,278)	1,657
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	10,638	7,720
Change in unfunded LIHTC and SBIC commitments	26,961	(2,000)
Change in unrealized gain (loss) on AFS securities, net of tax	10,308	6,784
Change in unrealized gain (loss) on TRUP securities, net of tax	759	(194)
Change in unfunded obligations	19,930	30
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 is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, and online banking products and services through its wholly-owned banking subsidiary, WAB.

WAB operates the following full-service banking divisions: ABA in Arizona, BON and FIB in Nevada, Bridge in Northern California, and TPB in Southern California. The Company also serves business customers through a national platform of specialized financial services including AAB, Corporate Finance, Equity Fund Resources, Life Sciences Group, Mortgage Warehouse Lending, Public and Nonprofit Finance, Renewable Resource Group, Resort Finance, and Technology Finance. In addition, the Company has one non-bank subsidiary, LVSP, which holds and manages certain non-performing loans and OREO.

Basis of presentation

The accounting and reporting policies of the Company are in accordance with GAAP and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in the 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. Management evaluates these estimates and judgments on an ongoing basis and bases its estimates on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from those estimates and assumptions used in the Unaudited Consolidated Financial Statements and related notes. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; estimated cash flows related to PCI loans; fair value determinations related to acquisitions and other assets and liabilities carried at fair value; and accounting for income taxes.

Principles of consolidation

As of March 31, 2016, WAL has ten wholly-owned subsidiaries: WAB, LVSP, and eight unconsolidated subsidiaries used as business trusts in connection with the issuance of trust-preferred securities.

The Bank has the following significant wholly-owned subsidiaries: WAB Investments, Inc., BON Investments, Inc., and TPB Investments, Inc., which hold certain investment securities, municipal and nonprofit loans, and leases; and BW Real Estate, Inc., which operates as a real estate investment trust and holds certain of WAB's real estate loans and related securities.

The Company does not have any other significant entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in the Consolidated Financial Statements as of December 31, 2015 and for the three months ended March 31, 2015 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, 2016 and 2015 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, 2015.

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

Business combinations

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

Investment securities

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

In May 2014, management reassessed its intent to hold certain CDOs classified as HTM, which necessitated a reclassification of all of the Company's HTM securities to AFS at the date of the transfer. As an extended period of time has passed since this reclassification was made, management believes that the Company is again able to assert as of March 31, 2016 that it has both the intent and ability to hold certain securities classified as HTM to maturity. See "Note 2. Investment Securities" of these Notes to Unaudited Consolidated Financial Statements for additional detail related to HTM securities.

Securities classified as AFS or trading securities measured at fair value are reported as an asset in the Consolidated Balance Sheet at their estimated fair value. As the fair value of AFS securities changes, the changes are reported net of income tax as an element of OCI, except for other-than-temporarily-impaired securities. When AFS securities are sold, the unrealized gain or loss is reclassified from OCI to non-interest income. The changes in the fair values of trading securities are reported in non-interest income. Securities classified as AFS are both equity and debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, decline in credit quality, and regulatory capital considerations.

Interest income is recognized based on the coupon rate and increased by accretion of discounts earned or decreased by the amortization of premiums paid over the contractual life of the security, adjusted for prepayment estimates, using the interest method.

In estimating whether there are any OTTI losses, management considers the 1) length of time and the extent to which the fair value has been less than amortized cost; 2) financial condition and near term prospects of the issuer; 3) impact

of changes in market interest rates; and 4) intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value and whether it is not more likely than not the Company would be required to sell the security.

Declines in the fair value of individual AFS debt securities that are deemed to be other-than-temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the

Table of Contents

Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings; and 2) interest rate, market, or other factors is recognized in other comprehensive income or loss.

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

Restricted stock

On January 30, 2015, WAB became a member of the Federal Reserve System and, as part of its membership, is required to maintain stock in the FRB in a specified ratio to its capital. In addition, WAB is a member of the FHLB system and, accordingly, maintains an investment in capital stock of the FHLB based on the borrowing capacity used. The Bank also maintains an investment in its primary correspondent bank. All of these investments are considered equity securities with no actively traded market. Therefore, the shares are considered restricted investment securities. These investments are carried at cost, which is equal to the value at which they may be redeemed. The dividend income received from the stock is reported in interest income. The Company conducts a periodic review and evaluation of its restricted stock to determine if any impairment exists. No impairment has been recorded to date.

Loans, held for sale

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

Loans, held for investment

The Company generally holds loans for investment and has the intent and ability to hold loans until their maturity. Therefore, they are reported at book value. Net loans are stated at the amount of unpaid principal, adjusted for net deferred fees and costs, purchase accounting fair value adjustments, and an allowance for credit losses. In addition, the book value of loans that are subject to a fair value hedge is adjusted for changes in value attributable to the effective portion of the hedged benchmark interest rate risk.

The Company may also acquire loans through a business combination. These acquired loans are recorded at estimated fair value on the date of purchase, which is comprised of unpaid principal adjusted for estimated credit losses and interest rate fair value adjustments. Loans are evaluated individually to determine if there has been credit deterioration since origination. Such loans may then be aggregated and accounted for as a pool of loans based on common characteristics. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over the cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan's yield over the remaining life.

Subsequent decreases to cash flows expected to be collected are recognized as impairment. The Company may not carry over or create a valuation allowance in the initial accounting for loans acquired under these circumstances. For purchased loans that are not deemed impaired, fair value adjustments attributable to both credit and interest rates are accreted (or amortized) over the contractual life of the individual loan. For additional information, see "Note 3. Loans, Leases and Allowance for Credit Losses" of these Notes to Unaudited Consolidated Financial Statements.

Loan fees collected for the origination of loans less direct loan origination costs (net deferred loan fees) are amortized over the contractual life of the loan through interest income. If the loan has scheduled payments, the amortization of

the net deferred loan fee is calculated using the interest method over the contractual life of the loan. If the loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer's unused line of credit and fees

Table of Contents

related to standby letters of credit are recognized over the commitment period. When loans are repaid, any remaining unamortized balances of premiums, discounts, or net deferred fees are recognized as interest income.

Non-accrual loans: 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. The Company ceases accruing interest income when the loan has become delinquent by more than 90 days or when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if the loans are well secured by collateral and in the process of collection. 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 non-accrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed and, the Company makes a loan-level decision to apply either the cash basis or cost recovery method. The Company recognizes income on a cash basis only for those non-accrual loans for which the collection of the remaining principal balance is not in doubt. Under the cost recovery method, subsequent payments received from the customer are applied to principal and generally no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required.

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

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

Allowance for credit losses

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

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

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

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: 1) the Company's

Table of Contents

historical loss experience; 2) levels of and trends in delinquencies and impaired loans; 3) levels of and trends in charge-offs and recoveries; 4) trends in volume and terms of loans; 5) changes in underwriting standards or lending policies; 6) experience, ability, depth of lending staff; 7) national and local economic trends and conditions; 8) changes in credit concentrations; 9) out-of-market exposures; 10) changes in quality of loan review system; and 11) changes in the value of underlying collateral.

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

Other assets acquired through foreclosure

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

Goodwill and other intangible assets

The Company records as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. The Company performs its annual goodwill and intangibles impairment tests as of October 1 each year, or more often if events or circumstances indicate that the carrying value may not be recoverable. During the three months ended March 31, 2016 and 2015, there were no events or circumstances that indicated that an interim impairment test of goodwill or other intangible assets was necessary.

Treasury Shares

Effective January 1, 2016, the Company has separately presented treasury shares, which represents shares surrendered to the Company to satisfy statutory payroll tax withholding obligations arising from the vesting of employee restricted stock awards. Prior period amounts have been adjusted to reflect this new presentation, with no change in total stockholders' equity. The Company carries treasury shares at cost.

Derivative financial instruments

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

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

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk are recorded in current-period earnings. For a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in

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

Table of Contents

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

Derivative instruments that are not designated as hedges, so called free-standing derivatives, are reported in the Consolidated Balance Sheet at fair value and the changes in fair value are recognized in earnings as non-interest income during the period of change.

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

Income taxes

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

Net deferred tax assets are recorded to the extent that these assets will more-likely-than-not be realized. In making these determinations, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, tax planning strategies, projected future taxable income, and recent operating results. If it is determined that deferred income tax assets to be realized in the future are in excess of their net recorded amount, an adjustment to the valuation allowance will be recorded, which will reduce the Company's provision for income taxes. A tax benefit from an unrecognized tax benefit may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including related appeals or litigation, based on technical merits. Income tax benefits must meet a more-likely-than-not recognition threshold at the effective date to be recognized.

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

Off-balance sheet instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instrument arrangements consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Financial Statements when they are funded. They involve, to varying degrees, elements of credit risk

in excess of amounts recognized in the Consolidated Balance Sheet. Losses would be experienced when the Company is contractually obligated to make a payment under these instruments and must seek repayment from the borrower, which may not be as financially sound in the current period as they were when the commitment was originally made. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of

Table of Contents

default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

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

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

Fair values of financial instruments

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

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

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

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

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who may purchase the asset or assume the liability rather than an entity-specific measure. When market assumptions are available, ASC 820 requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

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

Table of Contents

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, 2016 and 2015. The estimated fair value amounts for March 31, 2016 and 2015 have been measured as of period-end, and have not been re-evaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

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

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

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

Cash and cash equivalents

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

Money market investments

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

Investment securities

The fair values of CRA investments, 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 engages a third party to estimate the future cash flows and discount rate using third party quotes adjusted based on assumptions a market participant would assume necessary for each specific security. 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 Federal Reserve System and the FHLB and, accordingly, maintains investments in the capital stock of the FRB and the FHLB. WAB also maintains an investment in its primary correspondent bank. These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of its restricted stock to determine if any impairment exists. The fair values of these investments have been categorized as Level 2 in the fair value hierarchy.

Loans

The fair value of loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality and adjustments that the Company believes a market participant would consider in determining fair value based on a third party independent valuation. As a result, the fair value for certain loans is categorized as Level 2 in the fair value hierarchy, excluding impaired loans which are categorized as Level 3.

Accrued interest receivable and payable

The carrying amounts reported in the Consolidated Balance Sheets for accrued interest receivable and payable approximate their fair value.

Table of Contents

Derivative financial instruments

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

Deposits

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

FHLB advances and other borrowed funds

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. Other borrowings have been categorized as Level 3 in the fair value hierarchy.

Subordinated debt

The fair value of subordinated debt is based on the market rate for the respective subordinated debt security. Subordinated debt has been categorized as Level 3 in the fair value hierarchy.

Junior subordinated debt

Junior subordinated debt is valued by comparing the BB Financial over SWAP index and discounting the contractual cash flows on the Company's debt using these market rates. Junior subordinated debt has been categorized as Level 3 in the fair value hierarchy.

Off-balance sheet instruments

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

Recent accounting pronouncements

In June 2014, the FASB issued guidance within ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in ASU 2014-12 to Topic 718, Compensation - Stock Compensation, provide explicit guidance on whether to treat a performance target that could be achieved after the requisite service period as a performance condition that affects vesting or as a nonvesting condition that affects the grant-date fair value of an award. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. An entity may elect to apply the amendments either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued guidance within ASU 2014-15, Presentation of Financial Statements - Going Concern. The amendments in ASU 2014-15 to Subtopic 205-40, Going Concern, provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2015, the FASB issued guidance within ASU 2015-02, Amendments to the Consolidation Analysis. The amendments in ASU 2015-02 to Topic 810, Consolidation, change the analysis that a reporting entity must perform to

determine whether it should consolidate certain types of legal entities. Specifically, the amendments modify the evaluation of

18

Table of Contents

whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships, and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. An entity may apply the amendments in this Update using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or, may apply the amendments retrospectively. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

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

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

In February 2016, the FASB issued guidance within ASU 2016-02, Leases. The amendments in ASU 2016-02 to Topic 842, Leases, require lessees to recognize the lease assets and lease liabilities arising from operating leases in the statement of financial position. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Management is in the process of evaluating the effects that the standard is expected to have on the Company's Consolidated Financial Statements and related disclosures.

In March 2016, the FASB issued guidance within ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendments in ASU 2016-05 to Topic 815, Derivatives and Hedging, clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. An entity has the option to apply the amendments in this Update on either a prospective basis or a modified retrospective basis. The amendments in this Update are effective for financial

statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued guidance within ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendments in ASU 2016-09 to Topic 718, Compensation - Stock Compensation, require recognition of all excess tax benefits and tax deficiencies through income tax expense or benefit in the income statement. Other amendments in this ASU include guidance on the classification of share-based payment transactions in the statement of cash flows and an option to account for forfeitures of share-based awards as they occur rather than estimating the compensation cost based on the number of awards that are expected to vest. The amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period.

Table of Contents

Effective January 1, 2016, the Company elected early adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. As a result of adoption, the Company recognized a \$3.9 million tax benefit as a reduction of income tax expense. The Company has elected to continue to estimate compensation cost based on the number of awards that are expected to vest. The adoption of this guidance did not have a significant impact on the Company's Consolidated Statement of Cash Flows.

2. INVESTMENT SECURITIES

The carrying amounts and fair values of investment securities at March 31, 2016 and December 31, 2015 are summarized as follows:

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity				
Tax-exempt bonds	\$21,514	\$ 510	\$ —	\$22,024
Available-for-sale				
Collateralized debt obligations	\$50	\$ 9,075	\$(49)	\$9,076
Commercial MBS issued by GSEs	19,051	458	—	19,509
Corporate debt securities	12,768	596	—	13,364
CRA investments	34,853	236	—	35,089
Municipal obligations	327,485	15,836	(288)	343,033
Preferred stock	83,959	2,653	(1,380)	85,232
Private label commercial MBS	3,871	11	—	3,882
Private label residential MBS	344,867	689	(1,829)	343,727
Residential MBS issued by GSEs	1,117,968	17,951	(343)	1,135,576
Trust preferred securities	32,000	—	(10,206)	21,794
U.S. treasury securities	2,496	42	—	2,538
Total AFS securities	\$1,979,368	\$ 47,547	\$(14,095)	\$2,012,820
Securities measured at fair value				
Residential MBS issued by GSEs				\$1,381
	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Available-for-sale				
Collateralized debt obligations	\$50	\$ 10,059	\$(49)	\$10,060
Commercial MBS issued by GSEs	19,147	72	(105)	19,114
Corporate debt securities	12,769	482	—	13,251
CRA investments	34,722	—	(37)	34,685
Municipal obligations	320,087	14,743	—	334,830
Preferred stock	108,417	4,286	(1,467)	111,236
Private label commercial MBS	4,685	6	—	4,691
Private label residential MBS	261,530	5	(4,407)	257,128
Residential MBS issued by GSEs	1,169,631	5,254	(4,664)	1,170,221
Trust preferred securities	32,000	—	(7,686)	24,314
U.S. treasury securities	2,996	—	(3)	2,993

Total AFS securities	\$1,966,034	\$ 34,907	\$(18,418)	\$1,982,523
----------------------	-------------	-----------	-------------	-------------

Securities measured at fair value
Residential MBS issued by GSEs

\$1,481

20

Table of Contents

For additional information on the fair value changes of securities measured at fair value, see the trading securities table in "Note 13. Fair Value Accounting" of these Notes to Unaudited Consolidated Financial Statements.

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

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

The Company has reviewed securities for which there is an unrealized loss in accordance with its accounting policy for OTTI described above and determined that there were no impairment charges for the three months ended March 31, 2016 and 2015. The Company does not consider any securities to be other-than-temporarily impaired as of March 31, 2016 and December 31, 2015. No assurance can be made that OTTI will not occur in future periods. Information pertaining to securities with gross unrealized losses at March 31, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	March 31, 2016					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale						
Collateralized debt obligations	\$49	\$1	\$—	\$—	\$49	\$1
Municipal obligations	288	12,229	—	—	288	12,229
Preferred stock	278	15,722	1,102	14,749	1,380	30,471
Private label residential MBS	1,148	124,073	681	30,113	1,829	154,186
Residential MBS issued by GSEs	18	3,502	325	36,566	343	40,068
Trust preferred securities	—	—	10,206	21,794	10,206	21,794
Total AFS securities	\$1,781	\$155,527	\$12,314	\$103,222	\$14,095	\$258,749
	December 31, 2015					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale						
Collateralized debt obligations	\$49	\$1	\$—	\$—	\$49	\$1
Commercial MBS issued by GSEs	105	17,051	—	—	105	17,051
CRA investments	37	24,729	—	—	37	24,729
Preferred stock	377	10,542	1,090	14,761	1,467	25,303

Edgar Filing: WESTERN ALLIANCE BANCORPORATION - Form 10-Q

Private label residential MBS	3,733	226,720	674	30,372	4,407	257,092
Residential MBS issued by GSEs	3,566	536,515	1,098	38,338	4,664	574,853
Trust preferred securities	—	—	7,686	24,314	7,686	24,314
U.S. treasury securities	3	2,006	—	—	3	2,006
Total AFS securities	\$7,870	\$817,564	\$10,548	\$107,785	\$18,418	\$925,349

21

Table of Contents

At March 31, 2016 and December 31, 2015, 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, 2016 was 82, compared to 146 at December 31, 2015. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysis reports. Since material downgrades have not occurred and management does not intend to sell the debt securities in an unrealized loss position in the foreseeable future, none of the securities described in the above table or in this paragraph were deemed to be OTTI. The preferred stock and trust preferred securities have yields based on floating rate LIBOR, which are highly correlated to the federal funds rate and have been negatively affected by the low rate environment. This has resulted in unrealized losses for these securities.

The amortized cost and fair value of securities as of March 31, 2016, by contractual maturities, are shown below. MBS are shown separately as individual MBS are comprised of pools of loans with varying maturities. Therefore, these securities are listed separately in the maturity summary.

	March 31, 2016	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held-to-maturity		
After ten years	\$21,514	\$22,024
Total HTM securities	\$21,514	\$22,024
Available-for-sale		
Due in one year or less	\$56,196	\$56,717
After one year through five years	66,599	70,125
After five years through ten years	62,125	64,949
After ten years	308,691	318,335
Mortgage-backed securities	1,485,757	1,502,694
Total AFS securities	\$1,979,368	\$2,012,820

Table of Contents

The following tables summarize the carrying amount of the Company's investment ratings position as of March 31, 2016 and December 31, 2015:

March 31, 2016

	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Held-to-maturity								
Tax-exempt bonds	\$—	\$—	\$—	\$—	\$—	\$—	\$21,514	\$21,514
Available-for-sale								
Collateralized debt obligations	\$—	\$—	\$—	\$—	\$—	\$9,076	\$—	\$9,076
Commercial MBS issued by GSEs	—	2,112	—	—	—	—	17,397	19,509
Corporate debt securities	—	—	2,713	5,642	5,009	—	—	13,364
CRA investments	—	—	—	—	—	—	35,089	35,089
Municipal obligations	7,905	—	197,910	130,866	6,172	180	—	343,033
Preferred stock	—	—	—	—	58,592	18,808	7,832	85,232
Private label commercial MBS	3,882	—	—	—	—	—	—	3,882
Private label residential MBS	299,998	—	36,570	2,929	1,650	2,580	—	343,727
Residential MBS issued by GSEs	—	1,135,576	—	—	—	—	—	1,135,576
Trust preferred securities	—	—	—	—	21,794	—	—	21,794
U.S. treasury securities	—	2,538	—	—	—	—	—	2,538
Total AFS securities (1)	\$311,785	\$1,140,226	\$237,193	\$139,437	\$93,217	\$30,644	\$60,318	\$2,012,820

Securities measured at fair value

Residential MBS issued by GSEs	\$—	\$1,381	\$—	\$—	\$—	\$—	\$—	\$1,381
-----------------------------------	-----	---------	-----	-----	-----	-----	-----	---------

(1) The Company uses the average credit rating of the combination of S&P, Moody's, and Fitch, where ratings differ.

December 31, 2015

	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Available-for-sale								
Collateralized debt obligations	\$—	\$—	\$—	\$—	\$—	\$10,060	\$—	\$10,060
Commercial MBS issued by GSEs	—	19,114	—	—	—	—	—	19,114
Corporate debt securities	—	—	2,721	5,489	5,041	—	—	13,251
CRA investments	—	—	—	—	—	—	34,685	34,685
Municipal obligations	7,949	—	180,460	131,110	6,243	180	8,888	334,830
Preferred stock	—	—	—	—	79,955	23,655	7,626	111,236
Private label commercial MBS	4,691	—	—	—	—	—	—	4,691
Private label residential MBS	235,605	—	40	3,186	1,750	2,705	13,842	257,128
Residential MBS issued by GSEs	—	1,170,221	—	—	—	—	—	1,170,221
Trust preferred securities	—	—	—	—	24,314	—	—	24,314
U.S. treasury securities	—	2,993	—	—	—	—	—	2,993
Total AFS securities (1)	\$248,245	\$1,192,328	\$183,221	\$139,785	\$117,303	\$36,600	\$65,041	\$1,982,523

Securities measured at fair value

Residential MBS issued by GSEs	\$—	\$1,481	\$—	\$—	\$—	\$—	\$—	\$1,481
--------------------------------	-----	---------	-----	-----	-----	-----	-----	---------

(1) The Company uses the average credit rating of the combination of S&P, Moody's, and Fitch, where ratings differ. Securities with carrying amounts of approximately \$729.4 million and \$830.7 million at March 31, 2016 and December 31, 2015, 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,	
	2016	2015
Gross gains	\$2,057	\$1,048
Gross losses	(1,056)	(459)
Net gains on sales of investment securities	\$1,001	\$589

Table of Contents

3. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

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

	March 31, 2016	December 31, 2015
	(in thousands)	
Commercial and industrial	\$5,240,786	\$5,114,257
Commercial real estate - non-owner occupied	2,290,969	2,283,536
Commercial real estate - owner occupied	2,032,328	2,083,285
Construction and land development	1,179,923	1,133,439
Residential real estate	302,398	322,939
Commercial leases	137,756	148,493
Consumer	33,700	26,905
Loans, net of deferred loan fees and costs	11,217,860	11,112,854
Allowance for credit losses	(119,227)	(119,068)
Total loans HFI	\$11,098,633	\$10,993,786

Net deferred loan fees and costs as of March 31, 2016 and December 31, 2015 total \$19.8 million and \$19.2 million, respectively, which is a reduction in the carrying value of loans. Net unamortized discounts on loans total \$7.3 million and \$8.2 million as of March 31, 2016 and December 31, 2015, respectively. Total loans held for investment are also net of interest rate and credit marks on acquired loans totaling \$33.5 million and \$40.5 million as of March 31, 2016 and December 31, 2015, respectively, which is a reduction in the carrying value of acquired loans.

As of March 31, 2016 and December 31, 2015, the Company also had \$23.6 million and \$23.8 million of HFS loans, respectively.

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

	March 31, 2016					Total Past Due	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	\$2,029,224	\$1,012	\$351	\$1,741	\$3,104	\$2,032,328	
Non-owner occupied	2,123,928	634	2,342	642	3,618	2,127,546	
Multi-family	163,423	—	—	—	—	163,423	
Commercial and industrial							
Commercial	5,232,238	455	2,803	5,290	8,548	5,240,786	
Leases	137,619						