WESTERN ALLIANCE BANCORPORATION
Form 10-Q
July 30, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014
or

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

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

Delaware (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)	85004 (Zip Code)

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

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

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 ý
Common stock issued and outstanding: 87,771,721 shares as of July 25, 2014.

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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 unaudited 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	LVSP	Las Vegas Sunset Properties
ABA	Alliance Bank of Arizona	TPB	Torrey Pines Bank
Company	Western Alliance Bancorporation and Subsidiaries	WAB or Bank	Western Alliance Bank
BON	Bank of Nevada	WAEF	Western Alliance Equipment Finance
FIB	First Independent Bank	WAL or Parent	Western Alliance Bancorporation

TERMS:

AFS	Available-for-Sale	GAAP	U.S. Generally Accepted Accounting Principles
AMT	Alternative Minimum Tax	GSE	Government-Sponsored Enterprise
ALCO	Asset and Liability Management Committee	HTM	Held-to-Maturity
AOCI	Accumulated Other Comprehensive Income	ICS	Insured Cash Sweep Service
ARPS	Adjustable-Rate Preferred Stock	IRC	Internal Revenue Code
ASC	FASB Accounting Standards Codification	ISDA	International Swaps and Derivatives Association
ASU	Accounting Standards Update	LIBOR	London Interbank Offered Rate
ATM	At-the-Market	LIHTC	Low-Income Housing Tax Credit
BOLI	Bank Owned Life Insurance	MBS	Mortgage-Backed Securities
CDARS	Certificate Deposit Account Registry Service	NOL	Net Operating Loss
CDO	Collateralized Debt Obligation	NPV	Net Present Value
CEO	Chief Executive Officer	NUBILs	Net Unrealized Built In Losses
CFO	Chief Financial Officer	OCI	Other Comprehensive Income
CRA	Community Reinvestment Act	OREO	Other Real Estate Owned
CRE	Commercial Real Estate	OTTI	Other-than-Temporary Impairment
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 June 30, 2014	TEB	Tax Equivalent Basis
FRB	Federal Reserve Bank	XBRL	eXtensible Business Reporting Language
FVO	Fair Value Option		

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

	June 30, 2014	December 31, 2013
	(Unaudited)	
	(in thousands, except per share amounts)	
Assets:		
Cash and due from banks	$179,930	$134,906
Interest-bearing deposits in other financial institutions	199,352	170,608
Cash and cash equivalents	379,282	305,514
Money market investments	1,407	2,632
Investment securities—measured at fair value	2,793	3,036
Investment securities—AFS, at fair value; amortized cost of $1,563,735 at June 30, 2014 and $1,404,048 at December 31, 2013	1,577,272	1,370,696
Investment securities—HTM, at amortized cost; fair value of $0 at June 30, 2014 and $281,704 at December 31, 2013	—	283,006
Investments in restricted stock, at cost	25,275	30,186
Loans, net of deferred loan fees and costs	7,544,567	6,801,415
Less: allowance for credit losses	(105,937)	(100,050)
Total loans	7,438,630	6,701,365
Premises and equipment, net	109,603	105,565
Other assets acquired through foreclosure, net	59,292	66,719
Bank owned life insurance	142,470	140,562
Goodwill	23,224	23,224
Other intangible assets, net	3,251	4,150
Deferred tax assets, net	68,287	80,688
Prepaid expenses	4,060	4,778
Other assets	188,741	185,221
Total assets	$10,023,587	$9,307,342
Liabilities:		
Deposits:		
Non-interest-bearing demand	$2,278,843	$2,199,983
Interest-bearing	6,190,662	5,638,222
Total deposits	8,469,505	7,838,205
Customer repurchase agreements	53,688	71,192
Other borrowings	337,532	341,096
Junior subordinated debt, at fair value	42,711	41,858
Other liabilities	162,487	159,493
Total liabilities	9,065,923	8,451,844
Commitments and contingencies (Note 11)		
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 June 30, 2014 and December 31, 2013	141,000	141,000
Common stock - par value $0.0001; 200,000,000 authorized; 87,774,166 shares issued and outstanding at June 30, 2014 and 87,186,403 at December 31, 2013	9	9

Additional paid in capital	803,376	797,146
Retained earnings (accumulated deficit)	4,807	(61,111)
Accumulated other comprehensive income (loss)	8,472	(21,546)
Total stockholders’ equity	957,664	855,498
Total liabilities and stockholders’ equity	$10,023,587	$9,307,342

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	$90,583	$81,093	$177,387	$155,818
Investment securities	9,926	6,843	20,153	13,804
Dividends	968	979	2,066	2,176
Other	496	370	1,068	595
Total interest income	101,973	89,285	200,674	172,393
Interest expense:				
Deposits	4,930	3,929	9,595	7,661
Other borrowings	2,686	2,727	5,505	5,399
Junior subordinated debt	443	455	864	921
Customer repurchase agreements	16	22	35	57
Total interest expense	8,075	7,133	15,999	14,038
Net interest income	93,898	82,152	184,675	158,355
Provision for credit losses	507	3,481	4,007	8,920
Net interest income after provision for credit losses	93,391	78,671	180,668	149,435
Non-interest income:				
Service charges and fees	2,737	2,449	5,267	4,983
Income from bank owned life insurance	959	1,036	1,908	2,072
(Loss) gain on sales of investment securities, net	(163)	(5)	203	143
Unrealized gains (losses) on assets / liabilities measured at fair value, net	235	(3,290)	(1,041)	(3,761)
Bargain purchase gain from acquisition	—	10,044	—	10,044
Other fee revenue	860	943	1,968	1,900
Other income	1,145	585	2,303	1,180
Total non-interest income	5,773	11,762	10,608	16,561
Non-interest expense:				
Salaries and employee benefits	31,751	28,100	61,306	54,675
Occupancy	4,328	4,753	9,010	9,599
Legal, professional and directors’ fees	4,192	2,550	7,831	5,572
Data processing	2,401	2,175	5,075	4,040
Insurance	2,087	2,096	4,480	4,466
Loan and repossessed asset expenses	927	721	2,161	2,317
Customer service	708	717	1,328	1,360
Marketing	506	710	1,065	1,378
Net loss (gain) on sales / valuations of repossessed and other assets	184	(1,124)	(2,363)	(605)
Intangible amortization	302	597	899	1,194
Merger / restructure expenses	26	2,620	183	2,815
Other expense	5,004	4,616	11,190	8,649
Total non-interest expense	52,416	48,531	102,165	95,460
Income from continuing operations before provision for income taxes	46,748	41,902	89,111	70,536
Income tax expense	10,706	7,661	21,330	15,448
Income from continuing operations	36,042	34,241	67,781	55,088

Loss from discontinued operations, net of tax	(504)	(169)	(1,158)	(131)
Net income	35,538	34,072	66,623	54,957
Dividends on preferred stock	352	353	705	705
Net income available to common stockholders	$35,186	$33,719	$65,918	$54,252

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Earnings per share from continuing operations:				
Basic	$0.41	$0.40	$0.78	$0.64
Diluted	0.41	0.39	0.77	0.63
Loss per share from discontinued operations:				
Basic	—	(0.01)	(0.02)	(0.01)
Diluted	(0.01)	—	(0.01)	—
Earnings per share applicable to common stockholders:				
Basic	0.41	0.39	0.76	0.63
Diluted	0.40	0.39	0.76	0.63
Weighted average number of common shares outstanding:				
Basic	86,501	85,659	86,379	85,493
Diluted	87,333	86,524	87,229	86,254
Dividends declared per common share	$—	$—	$—	$—

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income	$35,538	$34,072	$66,623	$54,957
Other comprehensive income (loss), net:				
Unrealized gain on transfer of HTM securities to AFS, net of tax effect of $(5,367), $0, $(5,367), $0 for each respective period presented	8,976	—	8,976	—
Unrealized gain (loss) on AFS securities, net of tax effect of $(6,294), $10,898, $(12,658) and $11,439 for each respective period presented	10,525	(18,005)	21,169	(18,900)
Unrealized loss on cash flow hedge, net of tax effect of $0, $(28), $0 and $(8) for each respective period presented	—	47	—	13
Realized loss (gain) on sale of AFS securities included in income, net of tax effect of $(61), $(2), $76 and $54 for each respective period presented	102	3	(127)	(89)
Net other comprehensive income (loss)	19,603	(17,955)	30,018	(18,976)
Comprehensive income	$55,141	$16,117	$96,641	$35,981

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (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	—	—	—	—	—	—	54,957	54,957
Exercise of stock options	—	—	231	—	1,819	—	—	1,819
Stock-based compensation	—	—	93	—	1,289	—	—	1,289
Restricted stock grants, net	—	—	208	—	1,502	—	—	1,502
Dividends on preferred stock	—	—	—	—	—	—	(705)	(705)
Other comprehensive loss, net	—	—	—	—	—	(18,976)	—	(18,976)
Balance, June 30, 2013	141	$141,000	86,997	$9	$789,462	$ (10,750)	$ (120,414)	$ 799,307
December 31, 2013	141	$141,000	87,186	$9	$797,146	$ (21,546)	$ (61,111)	$ 855,498
Net income	—	—	—	—	—	—	66,623	66,623
Exercise of stock options	—	—	169	—	1,996	—	—	1,996
Stock-based compensation	—	—	58	—	309	—	—	309
Restricted stock grants, net	—	—	245	—	1,314	—	—	1,314
Issuance of common stock under ATM offering, net of offering costs of $220	—	—	116	—	2,611	—	—	2,611
Dividends on preferred stock	—	—	—	—	—	—	(705)	(705)
Other comprehensive income, net	—	—	—	—	—	30,018	—	30,018
Balance, June 30, 2014	141	$141,000	87,774	$9	$803,376	$ 8,472	$ 4,807	$ 957,664

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

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Cash flows from operating activities:		
Net income	$66,623	$54,957
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	4,007	8,920
Depreciation and amortization	3,220	3,077
Stock-based compensation	4,498	2,791
Deferred income taxes and income taxes receivable	(6,665)	(20,690)
Net amortization of discounts and premiums for investment securities	4,048	5,174
Accretion and amortization of fair market value adjustments due to acquisitions	(9,155)	(5,466)
Income from bank owned life insurance	(1,908)	(2,072)
(Gains) / losses on:		
Sales of securities, AFS	(203)	(143)
Acquisition of Centennial Bank	—	(10,044)
Other assets acquired through foreclosure, net	(1,179)	(2,096)
Valuation adjustments of other repossessed assets, net	293	1,582
Sale of premises and equipment and other assets, net	(1,477)	(91)
Changes in:		
Other assets	8,946	23,950
Other liabilities	(11,568)	22,909
Fair value of assets and liabilities measured at fair value	1,041	3,761
Net cash provided by operating activities	60,521	86,519
Cash flows from investing activities:		
Investment securities - measured at fair value		
Principal pay downs and maturities	261	1,006
Investment securities - AFS		
Purchases	(38,785)	(180,293)
Principal pay downs and maturities	124,615	113,056
Proceeds from sales	26,840	14,054
Investment securities - HTM		
Principal pay downs and maturities	6,600	—
Purchase of investment tax credits	(16,948)	(11,742)
Sale / (purchase) of money market investments, net	1,225	(1,637)
Liquidation (purchase) of restricted stock	4,911	(228)
Loan fundings and principal collections, net	(719,720)	(336,717)
Sale and purchase of premises and equipment, net	(5,491)	(1,128)
Proceeds from sale of other real estate owned and repossessed assets, net	14,732	18,157
Cash and cash equivalents acquired in acquisition, net	—	21,204
Net cash used in investing activities	(601,760)	(364,268)

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	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Cash flows from financing activities:		
Net increase in deposits	631,609	207,632
Net decrease in customer repurchases	(17,504)	(27,168)
Proceeds from repurchase securities	—	129,499
Net increase in borrowings	—	145,000
Repayment on other borrowings	(3,000)	—
Proceeds from exercise of common stock options	1,996	1,819
Cash dividends paid on preferred stock	(705)	(705)
Proceeds from issuance of stock in offerings, net	2,611	—
Net cash provided by financing activities	615,007	456,077
Net increase in cash and cash equivalents	73,768	178,328
Cash and cash equivalents at beginning of year	305,514	204,625
Cash and cash equivalents at end of period	$379,282	$382,953
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$10,423	$9,497
Income taxes	17,180	11,575
Non-cash investing and financing activities:		
Transfers to other assets acquired through foreclosure, net	6,419	11,273
Unfunded commitments to purchase investment tax credits	12,298	12,448
Non-cash assets acquired in Centennial Bank acquisition	—	410,827
Non-cash liabilities acquired in Centennial Bank acquisition	—	421,987
Change in unrealized gain (loss) on AFS securities, net of tax	21,042	(18,989)
Change in unrealized loss on cash flow hedge, net of tax	—	13
Change in unfunded obligations	(9,506)	(27,250)
Unrealized gain on transfer of HTM securities to AFS, net of tax	8,976	—

See accompanying Notes to Unaudited Consolidated Financial Statements.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of operation
WAL, incorporated under the laws of the state of Delaware, is a bank holding company headquartered in Phoenix, Arizona. WAL provides 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 BON in Southern Nevada, as TPB in California, and as AAB throughout the U.S. 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.
Effective July 1, 2014, WAEF was contributed to WAB by the Parent.
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.
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 ASC 805, Business Combinations, the entities were combined in a method similar to a pooling of interests.
As of June 30, 2014, 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. As described above, WAEF was contributed to WAB by WAL on July 1, 2014.
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 and six months ended June 30, 2013 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders’ equity as previously reported.

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Interim financial information

The accompanying unaudited Consolidated Financial Statements as of and for the three and six months ended June 30, 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.

Business combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805. 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 are also 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 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 trading. 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. See "Note 2. Investment Securities" of these Notes to Unaudited Consolidated Financial Statements for further discussion regarding the Company's HTM portfolio as of June 30, 2014.

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 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 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 AFS debt securities that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other than temporary decline in fair

value of the debt security related to 1) credit loss is recognized in earnings; and 2) market or other factors is recognized in other comprehensive income or loss. A credit loss is recorded if the present value of cash flows is less than amortized cost.

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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. In addition, the book value of loans that are subject to a fair value hedge is adjusted for changes in value attributable to the hedge benchmark interest rate risk. 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 which is due, at least in part, to credit quality. 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 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 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 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 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 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. However, such loans continue to be considered impaired.

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 ASC 310. 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.

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.

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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.

For a fair value hedge, the effective portion of a change in the fair value of an instrument is recorded as a basis adjustment to the underlying hedged asset or liability. 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 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 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.

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

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 holds the asset or owes the liability, rather than an entity-specific measure. When market assumptions are available, ASC 820 requires the Company to

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

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

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at June 30, 2014 and December 31, 2013. The estimated fair value amounts for June 30, 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 12. 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 of these investments 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 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 disclosed in "Note 12. Fair Value Accounting" of these Notes to Unaudited Consolidated Financial Statements 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. 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 12. Fair Value Accounting" of these Notes to Unaudited Consolidated Financial Statements is categorized as Level 2 in the fair value hierarchy.

FHLB 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. 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.

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. 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

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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.

In June 2014, the FASB issued guidance within ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in ASU 2014-11 to Topic 860, Transfers and Servicing, change the accounting for repurchase-to-maturity transactions to secured borrowing accounting and, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The accounting changes are effective for the first interim or annual period beginning after December 15, 2014. The amendments also require disclosure of information about certain transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the same counterparty. An entity will also be required to disclose information about repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014 and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The Company is in the process of evaluating the impact that adoption of this guidance will have on its Consolidated Financial Statements.

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. Early adoption is permitted. 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 Company is in the process of evaluating the impact that adoption of this guidance will

have on its Consolidated Financial Statements.

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2. INVESTMENT SECURITIES

The carrying amounts and fair values of investment securities at June 30, 2014 and December 31, 2013 are summarized as follows:

	June 30, 2014			
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
U.S. government-sponsored agency securities	$18,699	$—	$(788)	$17,911
Corporate debt securities	97,775	838	(2,673)	95,940
Municipal obligations	297,143	10,232	(2,093)	305,282
Preferred stock	73,414	1,934	(2,129)	73,219
Mutual funds	37,449	605	—	38,054
Residential MBS issued by GSEs	939,595	10,975	(2,887)	947,683
Commercial MBS issued by GSEs	2,075	9	—	2,084
Private label residential MBS	36,299	21	(1,484)	34,836
Private label commercial MBS	5,201	194	—	5,395
Trust preferred securities	32,000	—	(6,418)	25,582
CRA investments	24,035	—	(105)	23,930
Collateralized debt obligations	50	7,306	—	7,356
Total AFS securities	$1,563,735	$32,114	$(18,577)	$1,577,272
Securities measured at fair value				
Residential MBS issued by GSEs				$2,379
Private label residential MBS				414
Total securities measured at fair value				$2,793

In May 2014, the Company's investment committee reassessed the Company's holdings in CDOs, and gave management the discretion to sell CDOs and to reinvest in higher investment grade securities. This change in intent, prior to maturity or recovery, necessitated a reclassification of all HTM securities to AFS. At the date of transfer, the securities had a total amortized cost of $275.3 million and fair value of $289.6 million. The Company recognized an unrealized gain of $9.0 million, net of tax, in AOCI at the date of the transfer.

	December 31, 2013			
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

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Held-to-maturity	December 31, 2013			
	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

For additional information on the fair value changes of the securities measured at fair value, see the trading securities table in "Note 12. 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, 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. 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 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 and six months ended June 30, 2014 and 2013.

The Company does not consider any securities to be other-than-temporarily impaired as of June 30, 2014 and December 31, 2013. No assurance can be made that additional OTTI will not occur in future periods.

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Information pertaining to securities with gross unrealized losses at June 30, 2014 and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	June 30, 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)					
Available-for-sale						
U.S. government sponsored agency securities	$—	$—	$788	$17,910	$788	$17,910
Corporate debt securities	144	14,856	2,529	67,471	2,673	82,327
Preferred stock	386	12,554	1,743	24,413	2,129	36,967
Residential MBS issued by GSEs	244	44,141	2,643	143,844	2,887	187,985
Municipal obligations	—	—	2,093	41,032	2,093	41,032
Private label residential MBS	366	17,688	1,118	14,322	1,484	32,010
Trust preferred securities	—	—	6,418	25,582	6,418	25,582
CRA investments	—	—	105	23,877	105	23,877
Total AFS securities	$1,140	$89,239	$17,437	$358,451	$18,577	$447,690

	December 31, 2013					
	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						
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
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
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

At June 30, 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 June 30, 2014 was 125, compared to 252 at December 31, 2013. 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 other than temporarily impaired.

At June 30, 2014, the net unrealized loss on trust preferred securities classified as AFS was $6.4 million, compared with $8.2 million at December 31, 2013. The Company actively monitors its debt and other structured securities portfolios classified as

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AFS for declines in fair value. At December 31, 2013, the gross unrealized loss on the corporate bond portfolio classified as HTM was $3.8 million. As discussed previously, corporate debt securities classified as HTM at December 31, 2013 are now classified as AFS at June 30, 2014. The gross unrealized loss on the corporate bond portfolio has decreased to $2.7 million at June 30, 2014. The FRB continues to express its intention to keep interest rates, particularly the Federal Funds rate, at historically low levels into 2015. The yields of most of the bonds in the portfolio are floating rate instruments tied to LIBOR. LIBOR rate levels are highly correlated to the Federal Funds rate, thus, the corporate bonds have had low floating rate yields, which have negatively affected their near-term anticipated returns and price levels.

The amortized cost and fair value of securities as of June 30, 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.

	June 30, 2014	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Available-for-sale		
Due in one year or less	$66,879	$67,424
After one year through five years	36,503	38,066
After five years through ten years	168,417	167,706
After ten years	308,766	314,078
Mortgage-backed securities	983,170	989,998
Total AFS securities	$1,563,735	$1,577,272

The following tables summarize the carrying amounts of the Company’s investment ratings position as June 30, 2014 and December 31, 2013:

	June 30, 2014						
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Totals
	(in thousands)						
Municipal obligations	$8,330	$—	$138,657	$151,797	$6,293	$205	$305,282
Residential MBS issued by GSEs	—	950,062	—	—	—	—	950,062
Commercial MBS issued by GSEs	—	2,084	—	—	—	—	2,084
Private label residential MBS	23,364	—	95	3,888	4,570	3,333	35,250
Private label commercial MBS	5,395	—	—	—	—	—	5,395
Mutual funds (3)	—	—	—	—	38,054	—	38,054
U.S. government sponsored agency	—	17,911	—	—	—	—	17,911
Preferred stock	—	—	—	—	47,726	19,917	67,643
Trust preferred securities	—	—	—	—	25,582	—	25,582
Collateralized debt obligations	—	—	—	—	—	7,356	7,356
Corporate debt securities	—	—	2,791	24,108	69,041	—	95,940
Total (1) (2)	$37,089	$970,057	$141,543	$179,793	$191,266	$30,811	$1,550,559

(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 June 30, 2014. Unrated securities consist of CRA investments with a carrying value of $23.9 million and preferred stock with a carrying value of $5.6 million.

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

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	December 31, 2013						
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Totals
	(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.

(2) Securities values are shown at carrying value as of December 31, 2013. Unrated securities consist of CRA 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 $760.7 million and $662.5 million at June 30, 2014 and December 31, 2013, respectively, were pledged for various purposes as required or permitted by law.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Gross gains	$—	$68	$366	$268
Gross losses	(163)	(73)	(163)	(125)
Net (losses) gains	$(163)	$(5)	$203	$143

3. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

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

	June 30, 2014	December 31, 2013
	(in thousands)	
Commercial and industrial	$2,804,819	$2,236,740
Commercial real estate - non-owner occupied	1,940,017	1,843,415
Commercial real estate - owner occupied	1,604,986	1,561,862
Construction and land development	612,415	537,231
Residential real estate	328,115	350,312
Commercial leases	222,887	235,968
Consumer	40,948	45,153
Net deferred loan fees and costs	(9,620)	(9,266)

Loans, net of deferred fees and costs	7,544,567	6,801,415
Allowance for credit losses	(105,937)	(100,050)
Total	$7,438,630	$6,701,365

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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:

	June 30, 2014					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$1,600,162	$1,095	$1,273	$2,456	$4,824	$1,604,986
Non-owner occupied	1,745,404	—	2,109	7,393	9,502	1,754,906
Multi-family	185,111	—	—	—	—	185,111
Commercial and industrial						
Commercial	2,803,231	301	834	453	1,588	2,804,819
Leases	222,887	—	—	—	—	222,887
Construction and land development						
Construction	338,513	—	—	—	—	338,513
Land	273,726	176	—	—	176	273,902
Residential real estate	317,577	—	1,171	9,367	10,538	328,115
Consumer	40,365	134	187	262	583	40,948
Total loans	$7,526,976	$1,706	$5,574	$19,931	$27,211	$7,554,187

	December 31, 2013					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$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

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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:

	June 30, 2014				December 31, 2013			
	Non-accrual loans			Loans past due 90 days or more and still accruing	Non-accrual loans			Loans past due 90 days or more and still accruing
	Current	Past Due/Delinquent	Total Non-accrual		Current	Past Due/Delinquent	Total Non-accrual	
	(in thousands)							
Commercial real estate								
Owner occupied	$6,273	$ 3,153	$ 9,426	$576	$9,330	$ 3,600	$ 12,930	$887
Non-owner occupied	32,097	5,059	37,156	2,331	17,930	23,996	41,926	—
Multi-family	—	—	—	—	—	—	—	—
Commercial and industrial								
Commercial	1,658	560	2,218	—	622	2,682	3,304	125
Leases	416	—	416	—	99	350	449	—
Construction and land development								
Construction	—	—	—	—	—	—	—	—
Land	2,161	—	2,161	—	3,133	1,392	4,525	—
Residential real estate	2,581	10,186	12,767	—	5,067	7,413	12,480	47
Consumer	27	174	201	94	27	39	66	475
Total	$45,213	$ 19,132	$ 64,345	$3,001	$36,208	$ 39,472	$ 75,680	$1,534

The reduction in interest income associated with loans on nonaccrual status was approximately $0.3 million and $1.2 million for the three months ended June 30, 2014 and 2013, respectively. For the six months ended June 30, 2014 and 2013, the reduction in interest income associated with loans on nonaccrual status was approximately $1.3 million and $2.5 million, 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 as Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The final rating of Loss covers loans considered uncollectible and having such little recoverable value that it is not practical to defer writing off the asset. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management’s close attention, are deemed to be Special Mention. Risk ratings are updated, at a minimum, quarterly.

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The following tables present gross loans by risk rating:

	June 30, 2014					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$1,529,318	$27,650	$46,213			