

WESTERN ALLIANCE BANCORPORATION

Form 10-K

February 17, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

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)

(602) 389-3500

(Registrant's telephone number, including area code)

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

85004

(Zip Code)

Title of each class

Common Stock, \$0.0001 Par Value

Securities registered pursuant to Section 12(g) of the Act: None

Name of each exchange on which registered

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$1.32 billion based on the June 30, 2014 closing price of said stock on the New York Stock Exchange (\$23.80 per share).

As of February 11, 2015, Western Alliance Bancorporation had 88,937,807 shares of common stock outstanding. Portions of the registrant's definitive proxy statement for its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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PART I

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (this “Form 10-K”) are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Reform Act”). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “aim,” “anticipate,” “believe,” “drive,” “estimate,” “expect,” “expressed confidence,” “forecast,” “future,” “goals,” “guidance,” “intend,” “may,” “opportunity,” “plan,” “position,” “potential,” “seek,” “should,” “strategy,” “target,” “will,” “would” or similar statements or variations of such words and other similar expressions. All statements other than historical fact are “forward-looking statements” within the meaning of the Reform Act, including statements that are related to or are dependent on estimates or assumptions relating to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions that are not historical facts. These forward-looking statements reflect our current views about future events and financial performance and involve certain risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to, those described in “Risk Factors” in Item 1A of this Form 10-K. Forward-looking statements speak only as of the date they are made and we undertake no obligation to publicly update or revise any forward-looking statements included in this Form 10-K or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise, except to the extent required by federal securities laws. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Form 10-K might not occur, and you should not put undue reliance on any forward-looking statements.

Purpose

The following discussion is designed to provide insight on the financial condition and results of operations of Western Alliance Bancorporation and its subsidiaries. This discussion should be read in conjunction with the Company’s Consolidated Financial Statements and notes to the Consolidated Financial Statements, herein referred to as “the Consolidated Financial Statements.” These Consolidated Financial Statements are presented in Item 8 of this Form 10-K.

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## GLOSSARY OF ENTITIES AND TERMS

The acronyms and abbreviations identified below are used in various sections of this Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Item 7 and the Consolidated Financial Statements and the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

## ENTITIES:

AAB	Alliance Association Bank	TPB	Torrey Pines Bank
ABA	Alliance Bank of Arizona	WAB or Bank	Western Alliance Bank
BON	Bank of Nevada	WACF	Western Alliance Corporate Finance
BWN	Bank West of Nevada	WAEF	Western Alliance Equipment Finance
Centennial	Centennial Bank	WAL or Parent	Western Alliance Bancorporation
Company	Western Alliance Bancorporation and Subsidiaries	WAPF	Western Alliance Public Finance
FIB	First Independent Bank	WARF	Western Alliance Resort Finance
LVSP	Las Vegas Sunset Properties	WAWL	Western Alliance Warehouse Lending
MRA	Miller/Russell & Associates, Inc.	Western Liberty	Western Liberty Bancorp
Shine	Shine Investment Advisory Services, Inc.		

## TERMS:

AFS	Available-for-Sale	GAAP	U.S. Generally Accepted Accounting Principles
ALCO	Asset and Liability Management Committee	GLBA	Gramm-Leach-Bliley Act of 1999
AMT	Alternative Minimum Tax	GSE	Government-Sponsored Enterprise
AOCI	Accumulated Other Comprehensive Income	HMDA	Home Mortgage Disclosure Act
APR	Annual Percentage Rate	HOEPA	Home Ownership and Protection Act of 1994
ARPS	Adjustable-Rate Preferred Stock	HTM	Held-to-Maturity
ASC	Accounting Standards Codification	ICS	Insured Cash Sweep Service
ASU	Accounting Standards Update	Incentive Plan	2005 Stock Incentive Plan, as amended
ATM	At-the-Market	IRC	Internal Revenue Code
BHCA	Bank Holding Company Act of 1956	IRS	Internal Revenue Service
BOD	Board of Directors	ISDA	International Swaps and Derivatives Association
BOLI	Bank Owned Life Insurance	LIBOR	London Interbank Offered Rate
BSA	Bank Secrecy Act of 1970	LIHTC	Low-Income Housing Tax Credit
CBLs	Central Business Lines	MBS	Mortgage-Backed Securities
CCO	Chief Credit Officer	MLC	Management Loan Committee
CDARS	Certificate Deposit Account Registry Service	MOU	Memorandum of Understanding
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
CFPB	Consumer Financial Protection Bureau	OCI	Other Comprehensive Income
CMO	Collateralized Mortgage Obligations	OFAC	Office of Foreign Assets Control
COSO	Committee of Sponsoring Organizations of the Treadway Commission	OREO	Other Real Estate Owned
CPP	TARP Capital Purchase Program	OTTI	Other-than-Temporary Impairment
CRA	Community Reinvestment Act	PCI	Purchased Credit Impaired

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CRE	Commercial Real Estate	RESPA	Real Estate Settlement Procedures Act
DIF	FDIC's Deposit Insurance Fund	SBIC	Small Business Investment Company
EPS	Earnings per share	SBLF	Small Business Lending Fund
EVE	Economic Value of Equity	SEC	Securities and Exchange Commission
Exchange Act	Securities Exchange Act of 1934, as amended	SLC	Senior Loan Committee
FASB	Financial Accounting Standards Board	SSAE	Statement on Standards for Attestation Engagements
FCRA	Fair Credit Reporting Act of 1971	SOX	Sarbanes-Oxley Act of 2002
FDIC	Federal Deposit Insurance Corporation	TARP	Troubled Asset Relief Program
FHA	Fair Housing Act	TDR	Troubled Debt Restructuring
FHLB	Federal Home Loan Bank	TEB	Tax Equivalent Basis
FICO	The Financing Corporation	TILA	Truth in Lending Act
FRB	Federal Reserve Bank	WALCC	Western Alliance Bancorporation's Credit Committee
FVO	Fair Value Option	XBRL	eXtensible Business Reporting Language

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## Item 1. Business.

## Organization Structure and Description of Services

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. The Bank operates the following full-service banking divisions: ABA in Arizona, FIB in Northern Nevada, BON in Southern Nevada, and TPB in California. The Company also serves business customers through a robust national platform of specialized financial services including AAB, WACF, WAEF, WAPF, WARF, and WAWL. On July 1, 2014, all of the outstanding shares of common stock of WAEF, which was previously a subsidiary of WAL, were contributed to WAB by WAL and it is now a subsidiary of the Bank. In addition, the Company has one non-bank subsidiary, LVSP, which holds and manages certain non-performing loans and OREO.

WAL also has six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities as described in "Note 9. Junior Subordinated Debt" in Item 8 of this Form 10-K.

## Bank Subsidiary

At December 31, 2014, WAL has the following bank subsidiary:

Bank Name	Headquarters	Number of Locations	Location Cities	Total Assets (in millions)	Net Loans	Deposits
Western Alliance Bank	Phoenix, Arizona	40	Arizona: Chandler, Flagstaff, Mesa, Phoenix, Sedona, Scottsdale, and Tucson Nevada: Carson City, Fallon, Reno, Sparks, Henderson, Las Vegas, Mesquite, and North Las Vegas California: Beverly Hills, Carlsbad, La Mesa, Los Altos, Los Angeles, Oakland, and San Diego	\$10,476.4	\$8,243.5	\$8,942.9

WAB also has the following wholly-owned subsidiaries:

• WAB Investments, Inc., BON Investments, Inc., and TPB Investments, Inc. - each hold certain investment securities, municipal loans, and leases.

• BW Real Estate, Inc. - operates as a real estate investment trust and holds certain real estate loans and related securities.

• BW Nevada Holdings, LLC - owns the 2700 West Sahara Avenue, Las Vegas, Nevada office building.

• WAEF - offers equipment finance services nationwide.

## Organizational Structure

On December 31, 2013, the Company consolidated its three bank subsidiaries into one bank, WAB, chartered in Arizona. Our former bank subsidiaries, BON and TPB, began operating as divisions of WAB on January 1, 2014 along with ABA and FIB. The former subsidiaries of BON and TPB are now subsidiaries of WAB. On January 30, 2015, WAB became a member of the Federal Reserve system and, as a consequence, is now regulated as a "state member bank," under Federal Reserve Board Regulation H (12 C.F.R. Part 208).

## Market Segments

As a result of the consolidation of the Company's three bank subsidiaries into one bank on December 31, 2013, the Company redefined its operating segments to reflect the new organizational and internal reporting structure. This resulted in significant differences from the prior segmentation methodology and these changes were not retrospective. Accordingly, the Company determined that recasting prior year segment information to conform to the new segmentation methodology would be impracticable and presentation of current period information under the prior segmentation methodology would not be beneficial to the reader. Please refer to "Note 21. Segments" in our Consolidated Financial Statements for financial information regarding segment reporting.





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Beginning January 1, 2014, the Company's reportable segments are aggregated primarily based on geographic location, services offered, and markets served. The Arizona, Nevada, and California segments provide full service banking and related services to their respective markets although operations may not be domiciled in these states. The Company's CBL segment provides banking services to niche markets. These CBLs are managed centrally and are broader in geographic scope, though still predominately within the Company's core market areas. Corporate & Other primarily relates to our Treasury division and also includes other corporate-related items, income and expense items not allocated to other reportable segments, and inter-segment eliminations.

The accounting policies of the reported segments are the same as those of the Company as described in "Note 1. Summary of Significant Accounting Policies" in Item 8. All intercompany transactions are eliminated for reporting consolidated results of operations. Loan and deposit accounts are assigned directly to the segments where these products are originated and/or serviced. Equity capital is assigned to each segment based on the risk profile of their assets and liabilities with a funds credit provided for the use of this equity as a funding source. Any excess equity not allocated to segments based on risk is assigned to the Corporate & Other segment.

Net interest income, provision for credit losses, and non-interest expense amounts are recorded in their respective segment to the extent that the amounts are directly attributable to those segments. Net interest income of a reportable segment includes a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics. Using this funds transfer pricing methodology, liquidity is transferred between users and providers. Net income amounts for each reportable segment are further derived by the use of expense allocations. Certain expenses not directly attributable to a specific segment are allocated across all segments based on key metrics, such as number of employees, average loan balances, and average deposit balances. Income taxes are applied to each segment based on the effective tax rate for the geographic location of the segment. Any difference in the corporate tax rate and the aggregate effective tax rates in the segments are adjusted in the Corporate & Other segment.

### Lending Activities

Through WAB and its banking divisions and operating subsidiaries, the Company provides a variety of financial services to customers, including CRE loans, construction and land development loans, commercial loans, and consumer loans. The Company's lending has focused primarily on meeting the needs of business customers.

**Commercial and Industrial:** Commercial and industrial loans include working capital lines of credit, inventory and accounts receivable lines, mortgage warehouse lines, equipment loans and leases, and other commercial loans. Loans to tax exempt municipalities and not-for-profit organizations are categorized as commercial and industrial loans.

**CRE:** Loans to finance the purchase or refinancing of CRE and loans to finance inventory and working capital that are additionally secured by CRE make up the majority of our loan portfolio. These CRE loans are secured by apartment buildings, professional offices, industrial facilities, retail centers and other commercial properties. As of December 31, 2014 and 2013, 46%, of our CRE loans were owner-occupied. Owner-occupied CRE loans are loans secured by owner-occupied nonfarm nonresidential properties for which the primary source of repayment (more than 50%) is the cash flow from the ongoing operations and activities conducted by the borrower who owns the property.

Non-owner-occupied CRE loans are CRE loans for which the primary source of repayment is nonaffiliated rental income associated with the collateral property.

**Construction and Land Development:** Construction and land development loans include multi-family apartment projects, industrial/warehouse properties, office buildings, retail centers and medical facilities. These loans are primarily originated to experienced local developers with whom the Company has a satisfactory lending history. An analysis of each construction project is performed as part of the underwriting process to determine whether the type of property, location, construction costs and contingency funds are appropriate and adequate. Loans to finance commercial raw land are primarily to borrowers who plan to initiate active development of the property within two years.

**Residential real estate:** In 2010, the Company discontinued residential mortgage real estate loan origination as a business line, but continues to hold a small number of previously originated (or acquired) mortgage loans.

**Consumer:** Limited types of consumer loans are offered to meet customer demand and to respond to community needs. Consumer loans are generally offered at a higher rate and shorter term than residential mortgages. Examples of

our consumer loans include: home equity loans and lines of credit, home improvement loans and personal lines of credit.

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At December 31, 2014, our loan portfolio totaled \$8.40 billion, or approximately 79% of total assets. The following table sets forth the composition of our loan portfolio as of the periods presented:

	December 31,		2013		
	2014	Percent	Amount	Percent	
	(in thousands)				
Commercial and industrial	\$3,327,629	39.5	% \$2,236,740	32.8	%
Commercial real estate - non-owner occupied	2,058,620	24.5	1,843,415	27.1	
Commercial real estate - owner occupied	1,734,617	20.6	1,561,862	22.9	
Construction and land development	754,154	9.0	537,231	7.9	
Residential real estate	298,872	3.6	350,312	5.1	
Commercial leases	204,270	2.4	235,968	3.5	
Consumer	32,633	0.4	45,153	0.7	
Total loans	8,410,795	100.0	% 6,810,681	100.0	%
Net deferred loan fees and costs	(12,530 )		(9,266 )		
Total loans, net of deferred loan fees and costs	\$8,398,265		\$6,801,415		

For additional information concerning loans, see "Note 3. Loans, Leases and Allowance for Credit Losses" of the Consolidated Financial Statements contained herein or "Management Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition – Loans discussions" in Item 7 of this Form 10-K.

**General**

The Company adheres to a specific set of credit standards within its banking subsidiary that are intended to ensure the proper management of credit risk. Furthermore, the Bank's senior management team plays an active role in monitoring compliance with such standards.

Loan originations are subject to a process that includes the credit evaluation of borrowers, utilizing established lending limits, analysis of collateral, and procedures for continual monitoring and identification of credit deterioration. Loan officers actively monitor their individual credit relationships in order to report suspected risks and potential downgrades as early as possible. The WAB BOD approves all changes to loan policy, as well as lending limit authorities. Our lending policies generally incorporate consistent underwriting standards across all geographic regions that the Bank operates in, customized as necessary to conform to state law and local market conditions. Our credit culture has enabled us to identify troubled credits early, allowing us to take corrective action when necessary.

**Loan Approval Procedures and Authority**

Our loan approval procedures are executed through a tiered loan limit authorization process, which is structured as follows:

**Individual Authorities.** The CCO of each region sets the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The maximum approval authority for any loan officer is \$1.0 million. Certain members of executive management or credit administration may have higher approval authority.

**Management Loan Committees.** Credits in excess of individual loan limits are submitted to the appropriate region's MLC. The MLCs consist of members of the senior management team of each region and are chaired by each region's CCO. The MLCs have approval authority up to \$7.0 million.

**Credit Administration.** Credits in excess of the MLC authority are submitted to the WAB SLC. The SLC has approval authority up to established house concentration limits, which range from \$15.0 million to \$50.0 million, depending on risk grade. SLC approval is also required for new relationships of \$12.5 million or greater to borrowers within market footprint, and \$5.0 million or greater outside market footprint. The SLC reviews all other loan approvals to any one borrower of \$5.0 million or greater. The SLC is chaired by the WAB CCO and includes the Company's CEO. Current policy states that over house limit exceptions require unanimous approval of the SLC.

The Company's credit administration department works independent of loan production.



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Loans to One Borrower. In addition to the limits set forth above, subject to certain exceptions, state banking laws generally limit the amount of funds that a bank may lend to a single borrower. Under Arizona law, the obligations of one borrower to a bank generally may not exceed 20% of the bank's capital, plus an additional 10% of its capital if the additional amounts are fully secured by readily marketable collateral.

Concentrations of Credit Risk. Our lending policies also establish customer and product concentration limits to control single customer and product exposures. Our lending policies have several different measures to limit concentration exposures. Set forth below are the primary segmentation limits and actual measures as of December 31, 2014:

	Percent of Total Capital		
	Policy Limit	Actual	
CRE	435	% 356	%
Commercial and industrial	370	334	
Construction and land development	80	69	
Residential real estate	55	28	
Consumer	10	3	
Asset Quality			
General			

To measure asset quality, the Company has instituted a loan grading system consisting of nine different categories. The first five are considered "satisfactory." The other four grades range from a "special mention" category to a "loss" category and are consistent with the grading systems used by Federal banking regulators. All loans are assigned a credit risk grade at the time they are made, and each originating loan officer reviews the credit with his or her immediate supervisor on a quarterly basis to determine whether a change in the credit risk grade is warranted. In addition, the grading of our loan portfolio is reviewed on a regular basis by our internal Loan Review Department.

**Collection Procedure**

If a borrower fails to make a scheduled payment on a loan, Bank personnel attempt to remedy the deficiency by contacting the borrower and seeking payment. Contacts generally are made within 15 business days after the payment becomes past due. The Bank maintains regional Special Assets Departments, which generally services and collects loans rated substandard or worse. Each division's CCO is responsible for monitoring activity that may indicate an increased risk rating, including, but not limited to, past-dues, overdrafts and loan agreement covenant defaults. Loans deemed uncollectible are proposed for charge-off and all charge-offs in excess of \$100,000 are reported to the WAB BOD.

**Nonperforming Assets**

Nonperforming assets include loans past due 90 days or more and still accruing interest, non-accrual loans, TDR loans, and repossessed assets, including OREO. In general, loans are placed on non-accrual status when we determine ultimate collection of principal and interest to be in doubt due to the borrower's financial condition, collateral value, and collection efforts. 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. Other repossessed assets resulted from loans where we have received title or physical possession of the borrower's assets. The Company generally re-appraises OREO and collateral dependent impaired loans every twelve months. The net gain on sales / valuations of repossessed and other assets was \$5.4 million and \$2.4 million for the years ended December 31, 2014 and 2013, respectively. Losses may be experienced in future periods.

**Criticized Assets**

Federal bank regulators require banks to classify its assets on a regular basis. In addition, in connection with their examinations of the Bank, examiners have authority to identify problem assets and, if appropriate, re-classify them. Loan grades six through nine of our internal loan grading system are utilized to identify potential problem assets. The following describes the potential problem assets using our internal loan grading system definitions:

"Special Mention:" Generally these are assets that possess weaknesses that deserve management's close attention. These loans may involve borrowers with adverse financial trends, higher debt to equity ratios, or weaker liquidity



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positions, but not to the degree of being considered a “problem loan” where risk of loss may be apparent. Loans in this category are usually performing as agreed, although there may be non-compliance with financial covenants.

“Substandard:” These assets are characterized by well-defined credit weaknesses and carry the distinct possibility that the Company will sustain some loss if such weakness or deficiency is not corrected. We believe that these loans generally are adequately secured and in the event of a foreclosure action or liquidation, the Company should be protected from loss. All loans 90 days or more past due and all loans on non-accrual are considered at least “substandard,” unless extraordinary circumstances would suggest otherwise.

“Doubtful:” These assets 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, but because of certain known factors which may work to the advantage and strengthening of the asset (for example, capital injection, perfecting liens on additional collateral and refinancing plans), classification as an estimated loss is deferred until a more precise status may be determined.

“Loss:” These assets are considered uncollectible and having such little recoverable value that it is not practical to defer writing off the asset. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practicable or desirable to defer writing off the asset, even though partial recovery may be achieved in the future.

### Allowance for Credit Losses

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 collectability of the contractual principal or interest is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount believed adequate to absorb probable losses on existing loans that may become uncollectable, based on evaluation of the collectability of loans and prior credit loss experience, together with the other factors. For a detailed discussion of the Company’s methodology see “Management’s Discussion and Analysis and Financial Condition – Critical Accounting Policies – Allowance for Credit Losses” in Item 7 of this Form 10-K.

### Investment Activities

Our banking subsidiary and holding company have an investment policy, which was approved by the Bank's and Company's BOD. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements of the bank and holding company, potential returns, cash flow targets, and consistency with our interest rate risk management. The Bank’s ALCO is responsible for making securities portfolio decisions in accordance with established policies. The CFO and Treasurer have the authority to purchase and sell securities within specified guidelines. All transactions for the Bank and for our holding company were reviewed by the ALCO and/or BOD. Generally, our investment policy limits securities investments to securities backed by the full faith and credit of the U.S. government, including U.S. treasury bills, notes, and bonds, and direct obligations of Ginnie Mae; MBS or CMO issued by a GSE, such as Fannie Mae or Freddie Mac; debt securities issued by a GSE, such as Fannie Mae, Freddie Mac, and the FHLB; municipal securities with a rating of “Single-A” or higher; ARPS where the issuing company is rated “BBB” or higher; corporate debt with a rating of “Single-A” or better; investment grade corporate bond mutual funds; private label collateralized mortgage obligations with a single rating of “AA” or higher; commercial mortgage backed securities with a rating of “AAA”; and mandatory purchases of equity securities of the FRB and FHLB. ARPS holdings are limited to no more than 10% of the Bank’s tier 1 common equity; municipal securities are limited to no more than 5% of the Bank's assets; investment grade corporate bond mutual funds are limited to no more than 5% of the Bank's total capital; corporate debt holdings are limited to no more than 2.5% of the bank’s assets; and commercial mortgage backed securities are limited to an aggregate purchase limit of \$50 million.

The Company no longer purchases (although we may continue to hold previously acquired) CDOs. Our policies also govern the use of derivatives, and provide that the Company prudently use derivatives in accordance with applicable regulations as a risk management tool to reduce the overall exposure to interest rate risk, and not for speculative purposes.

As of December 31, 2014, all of our investment securities are classified as AFS or measured at fair value (“trading”) pursuant to ASC Topic 320, Investments and ASC Topic 825, Financial Instruments. AFS securities are reported at fair value in accordance with Topic 820, Fair Value Measurements and Disclosures.



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As of December 31, 2014, the Company had an investment securities portfolio of \$1.52 billion, representing approximately 14.4% of our total assets, with the majority of the portfolio invested in AAA/AA+-rated securities. The average duration of our investment securities was 3.4 years as of December 31, 2014.

The following table summarizes the investment securities portfolio as of December 31, 2014 and 2013:

	December 31,		2013		
	2014	Percent	Amount	Percent	
	(dollars in millions)				
U.S. government sponsored agency securities	\$18.4	1.2	% \$47.0	2.8	%
Municipal obligations	299.0	19.7	299.2	18.1	
Preferred stock	82.6	5.4	61.5	3.7	
Mutual funds	37.7	2.5	36.5	2.2	
Residential MBS issued by GSEs	893.1	58.8	1,024.5	61.9	
Commercial MBS issued by GSEs	2.2	0.1	—	—	
Private label residential MBS	70.2	4.6	36.1	2.2	
Private label commercial MBS	5.2	0.3	5.4	0.3	
Trust preferred securities	25.5	1.7	23.8	1.4	
CRA investments	24.3	1.6	24.9	1.5	
Collateralized debt obligations	11.4	0.7	0.1	—	
Corporate debt securities	52.5	3.4	97.8	5.9	
Total	\$1,522.1	100.0	% \$1,656.8	100.0	%

As of December 31, 2014 and 2013, the Company had an investment in BOLI of \$142.0 million and \$140.6 million, respectively. The BOLI was purchased to help offset employee benefit costs. For additional information concerning investments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Investments” in Item 7 of this Form 10-K.

**Deposit Products**

The Company offers a variety of deposit products, including checking accounts, savings accounts, money market accounts, and other types of deposit accounts, including fixed-rate, fixed maturity retail certificates of deposit. The Company has historically focused on growing its lower cost core customer deposits. As of December 31, 2014, the deposit portfolio was comprised of 26% non-interest bearing deposits and 74% interest-bearing deposits.

The competition for deposits in our markets is strong. The Company has historically been successful in attracting and retaining deposits due to several factors, including: 1) our high quality of customer service; 2) our experienced relationship bankers who have strong relationships within their communities; 3) the broad selection of cash management services we offer; and 4) incentives to employees for business development. The Company intends to continue its focus on attracting deposits from our business lending relationships in order to maintain our low cost of funds and improve our net interest margin. The loss of low-cost deposits could negatively impact future profitability. Deposit balances are generally influenced by national and local economic conditions, changes in prevailing interest rates, internal pricing decisions, perceived stability of financial institutions and competition. The Company’s deposits are primarily obtained from communities surrounding its branch offices. In order to attract and retain quality deposits, we rely on providing quality service and introducing new products and services that meet the needs of our customers. In 2014, the Bank's deposit rates were determined through an internal oversight process under the direction of its asset and liability committee. The Bank considered a number of factors when determining deposit rates, including:

• current and projected national and local economic conditions and the outlook for interest rates;

• local competition;

• loan and deposit positions and forecasts, including any concentrations in either; and

• FHLB advance rates and rates charged on other funding sources.

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The following table shows our deposit composition:

	December 31, 2014		2013		
	Amount (in thousands)	Percent	Amount	Percent	
Non-interest-bearing demand	\$2,288,048	25.6	% \$2,199,983	28.1	%
Interest-bearing demand	854,935	9.6	709,841	9.1	
Savings and money market	3,869,699	43.3	3,310,369	42.2	
Certificate of deposit (\$250,000 or more)	1,339,238	15.0	511,430	6.5	
Other time deposits	579,123	6.5	1,106,582	14.1	
Total deposits	\$8,931,043	100.0	% \$7,838,205	100.0	%

In addition to our deposit base, we have access to other sources of funding, including FHLB and FRB advances, repurchase agreements and unsecured lines of credit with other financial institutions. Previously, we have also accessed the capital markets through trust preferred offerings. For additional information concerning our deposits, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Balance Sheet Analysis – Deposits” in Item 7 of this Form 10-K.

#### Financial Products and Services

In addition to traditional commercial banking activities, the Company offers other financial services to its customers, including: internet banking, wire transfers, electronic bill payment, lock box services, courier, and cash management services.

#### Customer, Product and Geographic Concentrations

Approximately 54% and 58% of our loan portfolio at December 31, 2014 and 2013, respectively, consisted of CRE-secured loans, including CRE loans, and construction and land development loans. The Company’s business is concentrated in the Las Vegas, Los Angeles, San Francisco, Phoenix, Reno, San Diego and Tucson metropolitan areas. Consequently, the Company is dependent on the trends of these regional economies. The Company is not dependent upon any single or limited number of customers, the loss of which would have a material adverse effect on the Company. No material portion of the Company’s business is seasonal.

#### Foreign Operations

The Company has no significant foreign operations. We provide loans, letters of credit, and other trade-related services to commercial enterprises that conduct business outside the U.S.

#### Customer Concentration

Neither the Company nor any of its reportable segments has any customer relationships that individually account for 10% or more of consolidated or segment revenues, respectively.

#### Competition

The financial services industry is highly competitive. Many of our competitors are much larger in total assets and capitalization, have greater access to capital markets, and offer a broader range of financial services than we can offer, and may have lower cost structures.

This increasingly competitive environment is primarily a result of long-term changes in regulation that made mergers and geographic expansion easier; changes in technology and product delivery systems and web-based tools; the accelerating pace of consolidation among financial services providers; and the flight of deposit customers to greater perceived safety. We compete for loans, deposits, and customers with other banks, credit unions, securities, and brokerage companies, mortgage companies, insurance companies, finance companies, and other non-bank financial services providers. This strong competition for deposit and loan products directly affects the interest rates on those products and the terms on which they are offered to consumers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets.

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Mergers between financial institutions have placed additional pressure on banks to consolidate their operations, reduce expenses and increase revenues to remain competitive. The competitive environment is also significantly impacted by federal and state legislation that makes it easier for non-bank financial institutions to compete with the Company.

### Employees

As of December 31, 2014, the Company had 1,131 full-time equivalent employees. The Company's employees are not represented by a union or covered by a collective bargaining agreement. Management believes that its employee relations are good.

### Recent Developments and Company Response

The global and U.S. economies, and the economies of the local communities in which we operate, experienced a rapid decline in 2008. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing many major institutions to fail or require government intervention to avoid failure. These conditions were brought about largely by the erosion of U.S. and global credit markets, including a significant and rapid deterioration of the mortgage lending and related real estate markets. While conditions have improved, these markets and economies have not fully recovered to pre-crisis levels. Despite these conditions, in 2014, we continued to grow net interest income to \$384.9 million, up 16% from \$332.9 million in 2013. As a result of the improved real estate market, we had a net gain on sales / valuations of other repossessed and other assets of \$5.4 million, compared to a gain of \$2.4 million in 2013. As a result, our net interest income after provision for credit losses in 2014 was \$380.2 million, up 19% from \$319.7 million in 2013.

The U.S., state and foreign governments took extraordinary actions in an attempt to deal with this worldwide financial crisis and the severe decline in the economy that followed. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, into law. The Dodd-Frank Act has had, and will continue to have, a broad impact on the financial services industry. The SEC and the Federal banking agencies, including the FRB and FDIC, have issued a number of requests for public comment, proposed rules and final regulations to implement the requirements of the Dodd-Frank Act. The following items provide a brief description of the impact of the Dodd-Frank Act on the operations and activities, both currently and prospectively, of the Company and its subsidiaries:

**Deposit Insurance.** The Dodd-Frank Act and implementing final rules from the FDIC make permanent the \$250,000 deposit insurance limit for insured deposits. The assessment base against which an insured depository institution's deposit insurance premiums paid to the DIF has been revised to use the institution's average consolidated total assets less its average equity rather than its deposit base. Although we do not expect these provisions to have a material effect on our deposit insurance premium expense, in the future, the FDIC deposit insurance premiums we pay could increase.

**Increased Capital Standards and Enhanced Supervision.** The federal banking agencies are required to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards will be no lower than existing regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, be higher when established by the agencies. Compliance with heightened capital standards may reduce our ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations. The changes to the capital requirements, effective January 1, 2015, are outlined in Capital Standards on page 67 and are expected to reduce our regulatory ratios by 0.20%. The Dodd-Frank Act also increases regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency. Compliance with new regulatory requirements and expanded examination processes could increase our cost of operations.

**Trust Preferred Securities.** Under the increased capital standards established by the Dodd-Frank Act, bank holding companies are prohibited from including in their regulatory Tier 1 capital hybrid debt and equity securities issued on or after May 19, 2010. Among the hybrid debt and equity securities included in this prohibition are trust preferred securities, which the Company has used in the past as a tool for raising additional Tier 1 capital and otherwise improving its regulatory capital ratios. Based on guidance issued by the FRB on July 8, 2013, there will not be a Tier 1 phase out of grandfathered trust preferred securities for banks with assets of less than \$15 billion. As a result, our securities continue to qualify as Tier 1 Capital.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent CFPB within the Federal Reserve that is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws. These consumer protection laws govern the manner in which we offer many of our financial products and services. On July 21, 2011, the rulemaking and certain enforcement authority for enumerated federal consumer financial protection laws were transferred to the CFPB. As a result of this transfer, the CFPB now has significant

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interpretive and enforcement authority with respect to many of the federal laws and regulations under which we operate. In accordance with this authority, the CFPB has officially transferred many of the regulations formerly maintained by the Federal Reserve and the U.S. Department of Housing and Urban Development, to a new chapter of Title 12 of the Code of Federal Regulations maintained by the CFPB, many of which deal with consumer credit, account disclosures and residential mortgage lending. Although the CFPB did not make significant or substantive changes to the rules during this transfer, it now has authority to promulgate guidance and interpretations of these rules and regulations in a manner that could differ from prior interpretations from other federal regulatory bodies.

**State Enforcement of Consumer Financial Protection Laws.** The Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB. State attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain state-chartered institutions. Although consumer products and services represent a relatively small part of our business, compliance with any such new regulations would increase our cost of operations and, as a result, could limit our ability to expand these products and services.

**Transactions with Affiliates and Insiders.** The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained. Additionally, limitations on transactions with insiders are expanded through the 1) strengthening on loan restrictions to insiders; and 2) expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution’s board of directors.

**Corporate Governance.** The Dodd-Frank Act addresses many corporate governance and executive compensation matters that have affected or will affect most U.S. publicly traded companies, including us. The Dodd-Frank Act: 1) grants stockholders of U.S. publicly-traded companies an advisory vote on executive compensation; 2) adds disclosure and voting requirements for golden parachute compensation that is payable to named executive officers in connection with sale transactions; 3) enhances independence requirements for compensation committee members; 4) requires compensation committees to select compensation consultants, counsel or other advisers only after considering certain factors that affect their independence; 5) will require companies listed on national securities exchanges to adopt incentive-based compensation claw-back policies for executive officers; 6) will require U.S. publicly-traded companies to disclose information that shows the relationship between executive compensation and financial performance and the ratio of the compensation of the CEO to the median compensation of employees; and 7) provides the SEC with authority to issue rules requiring companies to include stockholder nominees for director in their proxy materials and to adopt procedures for companies to comply with these new rules. The SEC has adopted final implementing rules regarding the stockholder advisory vote on compensation, golden parachute payments, compensation committee independence and advisers, and has proposed rules on CEO-to-median employee pay ratio disclosure. The SEC also promulgated rules, which would have required public companies, under certain circumstances, to include stockholder-nominated candidates for director in their proxy statements. These proxy access rules were subsequently invalidated by a federal appeals court decision, though the SEC could propose new rules in the future. In addition, the SEC amended an existing rule, which is unaffected by the federal appeals court’s decision, that may require companies to include in their proxy materials stockholder proposals that seek to adopt procedures for including stockholder director nominees in future company proxy materials.

**Debit Interchange Fees and Routing.** The so-called Durbin Amendment, and the Federal Reserve’s implementing regulations, require that, unless exempt, bank issuers may only receive an interchange fee from merchants that is reasonable and proportional to the cost of clearing the transaction. This limitation applies to banks with total assets, when aggregated or consolidated with the assets of all their affiliates, of \$10 billion or more. In 2014, the Company earned \$2.0 million in debit card interchange fees. In addition, other provisions of the Durbin Amendment and the Federal Reserve’s regulations also require that banks enable all debit cards with two or more unaffiliated payment networks. Moreover, banks are prohibited from placing restrictions or limiting a merchant’s ability to route an

electronic debit transaction initiated through a debit card through any enabled network. These rules became effective on October 1, 2011. For further discussion on the impact to the Company, see the risk factor discussed on page 23. Additional regulations called for in the Dodd-Frank Act, include regulations dealing with the risk retention requirements for assets transferred in a securitization and implementing restrictions on a banking organization's proprietary trading and sponsorship or ownership of private equity funds or hedge funds. While our current assessment is that the Dodd-Frank Act and its implementing regulations will not have a materially greater effect on the Company than the rest of the industry, given the

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uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements or limit our growth or expansionary activities. Failure to comply with the new requirements would negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

The Company was a participant in programs established by the U.S. Treasury Department under the authority contained in the Emergency Economic Stabilization Act of 2008 (enacted on October 3, 2008) and the American Recovery and Reinvestment Act of 2009 (enacted on February 17, 2009). Among other matters, these laws: provide for the government to invest additional capital into banks and otherwise facilitate bank capital formation (commonly referred to as the TARP);

increase the limits on federal deposit insurance; and

provide for various forms of economic stimulus, including assisting homeowners in restructuring and lowering mortgage payments on qualifying loans.

During 2008, in addition to two private offerings raising a total of approximately \$80 million in capital, the Company also took advantage of TARP Capital Purchase Program or the CPP to raise \$140 million of new capital and strengthen its balance sheet.

Enacted into law as part of the Small Business Jobs Act of 2010, the SBLF is a dedicated investment fund that encourages lending to small businesses by providing capital to qualified community banks, with assets of less than \$10 billion. Under the SBLF, Treasury makes a capital investment into community banks the dividend payment on which is adjusted depending on the growth in the bank's qualifying small business lending. On September 27, 2011, as part of the SBLF program, the Company sold \$141 million of Non-Cumulative Perpetual Preferred Stock, Series B, to the Secretary of the Treasury, and used approximately \$140.8 million of these proceeds to redeem the 140,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, issued in 2008 to the Treasury under the CPP, plus the accrued and unpaid dividends owed. As a result of its redemption of the CPP preferred stock, the Company is no longer subject to the limits on executive compensation and other restrictions stipulated under CPP. The Company will be subject to all terms, conditions and other requirements for participation in SBLF for as long as any SBLF Preferred Stock remains outstanding. Initially established at 5%, the dividend rate can vary from as low as 1% to 9% in part depending upon the Company's success in qualified small business lending. During the years ended December 31, 2014 and 2013, the Company's dividend rate was locked in at 1% until the first quarter of 2016, at which time, the dividend rate will rise to 9% if not redeemed.

On December 19, 2014, the Company redeemed 70,500 of its 141,000 shares of non-cumulative perpetual preferred stock, Series B. The shares were redeemed at their liquidation value of \$1,000 per share plus accrued dividends for a total redemption price of \$70.7 million. Following this partial redemption, the Company has 70,500 outstanding shares of its Series B preferred stock as of December 31, 2014.

### Supervision and Regulation

The Company and its subsidiaries are extensively regulated and supervised under both federal and state laws. A summary description of the laws and regulations which relate to the Company's operations are discussed in Item 7 of this Form 10-K.

### Additional Available Information

The Company maintains an Internet website at <http://www.westernalliancebancorp.com>. The Company makes available its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act and other information related to the Company free of charge, through this site as soon as reasonably practicable after it electronically files those documents with, or otherwise furnishes them to the SEC. The SEC maintains an Internet site,

<http://www.sec.gov>, in which all forms filed electronically may be accessed. The Company's internet website and the information contained therein are not intended to be incorporated in this Form 10-K.

In addition, copies of the Company's annual report will be made available, free of charge, upon written request.



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Item 1A. Risk Factors.

Investing in our common stock involves various risks, many of which are specific to the Company. Several of these risks and uncertainties, are discussed below and elsewhere in this report. This listing should not be considered as all-inclusive. These factors represent risks and uncertainties that could have a material adverse effect on our business, results of operations and financial condition. Other risks that we do not know about now, or that we do not currently believe are significant, could negatively impact our business or the trading price of our securities. In addition to common business risks such as theft, loss of market share and disasters, the Company is subject to special types of risk due to the nature of its business. See additional discussions about credit, interest rate, market and litigation risks in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and additional information regarding legislative and regulatory risks in the "Supervision and Regulation" section therein.

Risks Relating to Our Business

Our financial performance may be adversely affected by conditions in the financial markets and economic conditions generally and at other financial institutions.

Our financial performance generally, and, in particular, the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where we operate and in the U.S. as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, natural disasters, terrorist attacks, or a combination of these or other factors.

In the U.S. financial services industry, the commercial soundness of financial institutions is closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore could adversely affect us.

Following the financial crisis in 2008, the financial services industry and the securities markets were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity, leading to substantially increased volatility in global markets and an overall loss of investor confidence. These market conditions led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, combined to increase credit default swap spreads and to cause rating agencies to lower credit ratings in prior years. Despite recent stabilization in asset prices, and economic performance, and historically low Federal Reserve borrowing rates, there remains a risk of continued asset and economic deterioration, which may increase the cost and decrease the availability of liquidity. Additionally, some banks and other lenders suffered significant losses during the financial crisis and are now less willing and/or able to lend, even on a secured basis, because of capital and other regulatory limitations, potentially increased risks of default and the impact of declining asset values on collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide.

It is possible that the business environment in the U.S. will continue to be relatively weak for the foreseeable future. There can be no assurance that these conditions will improve in the near term. Such conditions could adversely affect the credit quality of our loans, our results of operations and our financial condition.

The Company is highly dependent on real estate and events that negatively impact the real estate market will hurt our business and earnings.

The Company is located in areas in which economic growth is largely dependent on the real estate market, and a substantial majority of our loan portfolio is secured by or otherwise dependent on real estate. A decline in real estate activity, even if less severe than occurred in 2009 and 2008, would likely cause a decline in asset and deposit growth

and negatively impact our earnings and financial condition.

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The Company's high concentration of CRE, construction and land development and commercial and industrial loans expose us to increased lending risks.

CRE, construction and land development and commercial and industrial loans (including municipal and non-profit loans), comprised approximately 94% of our total loan portfolio as of December 31, 2014, exposed the Company to a greater risk of loss than residential real estate and consumer loans, which comprised a smaller percentage of the total loan portfolio at December 31, 2014. CRE, land development, and commercial and industrial loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan. In addition, real estate construction, acquisition and development loans have certain risks that are not present in other types of loans. The primary credit risks associated with real estate construction, acquisition and development loans are underwriting, project risks and market risks. Project risks include cost overruns, borrower credit risk, project completion risk, general contractor credit risk and environmental and other hazard risks. Market risks are risks associated with the sale of completed residential and commercial units. Such risks include affordability, which means the risk that borrowers cannot obtain affordable financing, product design risk, and risks posed by competing projects. Real estate construction, acquisition and development loans also involve additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets.

Because of the uncertainties inherent in estimating construction costs and the realizable market value of completed projects and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, real estate construction, acquisition and development loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance and accrued interest on the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it. The adverse effects of the foregoing matters upon our real estate construction, acquisition and development portfolio could lead to an increase in non-performing loans related to this portfolio and these non-performing loans may result in a material level of charge-offs, which may have a material adverse effect on our financial condition and results of operations.

Actual credit losses may exceed the losses that we expect in our loan portfolio, which could require us to raise additional capital. If we are unable to raise additional capital, our financial condition, results of operations and capital could be materially and adversely affected.

Credit losses are inherent in the business of making loans. We make various assumptions and judgments about the collectability of our consolidated loan portfolio and maintain an allowance for estimated credit losses based on a number of factors, including the size of the portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management's assessment of the credit risk inherent in the portfolio, historical loan loss experience and loan underwriting policies. In addition, the Company evaluates all loans identified as problem loans and augments the allowance based upon its estimation of the potential loss associated with those problem loans. Additions to the allowance for credit losses recorded through the Company's provision for credit losses decrease the Company's net income. If such assumptions and judgments are incorrect, the Company's actual credit losses may exceed our allowance for credit losses.

At December 31, 2014, our allowance for credit losses was \$110.2 million. Deterioration in the real estate market and/or general economic conditions could affect the ability of our loan customers to service their debt, which could result in additional loan provisions and increases in our allowance for credit losses. Any increases in the provision or allowance for credit losses will result in a decrease in our net income and, potentially, capital, and may have a material

adverse effect on our financial condition and results of operations. Moreover, because future events are uncertain and because we may not successfully identify all deteriorating loans in a timely manner, there may be loans that deteriorate in an accelerated time frame. If actual credit losses materially exceed our allowance for credit losses, we may be required to raise additional capital, which may not be available to us on acceptable terms or at all. Our inability to raise additional capital on acceptable terms when needed could materially and adversely affect our financial condition, results of operations and capital.

In addition, we may be required to increase our allowance for credit losses based on changes in economic and real estate market conditions, new information regarding existing loans, input from regulators in connection with their review of our allowance, changes in regulatory guidance regulations or accounting standards, identification of additional problem loans and

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other factors, both within and outside of our management's control. Increases to our allowance for credit losses could negatively affect our financial condition and earnings.

Because of the geographic concentration of our assets, our business is highly susceptible to local economic conditions. Our business is primarily concentrated in selected markets in Arizona, California and Nevada. As a result of this geographic concentration, our financial condition and results of operations depend largely upon economic conditions in these market areas. Deterioration in economic conditions in these markets could result in one or more of the following: an increase in loan delinquencies; an increase in problem assets and foreclosures; a decrease in the demand for our products and services; or a decrease in the value of collateral for loans, especially real estate, in turn reducing customers' borrowing power, the value of assets associated with problem loans and collateral coverage.

The downgrade of the U.S. government's sovereign credit rating, any similar rating agency action in the future, debt crises in Europe and other countries, and downgrades of the sovereign credit ratings of several European nations could negatively impact our business, financial condition and results of operations.

The impact of downgrades to the U.S. government's sovereign credit rating by rating agencies, as well as any perceived credit weakness of U.S. government-related obligations, is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions and have a material adverse effect on our business, financial condition and results of operation.

In addition, while we don't have direct foreign exposure, certain European nations and other countries continue to experience varying degrees of financial stress. Risks related to European economic conditions have had, and are likely to continue to have, a negative impact on global economic activity and the financial markets. If these conditions persist, our financial condition and results of operations could be materially adversely affected.

The Company's financial instruments expose it to certain market risks and may increase the volatility of reported earnings.

The Company holds certain financial instruments measured at fair value. For those financial instruments measured at fair value, the Company is required to recognize the changes in the fair value of such instruments in earnings.

Therefore, any increases or decreases in the fair value of these financial instruments have a corresponding impact on reported earnings. Fair value can be affected by a variety of factors, many of which are beyond our control, including our credit position, interest rate volatility, capital markets volatility and other economic factors. Accordingly, our earnings are subject to mark-to-market risk and the application of fair value accounting may cause our earnings to be more volatile than would be suggested by our underlying performance.

If the Company lost a significant portion of its core deposits or its cost of funding deposits increased significantly, it could negatively impact our liquidity and/or profitability.

The Company's profitability depends in part on successfully attracting and retaining a stable base of relatively low-cost deposits. While we generally do not believe these core deposits are sensitive to interest rate fluctuations, the competition for these deposits in our markets is strong and, as economic conditions improve, customers may demand higher interest rates on their deposits or seek other investments offering higher rates of return. A reduction in our deposit balances would require us to borrow from other sources at higher rates, which could adversely impact our liquidity and profitability. The Company is a member of the Promontory Interfinancial Network, and offers its reciprocal deposit products, such as CDARS and ICS, to customers seeking federal insurance for deposit amounts that exceed the applicable deposit insurance limit at a single institution. Any event or circumstance that interferes with or limits our ability to offer these products to customers that require greater security for their deposits, such as a significant regulatory enforcement action or a significant decline in capital levels at our bank subsidiary, could negatively impact our ability to attract and retain deposits. For further discussion of CDARS and ICS, see "Note 7. Deposits" to the Consolidated Financial Statements included in this Form 10-K. If the Company were to lose a significant portion of its low-cost deposits, it would negatively impact its liquidity and profitability.

From time to time, the Company has been dependent on borrowings from the FHLB and the FRB, and there can be no assurance these programs will be available as needed.

As of December 31, 2014, the Company has borrowings from the FHLB of San Francisco of \$307.1 million and no borrowings from the FRB. In the past, the Company has been reliant on such borrowings to satisfy its short-term liquidity needs. The Company's borrowing capacity is generally dependent on the value of the Company's collateral

pledged to these entities. These lenders could reduce the borrowing capacity of the Company or eliminate certain types of collateral and could otherwise modify or even terminate its loan programs. Any change or termination could have an adverse effect on the Company's liquidity and profitability.

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The business may be adversely affected by internet fraud.

The Company is inherently exposed to many types of operational risk, including those caused by the use of computer, internet and telecommunications systems. These risks may manifest themselves in the form of fraud by employees, by customers, other outside entities targeting us and/or our customers that use our internet banking, electronic banking or some other form of our telecommunications systems. Although we devote substantial resources to maintaining secure systems and to preventing such incidents, given the increasing sophistication of possible perpetrators, and the growing use of electronic, internet-based and networked systems to conduct business directly or indirectly with our clients, fraud losses may occur regardless of the preventative and detection systems in place or if those systems fail or prove to be inadequate.

We may experience interruptions or breaches in our information system security.

We rely heavily on communications and information systems to conduct our business, and have devoted substantial resources in recent years to improving the security of these systems. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of these information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of these information systems could damage our reputation, result in direct financial losses or a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, we are susceptible to theft and fraudulent activity that may be committed against us or our clients, which may result in financial losses to us or our clients, privacy breaches against our clients, or damage to our reputation. Such activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, and other dishonest acts. In recent periods, there has been a rise in electronic theft and fraudulent activity within the financial services industry, especially in the commercial banking sector, due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity in recent periods.

In addition, our operations rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Although we take numerous protective measures to maintain the confidentiality, integrity and availability of our and our clients' information across all geographic and product lines, and endeavor to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, our computer systems, software and networks and those of our customers may be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber attacks and other events that could have an adverse security impact and result in significant losses by us and/or our customers. Despite the defensive measures we take to manage our internal technological and operational infrastructure, these threats may originate externally from third parties, such as foreign governments, organized criminal groups and other hackers, and outsource or infrastructure-support providers and application developers, or the threats may originate from within our organization. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified.

We also face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including vendors, exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source or cause of an attack on, or breach of, our operational systems, data or infrastructure. In addition, we may be at risk of an operational failure with respect to our clients' systems. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the outsourcing of some of our business operations, and the continued uncertain global economic

environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

We maintain insurance policies that we believe provide reasonable coverage at a manageable expense for an institution of our size and scope with similar technological systems. However, we cannot assure that these policies will afford coverage for all possible losses or would be sufficient to cover all financial losses, damages, penalties, including lost revenues, should we experience any one or more of our or a third party's systems failing or experiencing an attack.



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We rely on other companies to provide key components of our business infrastructure.

We have become increasingly dependent on third parties to provide key components for our business operations, such as data processing and storage, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. While we select these third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Furthermore, our vendors could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third party vendors also could create significant delays and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

A change in the Company's or Bank's credit worthiness could increase our cost of funding or adversely affect our liquidity.

Market participants regularly evaluate the creditworthiness of the Company and its long-term debt based on a number of factors, including our financial strength as well as factors not entirely within our control, including conditions affecting the financial services industry generally. There can be no assurance that we will not be subject to changes in our perceived credit worthiness. Changes could adversely affect the cost and other terms upon which we are able to obtain funding and our access to the capital markets, and could increase our cost of capital. Likewise, any loss of or decline in the credit rating assigned to WAB could impair its ability to attract deposits or to obtain other funding sources, or increase its cost of funding.

The Company's expansion strategy may not prove to be successful and our market value and profitability may suffer. The Company continually evaluates expansion through acquisitions of banks and other financial businesses, the organization of new banks and the expansion of our existing banks through establishment of new branches. Any future acquisitions will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other things: 1) difficulty of integrating the operations and personnel; 2) potential disruption of our ongoing business; 3) failure to retain key personnel at the acquired business; and 4) inability of our management to maximize our financial and strategic position by the successful implementation of uniform product offerings and the incorporation of uniform technology into our product offerings and control systems.

The economic crisis in 2008 also highlighted risks that are unique to acquisitions of financial institutions and banks and that are difficult to assess, including the risk that the acquired institution has troubled, illiquid, or bad assets or an unstable base of deposits or assets under management. The Company expects that competition for suitable acquisition candidates may be significant. We may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. The Company cannot assure that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions.

In addition to the acquisition of existing financial institutions, the Company may consider the organization of new banks in new market areas, although we do not have any current plans to organize a new bank. Any acquisition of an existing business or the organization of a new bank carries with it numerous risks, including the following:

- the inability to obtain any required regulatory approvals;
- significant costs and anticipated operating losses during the application and organizational phases, and the first years of operation of the new bank;
- the inability to secure or retain the services of qualified senior management;
- the local market may not accept the services of a bank owned and managed by a bank holding company headquartered outside of the market area of the bank;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
- the additional strain on management resources and internal systems and controls.

The Company cannot provide any assurance that it will be successful in overcoming these risks or any other problems encountered in connection with acquisitions or the organization of new banks. Potential regulatory enforcement actions, like a MOU, also may adversely affect our ability to engage in certain expansionary activities. The Company's inability to provide

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resources necessary for its subsidiary banks to meet the requirements of any regulatory action or otherwise to overcome these risks could have an adverse effect on the achievement of our business strategy and maintenance of our market value.

The Company's future success will depend on our ability to compete effectively in a highly competitive market. The Company faces substantial competition in all phases of our operations from a variety of different competitors. Our competitors, including large commercial banks, community banks, thrift institutions, mutual savings banks, credit unions, finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial institutions, compete with lending and deposit-gathering services offered by us. Increased competition in our markets may result in reduced loans and deposits or less favorable pricing. There is competition for financial services in the markets in which we conduct our businesses, including from many local commercial banks as well as numerous national and regionally based commercial banks. In particular, we have experienced intense price and terms competition in some of the lending lines of business in recent years. Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, larger competitors can achieve economies of scale and may offer a broader range of products and services or more attractive pricing than us. If we are unable to offer competitive products and services, our business may be negatively affected.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured depository institutions. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

The success of the Company is dependent upon its ability to recruit and retain qualified employees, especially seasoned relationship bankers.

The Company's business plan includes and is dependent upon hiring and retaining highly qualified and motivated executives and employees at every level. In particular, our relative success to date has been partly the result of our management's ability to identify and retain highly qualified employees with expertise in certain specialty areas or that have long-standing relationships in their communities. These professionals bring with them valuable customer relationships and have been an integral part of our ability to attract deposits and to expand our market share. From time to time, the Company recruits or utilizes the services of employees who are subject to restrictions on their ability to use confidential information of a prior employer, to freely compete with that employer, or to solicit customers of that employer. If the Company is unable to hire or retain qualified employees, or if new employees are subject to these types of restrictions, it may not be able to successfully execute its business strategy. If the Company or its employee is found to have violated any non-solicitation or other restrictions applicable to it or its employee, the Company or its employee could become subject to litigation or other proceedings.

The Company could be harmed if it lost the services of key members of its senior management team or senior relationship bankers.

We believe that our success to date has been substantially dependent on our senior management team, including, but not limited to, Robert Sarver, Chairman and CEO; Dale Gibbons, CFO; Robert R. McAuslan, CCO; John Guedry, Executive Vice President-Southern Nevada Administration; James Lundy, Executive Vice President-Arizona Administration; and Gerald Cady, Executive Vice President-California Administration. We also believe that our prospects for success in the future are dependent on retaining our senior management team and senior relationship bankers. In addition to their skills and experience as bankers, these persons provide us with extensive community ties upon which our competitive strategy is based. Our ability to retain these persons may be hindered by the fact that we have not entered into employment agreements with any of them. The loss of the services of any of these persons, particularly Mr. Sarver, could have an adverse effect on our business if we cannot replace them with equally qualified persons who are also familiar with our market areas.

Mr. Sarver's involvement in outside business interests requires substantial time and attention and may adversely affect the Company's ability to achieve its strategic plan.

Mr. Sarver joined the Company in December 2002 and is an integral part of our business. He has substantial business interests that are unrelated to us, including his position as managing partner of the Phoenix Suns National Basketball Association franchise. Mr. Sarver's other business interests demand significant time commitments, the intensity of which may vary throughout the year. Mr. Sarver's other commitments may reduce the amount of time he has available to devote to our business. We believe that Mr. Sarver spends the substantial majority of his business time on matters related to our company. However, a significant reduction in the amount of time Mr. Sarver devotes to our business may adversely affect our ability to achieve our strategic plan.

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Terrorist attacks and threats of war or actual war may impact all aspects of our operations, revenues, costs and stock price in unpredictable ways.

Terrorist attacks in the U.S., as well as future events occurring in response or in connection to them including, without limitation, future terrorist attacks against U.S. targets, rumors or threats of war, actual conflicts involving the U.S. or its allies or military or trade disruptions, may impact our operations. Any of these events could cause consumer confidence and savings to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. Any of these occurrences could have an adverse impact on the Company's operating results, revenues and costs and may result in the volatility of the market price for our securities, including our common stock, and impair their future price.

Our risk management practices may prove to be inadequate or not fully effective.

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established policies and procedures intended to identify, monitor and manage the types of risk to which we are subject, including credit risk, market risk, liquidity risk, operational risk and reputational risk. In addition, as required by the Dodd-Frank Act, we created a new BOD-level risk committee in April of 2014, which approves and reviews the Company's risk management policies and oversees operation of our risk management framework. Although we have devoted significant resources to developing our risk management policies and procedures and expect to continue to do so in the future, these policies and procedures, as well as our risk management techniques, may not be fully effective. In addition, as regulations and markets in which we operate continue to evolve, our risk management framework may not always keep sufficient pace with those changes. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and could be materially adversely affected. Management of our risks in some cases depends upon the use of analytical and/or forecasting models. If the models we use to mitigate these risks are inadequate, we may incur increased losses. In addition, there may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated.

There are substantial risks and uncertainties associated with the introduction or expansion of lines of business or new products and services within existing lines of business.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible.

### Risks Related to the Banking Industry

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, may adversely affect us.

The Company is subject to extensive regulation, supervision, and legislation that govern almost all aspects of our operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Supervision and Regulation" included in this Form 10-K. Intended to protect customers, depositors and the DIF, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividends or distributions that our banking subsidiary can pay to the Company or the Company can pay to its stockholders, restrict the ability of affiliates to guarantee the Company's debt, impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP, among other things. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose significant additional compliance costs. Further, an alleged failure by us to comply with these laws and regulations, even if we acted in good faith or the alleged failure reflects a difference in interpretation, could subject the Company to additional restrictions on its business activities (including mergers, acquisitions and new branches), fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, into law. The Dodd-Frank Act has had, and will continue to have, a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act have been implemented through regulations issued by the SEC and Federal banking agencies, such as the FDIC and Federal Reserve, and the Company has had to take, and will need to continue to take, various actions, including the creation and implementation of compliance policies and procedures and other internal controls, by these rules' various compliance deadlines. Given the relatively recent vintage of our design and implementation of the compliance systems required to meet the requirements of the Dodd-Frank Act and its implementing regulations, the full extent of the impact of conducting business under this new

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compliance regime on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. In particular, the potential impact of the Dodd-Frank Act on our operations and activities, both currently and prospectively, may include, among others:

- a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;
- an increased cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;
- the limitation on our ability to raise qualifying regulatory capital through the use of trust preferred securities as these securities may no longer be included in Tier 1 capital going forward; and
- the limitations on our ability to offer certain consumer products and services due to anticipated stricter consumer protection laws and regulations.

Examples of these provisions include, but are not limited to:

creation of the Financial Stability Oversight Council that may recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;

- application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, such as the Company;
- changes to the assessment base used by the FDIC to assess insurance premiums from insured depository institutions and increases to the minimum reserve ratio for the DIF, from 1.15% to not less than 1.35%, with provisions to require institutions with total consolidated assets of \$10 billion or more to bear a greater portion of the costs associated with increasing the DIF's reserve ratio;
- repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- establishment of the CFPB with broad authority to implement new consumer protection regulations and, for banks and bank holding companies with \$10 billion or more in assets, to examine and enforce compliance with federal consumer financial protection laws;
- implementation of risk retention rules for loans (excluding qualified residential mortgages) that are sold by a bank; and
- amendment of the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to issue rules that limit debit-card interchange fees.

While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

During 2014, WAB and the Company each increased their respective total consolidated assets above \$10 billion, and both will be subject to new regulations and oversight not applicable in the past.

During the second quarter of 2014, WAB and the Company increased total consolidated assets to over \$10 billion.

The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank consumers. Importantly, for banking organizations with assets of \$10 billion or more like WAB and the Company, the CFPB has exclusive rulemaking and examination authority, and primary enforcement authority for most federal consumer financial services laws. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB. Compliance with any such new regulations would increase our cost of operations, and the Company will be subject to new examinations conducted by the CFPB. Failure to comply with these new requirements or receiving adverse examination findings from the CFPB, among other things, may negatively impact our results of operations and financial condition.

Other Dodd-Frank Act requirements will also be applicable to WAB and the Company. For example, the Company must conduct annual stress tests using various scenarios established by the Federal Reserve, including a baseline,

adverse and severely adverse economic conditions. The stress test is designed to determine whether our capital planning, assessment of



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capital adequacy and risk management practices adequately protect the Company and its affiliates in the event of an economic downturn. The Company must establish adequate internal controls, documentation, policies and procedures to ensure the annual stress adequately meets these objectives. The BOD must review our policies and procedures at least annually. We will be required to report the results of our annual stress to the Federal Reserve and we must consider the results of our stress test as part of our capital planning and risk management practices.

With respect to deposit-taking activities, banks with assets in excess of \$10 billion are subject to two changes. First, these institutions are subject to a deposit assessment based on a new scorecard issued by the FDIC. This scorecard considers, among other things, the Bank's CAMELS rating, results of asset-related stress testing and funding-related stress, as well our use of core deposits, among other things. Depending on the results of the bank's performance under that scorecard, the total base assessment rate is between 2.5 to 45 basis points. Additionally, banks with over \$10 billion in total assets are no longer exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards. This means that, beginning on July 1, 2015, WAB will be limited to receiving only a "reasonable" interchange transaction fee for any debit card transactions processed using debit cards issued by the bank to its customers. The Federal Reserve has determined that it is unreasonable for a bank with more than \$10 billion in total assets to receive more than \$0.21 plus 5 basis points of the transaction plus a \$0.01 fraud adjustment for an interchange transaction fee for debit card transactions.

The Company may expend additional resources necessary to comply with these new regulatory requirements. Increased deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source. Likewise, a reduction in the amount of interchange fees we receive for electronic debit interchange will reduce our revenues. In 2014, the Company earned \$2.0 million in debit card interchange fees. Finally, failure to meet the enhanced prudential standards and stress testing requirements could limit, among other things, our ability to engage in expansionary activities or make dividend payments to our shareholders.

State and federal banking agencies periodically conduct examinations of our business, including for compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect us.

State and federal banking agencies periodically conduct examinations of our business, including for compliance with laws and regulations. If, as a result of an examination, an agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that any of our banks or their management was in violation of any law or regulation, federal banking agencies may take a number of different remedial or enforcement actions it deems appropriate to remedy such a deficiency. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the bank's capital, to restrict the bank's growth, to assess civil monetary penalties against the bank's officers or directors, to remove officers and directors and, if the FDIC concludes that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the bank's deposit insurance. Under Arizona law, the state banking supervisory authority has many of the same enforcement powers with respect to its state-chartered banks. Finally, the CFPB has the authority to examine and supervise us and has authority to take enforcement actions, including the issuance of cease-and-desist orders or civil monetary penalties against us if it finds that we offer consumer financial products and services in violation of federal consumer financial protection laws or in an unfair, deceptive or abusive manner.

If we were unable to comply with regulatory directives in the future, or if we were unable to comply with the terms of any future supervisory requirements to which we may become subject, then we could become subject to a variety of supervisory actions and orders, including cease and desist orders, prompt corrective actions, MOUs, and/or other regulatory enforcement actions. If our regulators were to take such supervisory actions, then we could, among other things, become subject to greater restrictions on our ability to develop any new business, as well as restrictions on our existing business, and we could be required to raise additional capital, dispose of certain assets and liabilities within a prescribed period of time, or both. Failure to implement the measures in the time frames provided, or at all, could result in additional orders or penalties from federal and state regulators, which could result in one or more of the remedial actions described above. In the event WAB was ultimately unable to comply with the terms of a regulatory

enforcement action, it could ultimately fail and be placed into receivership by the chartering agency. The terms of any such supervisory action and the consequences associated with any failure to comply therewith could have a material negative effect on our business, operating flexibility and financial condition.

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Changes in interest rates and increased rate competition could adversely affect our profitability, business and prospects.

Most of the Company's assets and liabilities are monetary in nature, which subjects us to significant risks from changes in interest rates and can impact our net income and the valuation of our assets and liabilities. Increases or decreases in prevailing interest rates could have an adverse effect on our business, asset quality and prospects. The Company's operating income and net income depend to a great extent on our net interest margin. Net interest margin is the difference between the interest yields we receive on loans, securities and other earning assets and the interest rates we pay on interest bearing deposits, borrowings and other liabilities. These rates are highly sensitive to many factors beyond our control, including competition, general economic conditions and monetary and fiscal policies of various governmental and regulatory authorities, including the Federal Reserve. If the rate of interest we pay on our interest bearing deposits, borrowings and other liabilities increases more than the rate of interest we receive on loans, securities and other earning assets increases, our net interest income, and therefore our earnings, would be adversely affected. The Company's earnings also could be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other liabilities. We have recently experienced increased competition for loans on the basis of interest rates.

In addition, loan volumes are affected by market interest rates on loans. Rising interest rates generally are associated with a lower volume of loan originations, while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates will decline and in falling interest rate environments, loan repayment rates will increase. The Company cannot guarantee that it will be able to minimize interest rate risk. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations.

Interest rates also affect how much money the Company can lend. When interest rates rise, the cost of borrowing increases. Accordingly, changes in market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, business, financial condition, results of operations and cash flows.

The Company is exposed to risk of environmental liabilities with respect to properties to which we obtain title. Approximately 63% of the Company's loan portfolio at December 31, 2014 was secured by real estate. In the course of our business, the Company may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could be substantial and adversely affect our business and prospects.

### Risks Related to our Common Stock

The price of our common stock has increased substantially in the past several years and may fluctuate significantly in the future, which may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.

The price of our common stock on New York Stock Exchange constantly changes, and has increased substantially the past three years. We expect that the market price of our common stock will continue to fluctuate and there can be no assurances about the market prices for our common stock.

Our stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- sales of our equity securities;
- our financial condition, performance, creditworthiness and prospects;
- quarterly variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of strategic developments, acquisitions and other material events by us or our competitors;

the operating and securities price performance of other companies that investors believe are comparable to us;

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the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally;

changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events; and

our past and future dividend practices.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. We also grant a significant number of shares of common stock to employees and directors under our Incentive Plan each year. The issuance of any additional shares of our common stock or preferred stock or securities convertible into, exchangeable for or that represent the right to receive common stock or the exercise of such securities could be substantially dilutive to stockholders of our common stock. Holders of our common stock have no preemptive rights that entitle such holders to purchase their pro rata share of any offering of shares of any class or series. Because our decision to issue securities in any future offering will depend on market conditions and other factors, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

Offerings of debt, which would be senior to our common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.

We may from time to time issue debt securities, borrow money through other means, or issue preferred stock. On August 25, 2010, the Company completed a public offering of \$75 million in principal Senior Notes due in 2015. In 2011, we issued preferred stock to the federal government under the SBLF program, and from time to time we have borrowed money from the FRB, the FHLB, other financial institutions and other lenders. All of these securities or borrowings have priority over the common stock in a liquidation, which could affect the market price of our stock. The SBLF preferred stock also may restrict our ability to pay dividends on our common stock under certain circumstances.

Our BOD is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Our BOD also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Anti-takeover provisions could negatively impact our stockholders.

Provisions of Delaware law and provisions of our Certificate of Incorporation and our Bylaws, as amended, could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. Additionally, our Certificate of Incorporation, as amended, authorizes our BOD to issue additional series of preferred stock and such preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2014, the Company and WAB are headquartered at One E. Washington Street in Phoenix, Arizona. In addition, the Company owns and occupies a 36,000 square foot operations facility in Las Vegas, Nevada, has 5 executive and administrative facilities, three of which are owned and are located in Las Vegas, Nevada; San Diego, California; Oakland, California; Phoenix, Arizona and Reno, Nevada.

At December 31, 2014, the Company operated 40 domestic branch locations, of which 19 are owned and 21 are leased. See "Item 1. Business" for location cities. For information regarding rental payments, see "Note 4. Premises and Equipment" of the Consolidated Financial Statements included in this Form 10-K.

The Company continually evaluates the suitability and adequacy of its offices. Management believes that the existing facilities are adequate for present and anticipated future use.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or to which any of our properties are subject. There are no material proceedings known to us to be contemplated by any governmental authority. See the "Supervision and Regulation" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K for additional information. From time to time, we are involved in a variety of litigation matters in the ordinary course of our business and anticipate that we will become involved in new litigation matters in the future.

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

## Market Information

The Company's common stock began trading on the New York Stock Exchange under the symbol "WAL" on June 30, 2005. The Company has filed, without qualifications, its 2014 Domestic Company Section 303A CEO Certification regarding its compliance with the NYSE's corporate governance listing standards. The following table presents the high and low sales prices of the Company's common stock for each quarterly period for the last two years as reported by The NASDAQ Global Select Market:

	2014 Quarters				2013 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Range of stock prices:								
High	\$28.31	\$25.21	\$25.75	\$25.72	\$24.74	\$19.01	\$16.26	\$14.51
Low	21.43	22.01	20.76	20.56	18.64	15.95	13.32	10.77

## Holders

At December 31, 2014, there were approximately 1,298 stockholders of record. This number does not include stockholders who hold shares in the name of brokerage firms or other financial institutions. The Company is not provided the exact number of or identities of these stockholders. There are no other classes of common equity outstanding.

## Dividends

WAL is a legal entity separate and distinct from WAB and the non-bank subsidiary. As a holding company with limited significant assets other than the capital stock of our subsidiaries, WAL's ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from our subsidiaries. Our subsidiaries' ability to pay dividends to WAL is subject to, among other things, their individual earnings, financial condition and need for funds, as well as federal and state governmental policies and regulations applicable to WAL and each of those subsidiaries, which limit the amount that may be paid as dividends without prior approval. See the additional discussion in the "Supervision and Regulation" section of this report for information regarding restrictions on the ability to pay cash dividends. In addition, the terms and conditions of other securities we issue may restrict our ability to pay dividends to holders of our common stock. For example, if any required payments on outstanding trust preferred securities or our SBLF preferred stock are not made, WAL would be prohibited from paying cash dividends on our common stock. WAL has never paid a cash dividend on its common stock and does not anticipate paying any cash dividends in the foreseeable future.

## Sale of Unregistered Securities

None.

## Share Repurchases

There were no shares repurchased during 2014 or 2013.

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## Performance Graph

The following graph summarizes a five year comparison of the cumulative total returns for the Company's common stock, the Standard & Poor's 500 stock index and the KBW Regional Banking Total Return Index, each of which assumes an initial value of \$100.00 on December 31, 2009 and reinvestment of dividends.

## Item 6. Selected Financial Data

The following selected financial data have been derived from the Company's consolidated financial condition and results of operations, as of and for the years ended December 31, 2014, 2013, 2012, 2011, and 2010, and should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere in this report:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
Results of Operations:					
Interest income	\$416,379	\$362,655	\$318,295	\$296,591	\$281,813
Interest expense	31,486	29,760	28,032	38,923	49,260
Net interest income	384,893	332,895	290,263	257,668	232,553
Provision for credit losses	4,726	13,220	46,844	46,188	93,211
Net interest income after provision for credit losses	380,167	319,675	243,419	211,480	139,342
Non-interest income	25,441	22,247	46,505	34,457	46,836
Non-interest expense	208,109	196,266	188,860	195,598	196,758
Income (loss) from continuing operations before provision for income taxes	197,499	145,656	101,064	50,339	(10,580 )
Income tax expense (benefit)	48,390	29,830	25,935	16,849	(6,410 )
Income (loss) from continuing operations	149,109	115,826	75,129	33,490	(4,170 )
Loss from discontinued operations, net of tax	(1,158 )	(861 )	(2,490 )	(1,996 )	(3,025 )
Net income (loss)	\$147,951	\$114,965	\$72,639	\$31,494	\$(7,195 )

The Company adopted the amended guidance in ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, beginning on January 1, 2014. As a result, prior period financial information has been adjusted to conform to the amended guidance. See "Note 14. Income Taxes," for further discussion of the impact of these changes on the prior period Consolidated Financial Statements.



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	Year Ended December 31,					
	2014	2013	2012	2011	2010	
	(in thousands, except per share data)					
Per Share Data:						
Earnings (loss) per share applicable to common stockholders--basic	\$ 1.69	\$ 1.33	\$ 0.84	\$ 0.19	\$(0.23	)
Earnings (loss) per share applicable to common stockholders--diluted	1.67	1.31	0.83	0.19	(0.23	)
Earnings (loss) per share from continuing operations--basic	1.70	1.34	0.87	0.21	(0.19	)
Earnings (loss) per share from continuing operations--diluted	1.69	1.32	0.86	0.21	(0.19	)
Book value per common share	10.49	8.20	7.15	6.02	5.77	
Shares outstanding at period end	88,691	87,186	86,465	82,362	81,669	
Weighted average shares outstanding--basic	86,693	85,682	82,285	80,909	75,083	
Weighted average shares outstanding--diluted	87,506	86,541	82,912	81,183	75,083	
Selected Balance Sheet Data:						
Cash and cash equivalents	\$ 164,396	\$ 305,514	\$ 204,625	\$ 154,995	\$ 216,746	
Investment securities and other	1,522,546	1,659,370	1,236,648	1,490,501	1,273,098	
Loans, net of deferred loan fees and costs	8,398,265	6,801,415	5,709,318	4,780,069	4,240,542	
Allowance for credit losses	110,216	100,050	95,427	99,170	110,699	
Total assets	10,600,498	9,307,342	7,622,442	6,844,541	6,193,883	
Total deposits	8,931,043	7,838,205	6,455,177	5,658,512	5,338,441	
Other borrowings	390,263	341,096	193,717	353,321	72,964	
Junior subordinated debt, at fair value	40,437	41,858	36,218	36,985	43,034	
Total stockholders' equity	1,000,928	855,498	759,421	636,683	602,174	
Selected Other Balance Sheet Data:						
Average assets	\$ 9,891,109	\$ 8,500,324	\$ 7,193,425	\$ 6,486,396	\$ 6,030,609	
Average earning assets	9,270,465	7,887,584	6,685,107	5,964,056	5,526,521	
Average stockholders' equity	964,131	798,497	691,004	631,361	601,412	
Selected Financial and Liquidity Ratios:						
Return on average assets	1.50	% 1.35	% 1.01	% 0.49	% (0.12	)%
Return on average tangible common equity	18.52	18.28	13.97	6.89	(1.67	)
Net interest margin	4.42	4.39	4.49	4.37	4.23	
Loan to deposit ratio	94.04	86.77	88.45	84.48	79.43	
Capital Ratios:						
Leverage ratio	9.7	% 9.8	% 10.1	% 9.8	% 9.5	%
Tier 1 risk-based capital ratio	10.5	11.1	11.3	11.3	12.0	
Total risk-based capital ratio	11.7	12.4	12.6	12.6	13.2	
Average equity to average assets	9.7	9.4	9.6	9.7	10.0	
Selected Asset Quality Ratios:						
Non-accrual loans to gross loans	0.81	% 1.11	% 1.83	% 1.89	% 2.76	%
	1.18	1.53	2.39	2.62	3.63	

Non-accrual loans and repossessed  
assets to total assets

Loans past due 90 days or more and still accruing to total loans	0.06		0.02		0.02		0.05		0.03
Allowance for credit losses to total loans	1.31		1.47		1.67		2.07		2.61
Allowance for credit losses to non-accrual loans	162.90		132.20		91.13		109.71		94.62
Net (recoveries) charge-offs to average loans	(0.07	)	0.14		0.99		1.32		2.22

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Item 7. Management's Discussions and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with “Item 8. Financial Statements and Supplementary Data.” This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions. Certain risks, uncertainties and other factors, including, but not limited to, those set forth under “Cautionary Note Regarding Forward-Looking Statements” at the beginning of this Form 10-K, may cause actual results to differ materially from those projected in the forward-looking statements.

Financial Overview and Highlights

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. The Bank operates the following full-service banking divisions: ABA in Arizona, FIB in Northern Nevada, BON in Southern Nevada, and TPB in California. The Company also serves business customers through a robust national platform of specialized financial services including AAB, WACF, WAEF, WAPF, WARF, and WAWL. On July 1, 2014, all of the outstanding shares of common stock of WAEF, which was previously a subsidiary of WAL, were contributed to WAB by WAL and it is now a subsidiary of the Bank. In addition, the Company has one non-bank subsidiary, LVSP, which holds and manages certain non-performing loans and OREO.

Financial Result Highlights of 2014

Net income available to common stockholders for the Company was \$146.6 million, or \$1.67 per diluted share for 2014, compared to \$113.6 million, or \$1.31 per diluted share for 2013.

The significant factors impacting earnings of the Company during 2014 were:

• Pre-tax, pre-provision operating earnings (see Non-GAAP Financial Measures beginning on page 32) increased \$34.3 million to \$195.5 million, compared to \$161.2 million for 2013.

• The Company experienced loan growth of \$1.60 billion to \$8.40 billion at December 31, 2014 from \$6.80 billion at December 31, 2013.

• During 2014, the Company increased deposits by \$1.09 billion to \$8.93 billion at December 31, 2014 from \$7.84 billion at December 31, 2013.

• Other assets acquired through foreclosure declined by \$9.5 million to \$57.2 million at December 31, 2014 from \$66.7 million at December 31, 2013.

Provision for credit losses for 2014 decreased by \$8.5 million to \$4.7 million compared to \$13.2 million for 2013 as net charge-offs also declined by \$14.0 million to net recoveries of \$5.4 million in 2014 compared to net charge-offs of \$8.6 million in 2013.

Key asset quality ratios improved for 2014 compared to 2013. Non-accrual loans and repossessed assets to total assets improved to 1.18% from 1.53% in 2013 and non-accrual loans to gross loans improved to 0.81% at the end of 2014 compared to 1.11% at the end of 2013.

The impact to the Company from these items, and others of both a positive and negative nature, are discussed in more detail below as they pertain to the Company's overall comparative performance for the year ended December 31, 2014. As a bank holding company, management focuses on key ratios in evaluating the Company's financial condition and results of operations.

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## Results of Operations and Financial Conditions

A summary of our results of operations, financial condition, and select metrics are included in the following tables:

	Year Ended December 31,			
	2014	2013	2012	
	(in thousands, except per share amounts)			
Net income available to common stockholders	\$ 146,564	\$ 113,555	\$ 68,846	
Earnings per share applicable to common stockholders - basic	1.69	1.33	0.84	
Earnings per share applicable to common stockholders - diluted	1.67	1.31	0.83	
Net interest margin	4.42	% 4.39	% 4.49	%
Return on average assets	1.50	1.35	1.01	
Return on average tangible common equity	18.52	18.28	13.97	

	December 31,	
	2014	2013
	(in thousands)	
Total assets	\$ 10,600,498	\$ 9,307,342
Loans, net of deferred loan fees and costs	8,398,265	6,801,415
Total deposits	8,931,043	7,838,205

## Asset Quality

For all banks and bank holding companies, asset quality plays a significant role in the overall financial condition of the institution and results of operations. The Company measures asset quality in terms of non-accrual loans as a percentage of gross loans and net charge-offs as a percentage of average loans. Net charge-offs are calculated as the difference between charged-off loans and recovery payments received on previously charged-off loans. The following table summarizes asset quality metrics:

	Year Ended December 31,			
	2014	2013	2012	
	(in thousands)			
Non-accrual loans	\$ 67,659	\$ 75,680	\$ 104,716	
Non-performing assets	214,661	233,509	267,960	
Non-accrual loans to gross loans	0.81	% 1.11	% 1.83	%
Net (recoveries) charge-offs to average loans	(0.07	) 0.14	0.99	

## Asset and Deposit Growth

The Company's assets and liabilities are comprised primarily of loans and deposits; therefore, the ability to originate new loans and attract new deposits is fundamental to the Company's growth. Total assets increased to \$10.60 billion at December 31, 2014 from \$9.31 billion at December 31, 2013. Total loans, net of deferred loan fees and costs, increased by \$1.60 billion, or 23.5%, to \$8.40 billion as of December 31, 2014, compared to \$6.80 billion as of December 31, 2013. Total deposits increased \$1.09 billion, or 13.9%, to \$8.93 billion as of December 31, 2014 from \$7.84 billion as of December 31, 2013.

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## RESULTS OF OPERATIONS

The following table sets forth a summary financial overview for the comparable periods:

	Year Ended December		Increase	Year Ended December		Increase
	31,	31,		31,	31,	
	2014	2013	(Decrease)	2013	2012	(Decrease)
	(in thousands, except per share amounts)					
Consolidated Statement of Operations Data:						
Interest income	\$416,379	\$362,655	\$53,724	\$362,655	\$318,295	\$44,360
Interest expense	31,486	29,760	1,726	29,760	28,032	1,728
Net interest income	384,893	332,895	51,998	332,895	290,263	42,632
Provision for credit losses	4,726	13,220	(8,494 )	13,220	46,844	(33,624 )
Net interest income after provision for credit losses	380,167	319,675	60,492	319,675	243,419	76,256
Non-interest income	25,441	22,247	3,194	22,247	46,505	(24,258 )
Non-interest expense	208,109	196,266	11,843	196,266	188,860	7,406
Income from continuing operations before income taxes	197,499	145,656	51,843	145,656	101,064	44,592
Income tax expense	48,390	29,830	18,560	29,830	25,935	3,895
Income from continuing operations	149,109	115,826	33,283	115,826	75,129	40,697
Loss from discontinued operations, net of tax	(1,158 )	(861 )	297	(861 )	(2,490 )	(1,629 )
Net income	\$147,951	\$114,965	\$32,986	\$114,965	\$72,639	\$42,326
Net income available to common stockholders	\$146,564	\$113,555	\$33,009	\$113,555	\$68,846	\$44,709
Earnings per share applicable to common stockholders - basic	\$1.69	\$1.33	\$0.36	\$1.33	\$0.84	\$0.49
Earnings per share applicable to common stockholders - diluted	\$1.67	\$1.31	\$0.36	\$1.31	\$0.83	\$0.48
Non-GAAP Financial Measures						

The following discussion and analysis contains financial information determined by methods other than those prescribed by GAAP. The Company's management uses these non-GAAP financial measures in their analysis of the Company's performance. These measurements typically adjust GAAP performance measures to exclude the effects of unrealized gains (losses) on assets and liabilities measured at fair value as well as other items to adjust income available to common stockholders for certain significant activities or transactions that, in management's opinion, do not reflect recurring period-to-period comparisons of the Company's performance. Management believes presentation of these non-GAAP financial measures provides useful supplemental information that is essential to a complete understanding of the operating results of the Company's core businesses. Since the presentation of these non-GAAP performance measures and their impact differ between companies, these non-GAAP disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

## Pre-Tax, Pre-Provision Operating Earnings

Pre-tax, pre-provision operating earnings adjusts the level of earnings to exclude the impact of income taxes, provision for credit losses and non-recurring or other items not considered part of the Company's core operations. Management believes that eliminating the effects of these items makes it easier to analyze underlying performance trends and enables investors to assess the Company's earnings power and ability to generate capital to cover credit losses.

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The following table shows the components of pre-tax, pre-provision operating earnings for the years ended December 31, 2014 and 2013:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Total non-interest income	\$25,441	\$22,247	\$46,505
Less:			
Gain (loss) on sales of investment securities, net	757	(1,195	) 3,949
Unrealized gains (losses) on assets and liabilities measured at fair value, net	1,212	(6,483	) 653
Bargain purchase gain from acquisition	—	10,044	17,562
Loss on extinguishment of debt	(502	) (1,387	) —
Gain on sale of subsidiary/non-controlling interest	—	—	892
Mutual fund gains	—	—	483
Legal settlements	—	38	879
Total operating non-interest income	23,974	21,230	22,087
Add: net interest income	384,893	332,895	290,263
Net operating revenue	\$408,867	\$354,125	\$312,350
Total non-interest expense	\$208,109	\$196,266	\$188,860
Less:			
Net (gain) loss on sales / valuations of repossessed and other assets	(5,421	) (2,387	) 4,207
Goodwill and intangible impairment	—	—	3,435
Merger / restructure expenses	198	5,752	2,819
Total operating non-interest expense	\$213,332	\$192,901	\$178,399
Pre-tax, pre-provision operating earnings	\$195,535	\$161,224	\$133,951

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## Tangible Common Equity

The following table presents financial measures related to tangible common equity. Tangible common equity represents total stockholders' equity less identifiable intangible assets, goodwill, and preferred stock. Management believes that tangible common equity financial measures are useful in evaluating the Company's capital strength, financial condition, and ability to manage potential losses. In addition, management believes that these measures improve comparability to other institutions that have not engaged in acquisitions that resulted in recorded goodwill and other intangibles.

	December 31,			
	2014	2013		
	(dollars and shares in thousands)			
Total stockholders' equity	\$1,000,928	\$855,498		
Less: goodwill and intangible assets	25,913	27,374		
Total tangible stockholders' equity	975,015	828,124		
Less: preferred stock	70,500	141,000		
Total tangible common equity	904,515	687,124		
Add: deferred tax - attributed to intangible assets	1,006	1,452		
Total tangible common equity, net of tax	\$905,521	\$688,576		
Total assets	\$10,600,498	\$9,307,342		
Less: goodwill and intangible assets, net	25,913	27,374		
Tangible assets	10,574,585	9,279,968		
Add: deferred tax - attributed to intangible assets	1,006	1,452		
Total tangible assets, net of tax	\$10,575,591	\$9,281,420		
Tangible equity ratio	9.2	% 8.9		%
Tangible common equity ratio	8.6	7.4		
Common shares outstanding	88,691	87,186		
Tangible book value per share, net of tax	\$10.21	\$7.90		

## Efficiency Ratio

The following table shows the components used in the calculation of the efficiency ratio, which management uses as a metric for assessing cost efficiency:

	Year Ended December 31,			
	2014	2013	2012	
	(dollars in thousands)			
Total operating non-interest expense	\$213,332	\$192,901	\$178,399	
Divided by: total net interest income	\$384,893	\$332,895	\$290,263	
Add:				
Tax equivalent interest adjustment	24,571	13,312	9,738	
Operating non-interest income	23,974	21,230	22,087	
Net operating revenue - TEB	433,438	367,437	322,088	
Efficiency ratio - TEB	49.2	% 52.5	% 55.4	%

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## Tier 1 Common Equity

The following tables present certain financial measures related to Tier 1 common equity, which is a component of Tier 1 risk-based capital. The FRB and other banking regulators have used Tier 1 common equity as a basis for assessing a bank's capital adequacy; therefore, management believes it is useful to assess financial condition and capital adequacy using this same basis. In addition, management believes that the classified assets to Tier 1 capital plus allowance measure is an important regulatory metric for assessing asset quality.

	December 31,			
	2014	2013		
	(dollars in thousands)			
Stockholders' equity	\$ 1,000,928	\$ 855,498		
Less:				
Accumulated other comprehensive income (loss)	16,639	(21,546	)	
Non-qualifying goodwill and intangibles	24,907	25,991		
Disallowed unrealized losses on equity securities	296	8,059		
Add: qualifying trust preferred securities	48,192	48,485		
Tier 1 capital (regulatory)	1,007,278	891,479		
Less:				
Qualifying trust preferred securities	48,192	48,485		
Preferred stock	70,500	141,000		
Tier 1 common equity	\$ 888,586	\$ 701,994		
Divided by:				
Risk-weighted assets (regulatory)	\$ 9,555,390	\$ 8,016,500		
Tier 1 common equity ratio	9.3	% 8.8		%
	December 31,			
	2014	2013		
	(dollars in thousands)			
Classified assets	\$ 225,739	\$ 270,375		
Divide:				
Tier 1 capital (regulatory)	1,007,278	891,479		
Plus: Allowance for credit losses	110,216	100,050		
Total Tier 1 capital plus allowance for credit losses	\$ 1,117,494	\$ 991,529		
Classified assets to Tier 1 capital plus allowance	20	% 27		%



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## Net Interest Margin

The net interest margin is reported on a TEB. A tax equivalent adjustment is added to reflect interest earned on certain municipal securities and loans that are exempt from Federal income tax. The following tables set forth the average balances and interest income on a fully TEB and interest expense for the periods indicated:

	Twelve Months Ended December 31,							
	2014				2013			
	Average Balance	Interest	Average Yield / Cost		Average Balance	Interest	Average Yield / Cost	
	(dollars in thousands)							
Interest earning assets								
Loans (1), (2), (3)	\$7,432,087	\$370,922	5.23	%	\$6,136,217	\$326,714	5.43	%
Securities (1)	1,607,709	43,209	3.10		1,341,959	34,403	3.07	
Federal funds sold and other	230,669	2,248	0.97		409,408	1,538	0.38	
Total interest earnings assets	9,270,465	416,379	4.76		7,887,584	362,655	4.77	
Non-interest earning assets								
Cash and due from banks	133,739				128,481			
Allowance for credit losses	(106,100 )				(97,537 )			
Bank owned life insurance	141,885				139,754			
Other assets	451,120				442,042			
Total assets	\$9,891,109				\$8,500,324			
Interest-bearing liabilities								
Interest-bearing deposits:								
Interest bearing transaction accounts								
Interest bearing transaction accounts	\$793,118	\$1,522	0.19	%	\$640,062	\$1,334	0.21	%
Savings and money market	3,616,829	10,852	0.30		2,936,122	8,553	0.29	
Time certificates of deposits	1,758,342	7,638	0.43		1,488,017	6,448	0.43	
Total interest-bearing deposits	6,168,289	20,012	0.32		5,064,201	16,335	0.32	
Short-term borrowings	173,228	2,336	1.35		202,755	1,279	0.63	
Long-term debt	265,828	7,384	2.78		323,119	10,323	3.19	
Junior subordinated debt	42,297	1,754	4.15		38,099	1,823	4.78	
Total interest-bearing liabilities	6,649,642	31,486	0.47		5,628,174	29,760	0.53	
Non-interest-bearing liabilities								
Non-interest-bearing demand deposits								
Non-interest-bearing demand deposits	2,153,686				1,954,248			
Other liabilities	123,650				119,405			
Stockholders' equity	964,131				798,497			
Total liabilities and stockholders' equity	\$9,891,109				\$8,500,324			
Net interest income and margin (4)		\$384,893	4.42	%		\$332,895	4.39	%
Net interest spread (5)			4.29	%			4.24	%

(1) Yields on loans and securities have been adjusted to a TEB. The taxable-equivalent adjustment was \$24.6 million and \$13.3 million for 2014 and 2013, respectively.

(2) Net loan fees of \$18.7 million and \$15.9 million are included in the yield computation for 2014 and 2013, respectively.

(3) Includes non-accrual loans.

(4) Net interest margin is computed by dividing net interest income by total average earning assets.

(5) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest bearing liabilities.



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	Twelve Months Ended December 31, 2013			2012				
	Average Balance (dollars in thousands)	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost		
Interest earning assets								
Loans (1), (2), (3)	\$6,136,217	\$326,714	5.43	% \$5,110,247	\$280,985	5.55	%	
Securities (1)	1,341,959	34,403	3.07	1,385,346	36,802	3.17		
Federal funds sold and other	409,408	1,538	0.38	189,514	508	0.27		
Total interest earnings assets	7,887,584	362,655	4.77	6,685,107	318,295	4.91		
Non-interest earning assets								
Cash and due from banks	128,481			116,948				
Allowance for credit losses	(97,537 )			(98,878 )				
Bank owned life insurance	139,754			135,969				
Other assets	442,042			354,279				
Total assets	\$8,500,324			\$7,193,425				
Interest-bearing liabilities								
Interest-bearing deposits:								
Interest bearing transaction accounts	\$640,062	\$1,334	0.21	% \$515,322	\$1,220	0.24	%	
Savings and money market	2,936,122	8,553	0.29	2,371,473	8,088	0.34		
Time certificates of deposits	1,488,017	6,448	0.43	1,359,538	7,486	0.55		
Total interest-bearing deposits	5,064,201	16,335	0.32	4,246,333	16,794	0.40		
Short-term borrowings	202,755	1,279	0.63	295,273	1,365	0.46		
Long-term debt	323,119	10,323	3.19	73,738	7,945	10.77		
Junior subordinated debt	38,099	1,823	4.78	36,784	1,928	5.24		
Total interest-bearing liabilities	5,628,174	29,760	0.53	4,652,128	28,032	0.60		
Non-interest-bearing liabilities								
Non-interest-bearing demand deposits	1,954,248			1,788,267				
Other liabilities	119,405			62,026				
Stockholders' equity	798,497			691,004				
Total liabilities and stockholders' equity	\$8,500,324			\$7,193,425				
Net interest income and margin (4)		\$332,895	4.39	%	\$290,263	4.49	%	
Net interest spread (5)			4.24	%		4.31	%	

Yields on loans and securities have been adjusted to a TEB. Interest income has not been adjusted to a tax (1) equivalent basis. The tax-equivalent adjustments for 2013 and 2012 were \$13.3 million and \$9.7 million, respectively.

(2) Net loan fees of \$15.9 million and \$10.4 million are included in the yield computation for 2013 and 2012, respectively.

(3) Includes non-accrual loans.

(4) Net interest margin is computed by dividing net interest income by total average earning assets.

(5) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest bearing liabilities.



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	Year Ended December 31, 2014 versus 2013			Year Ended December 31, 2013 versus 2012		
	Increase (Decrease) Due to Changes in (1)			Increase (Decrease) Due to Changes in (1)		
	Volume (in thousands)	Rate	Total	Volume	Rate	Total
Interest income:						
Loans	\$64,675	\$(20,467)	\$44,208	\$54,626	\$(8,897)	\$45,729
Interest on investment securities	7,142	1,664	8,806	(1,112)	(1,287)	(2,399)
Federal funds sold and other	(1,742)	2,452	710	826	204	1,030
Total interest income	70,075	(16,351)	53,724	54,340	(9,980)	44,360
Interest expense:						
Interest bearing transaction accounts	294	(106)	188	260	(146)	114
Savings and money market	2,042	257	2,299	1,645	(1,180)	465
Time deposits	1,174	16	1,190	557	(1,595)	(1,038)
Short-term borrowings	(398)	1,455	1,057	(584)	498	(86)
Long-term debt	(1,591)	(1,348)	(2,939)	7,967	(5,589)	2,378
Junior subordinated debt	174	(243)	(69)	63	(168)	(105)
Total interest expense	1,695	31	1,726	9,908	(8,180)	1,728
Net increase (decrease)	\$68,380	\$(16,382)	\$51,998	\$44,432	\$(1,800)	\$42,632

(1) Changes due to both volume and rate have been allocated to volume changes.

Comparison of interest income, interest expense and net interest margin

The Company's primary source of revenue is interest income. Interest income for the year ended December 31, 2014 was \$416.4 million, an increase of 14.8%, compared to \$362.7 million for the year ended December 31, 2013. This increase was primarily the result of the \$1.30 billion increase in the average loan balance from the prior year, which drove the \$44.2 million increase in loan interest income for the year ended December 31, 2014 compared to 2013. Additionally, interest income for the year ended December 31, 2014 includes \$15.0 million of accretion income from PCI loans, compared to \$12.1 million for 2013. Interest income on investment securities increased \$8.8 million and other interest income increased by \$0.7 million for the comparable period. Despite the increase in interest income, average yield on interest earning assets dropped 1 basis point for the year ended December 31, 2014 compared to 2013, which was primarily the result of decreased yields on loans of 20 basis points.

Interest expense for the year ended December 31, 2014 was \$31.5 million compared to \$29.8 million in 2013, an increase of \$1.7 million, or 5.8%. This increase was driven by the increase in average interest bearing deposits of \$1.10 billion for the year ended December 31, 2014 compared to 2013.

Net interest income was \$384.9 million for the year ended December 31, 2014, compared to \$332.9 million in 2013, an increase of \$52.0 million, or 15.6%. The increase in net interest income reflects a \$1.38 billion increase in average interest earning assets, offset by a \$1.02 billion increase in average interest-bearing liabilities. The increase in net interest margin of 3 basis points was mostly due to a decrease in our average cost of funds of 6 basis points for the year ended December 31, 2014 compared to 2013.

Interest income for the year ended December 31, 2013 was \$362.7 million, an increase of 13.9%, when comparing to interest income for the year ended December 31, 2012. This increase was primarily the result of interest income from loans, which increased by \$45.7 million for the year ended December 31, 2013 compared to the year ended December 31, 2012. Interest income on investment securities decreased \$2.4 million and other interest income increased by \$1.0 million for the comparable period. Despite the increase in interest income, average yield on interest earning assets dropped 14 basis points for the year ended December 31, 2013 compared to 2012, which was primarily

the result of decreased yields on loans of 12 basis points and securities of 10 basis points.

Interest expense for the year ended December 31, 2013 compared to 2012 increased by 6.2% to \$29.8 million from \$28.0 million. This increase was primarily due to the \$156.9 million increase in total average borrowings for the year ended December 31, 2013, compared to the same period in 2012. Interest paid on deposits and junior subordinated debt decreased by 8 and 46 basis points, respectively, for the year ended December 31, 2013 compared to 2012.

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Net interest income was \$332.9 million for the year ended December 31, 2013 compared to \$290.3 million in 2012, an increase of \$42.6 million, or 14.7%. The increase in net interest income reflects a \$1.20 billion increase in average earning assets, offset by a \$976.0 million increase in average interest-bearing liabilities. The decrease in net interest margin of 10 basis points was mostly due to a decrease in our average yield on loans and an increase in the average cost of funds of 7 basis points related to long-term borrowings.

## Provision for Credit Losses

The provision for credit losses in each period is reflected as a reduction in earnings in that period. The provision is equal to the amount required to maintain the allowance for credit losses at a level that is adequate to absorb probable credit losses inherent in the loan portfolio. The provision for credit losses decreased by \$8.5 million, to \$4.7 million for the year ended December 31, 2014, compared with \$13.2 million for the year ended December 31, 2013. The provision decrease for the year ended December 31, 2014 compared to 2013, was primarily due to an improvement in credit quality and the Company achieving net recoveries in every quarter of 2014. The Company may establish an additional allowance for credit losses for the PCI loans through provision for credit losses when impairment is determined as a result of lower than expected cash flows. As of December 31, 2014 and 2013, the allowance for credit losses on PCI loans was \$0.3 million.

The provision for credit losses was \$13.2 million for the year ended December 31, 2013, a decrease of \$33.6 million, compared with \$46.8 million for the year ended December 31, 2012. The provision decrease for the year ended December 31, 2013 compared to 2012 was primarily due to improved asset quality.

## Non-interest Income

The following table presents a summary of non-interest income for the periods presented:

	Year Ended December 31,					
	2014	2013	Increase (Decrease)	2013	2012	Increase (Decrease)
	(in thousands)					
Service charges and fees	\$10,451	\$9,920	\$531	\$9,920	\$9,452	\$468
Income from bank owned life insurance	4,508	4,809	(301)	4,809	4,439	370
Gain (loss) on sales of investment securities, net	757	(1,195)	1,952	(1,195)	3,949	(5,144)
Unrealized gains (losses) on assets and liabilities measured at fair value, net	1,212	(6,483)	7,695	(6,483)	653	(7,136)
Loss on extinguishment of debt	(502)	(1,387)	885	(1,387)	—	(1,387)
Bargain purchase gain from acquisition	—	10,044	(10,044)	10,044	17,562	(7,518)
Other fee revenue	3,763	3,963	(200)	3,963	3,564	399
Other income	5,252	2,576	2,676	2,576	6,886	(4,310)
Total non-interest income	\$25,441	\$22,247	\$3,194	\$22,247	\$46,505	\$(24,258)

Total non-interest income for the year ended December 31, 2014 compared to 2013 increased by \$3.2 million, or 14.4%. This increase is primarily due to net unrealized gains on assets and liabilities measured at fair value, other income, and a net gain on sales of investment securities, which were offset by a non-recurring bargain purchase gain from the acquisition of Centennial Bank during 2013. The \$7.7 million increase in net unrealized gains (losses) on assets and liabilities measured at fair value primarily relates to the fair value adjustment of junior subordinated debt, which was a gain of \$1.4 million for 2014, compared to a loss of \$5.6 million for 2013. Other income also increased largely as a result of a \$2.1 million increase in operating lease income and a \$0.4 million customer referral bonus payment which was earned in 2014. The increase in net gain (loss) on sales of investment securities is the result of a net gain recognized during 2014, compared to a net loss for 2013 due to improved market conditions. These increases were offset by the non-recurring bargain purchase gain of \$10.0 million from the acquisition of Centennial Bank during 2013.

Total non-interest income for the year ended December 31, 2013 compared to 2012 decreased by \$24.3 million, or 52.2%. This decrease is primarily the result of the decline in the bargain purchase gain from acquisition, unrealized losses on assets and liabilities measured at fair value, a net loss on sales of investment securities, a decrease in other

income, and a loss on extinguishment of debt. There was a \$7.5 million differential in the bargain purchase gain from the acquisition of Centennial Bank in 2013 compared to the gain from the acquisition of Western Liberty in 2012, resulting in a decrease to non-interest income in 2013. The \$7.1 million decrease in the net unrealized gain (losses) on assets and liabilities measured at fair value primarily relates to the fair value adjustment of junior subordinated debt, which was a loss of \$5.6 million for 2013, compared



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to a gain of \$0.8 million for 2012. The decrease in net gain (loss) on sales of investment securities is the result of a net loss during 2013 from sales of lower yield investments, compared to a net gain for 2012. Other income decreased \$4.3 million from 2013 to 2012. The Company recognized a \$1.4 million loss on extinguishment of debt from the purchase of \$10.1 million in principal of its Senior Notes during 2013.

## Non-interest Expense

The following table presents a summary of non-interest expense for the periods presented:

	Year Ended December 31,			2013	2012	Increase (Decrease)
	2014	2013	Increase (Decrease)			
	(in thousands)					
Salaries and employee benefits	\$126,630	\$113,434	\$13,196	\$113,434	\$105,044	\$8,390
Occupancy	18,192	19,126	(934)	19,126	18,815	311
Legal, professional, and directors' fees	14,278	13,633	645	13,633	10,237	3,396
Data processing	10,232	8,744	1,488	8,744	6,134	2,610
Insurance	8,862	8,094	768	8,094	8,511	(417)
Loan and repossessed asset expenses	4,721	4,246	475	4,246	6,675	(2,429)
Marketing	2,300	2,581	(281)	2,581	2,306	275
Customer service	2,031	2,105	(74)	2,105	2,219	(114)
Intangible amortization	1,461	2,388	(927)	2,388	3,256	(868)
Goodwill and intangible impairment	—	—	—	—	3,435	(3,435)
Net (gain) loss on sales / valuations of repossessed and other assets	(5,421)	(2,387)	(3,034)	(2,387)	4,207	(6,594)
Merger / restructure expenses	198	5,752	(5,554)	5,752	2,819	2,933
Other expense	24,625	18,550	6,075	18,550	15,202	3,348
Total non-interest expense	\$208,109	\$196,266	\$11,843	\$196,266	\$188,860	\$7,406

Total non-interest expense for the year ended December 31, 2014 compared to 2013 increased \$11.8 million, or 6.0%.

This increase is primarily caused by increases in salaries and employee benefits, data processing, and other expense.

This increase was offset by the decrease in merger / restructure expenses and the increase in net gain on sales / valuations of repossessed and other assets. The increase in salaries and employee benefits is due to employment growth to support continued asset growth, and the increase in data processing relates to information technology initiatives as well as overall growth in business activities. The increase in other expense primarily relates to a \$1.5 million increase in operating lease depreciation, a \$1.0 million funding of a charitable foundation, a \$0.8 million increase related to the write-off of an internal software development project that the Company is no longer pursuing, and an overall increase in general operational expenses. Merger / restructure expenses decreased by \$5.6 million as these expenses relate to the acquisition of Centennial Bank and IT restructuring costs incurred during 2013. Further offsetting the increase in total non-interest expense is the \$3.0 million increase in the net gain on sales / valuations of repossessed and other assets due to an increase in other real estate owned property sales with increase gains compared to the year ended December 31, 2013.

Total non-interest expense for the year ended December 31, 2013 compared to 2012 increased \$7.4 million, or 3.9%.

This increase is primarily caused by increases in salaries and employee benefits, legal, professional, and directors' fees, data processing, merger / restructure expenses, and other expense. This increase was offset by the net gain on sales / valuations of repossessed and other assets during 2013 and decreases in goodwill and intangible impairment and loan and repossessed asset expenses. The increases in salaries and employee benefits is due to employment growth to support continued asset growth and related increased variable performance-based compensation. The legal, professional, and directors' fees and data processing increase relates primarily to information technology initiatives. The increase in other expense primarily relates to higher travel and general expenses. The increase in non-interest expense was offset by the \$6.6 million change in net gain (loss) on sales / valuations of repossessed and other assets due to recoveries in the real estate market and net gains on sales of OREO in 2013, compared to net losses in 2012.

Also offsetting the increase in total non-interest expense are the decreases to goodwill and intangible impairment and

loan and repossessed assets expense due to improved market conditions compared to the year ended December 31, 2012.

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## Income Taxes

The effective tax rate for the year ended December 31, 2014 was 24.50%, compared to 20.48% for the year ended December 31, 2013, and 25.66% for the year ended December 31, 2012. The increase in the effective tax rate from 2013 compared to 2014 is primarily due to the increase in pre-tax book income and the absence of acquisition related benefits for the year ended December 31, 2014 compared to 2013. The reduction in the effective tax rate from 2012 compared to 2013 is primarily due to LIHTC, an increase in tax-exempt income from municipal obligations, the one-time benefit from the lapsing of the IRC Section 382 limitation relating to Western Liberty due to better than anticipated credit loss experience, and the release of certain valuation allowances relating to capital loss carryovers.

## Business Segment Results

On December 31, 2013, the Company consolidated its three bank subsidiaries under one charter, WAB. As a result, the Company has redefined its operating segments to reflect the new organizational and internal reporting structure. The realignment of the Company's segments resulted in significant differences from the old segmentation methodology. Consequently, the Company determined that recasting prior year segment information to conform to the new segmentation methodology would be impracticable due to the substantial time and cost that would be involved in recasting this information. Also, given the incomparability of the reporting segments between periods, the Company determined that disclosure of the reportable segment information for the year ended December 31, 2014, as previously reported under the old basis, would not be beneficial to the reader as it does not assist the reader in better understanding the Company's performance, assessing its prospects for future net cash flows or making more informed judgments about the Company as a whole, which are the primary objectives of ASC 280-10.

The new operating segments are as follows: Arizona, Nevada, California, CBL and Corporate & Other.

Arizona reported a gross loan balance of \$2.34 billion at December 31, 2014, compared to \$2.02 billion at December 31, 2013, an increase of \$317.2 million. In addition, total deposits at December 31, 2014 were \$2.18 billion, compared to \$2.00 billion at December 31, 2013, an increase of \$177.7 million. Pre-tax income was \$58.8 million for the year ended December 31, 2014.

Nevada reported a gross loan balance of \$1.67 billion at December 31, 2014, compared to \$1.75 billion at December 31, 2013, a decrease of \$85.7 million. In addition, total deposits at December 31, 2014 were \$3.23 billion, compared to \$2.92 billion at December 31, 2013, an increase of \$308.0 million. Pre-tax income was \$74.3 million for the year ended December 31, 2014.

California reported a gross loan balance of \$1.75 billion at December 31, 2014, compared to \$1.62 billion at December 31, 2013, an increase of \$136.5 million. In addition, total deposits at December 31, 2014 were \$2.33 billion, compared to \$1.94 billion at December 31, 2013, an increase of \$383.6 million. Pre-tax income was \$52.3 million for the year ended December 31, 2014.

CBL reported a gross loan balance of \$2.59 billion at December 31, 2014, compared to \$1.35 billion at December 31, 2013, an increase of \$1.24 billion. In addition, total deposits at December 31, 2014 were \$946.6 million, compared to \$768.0 million at December 31, 2013, an increase of \$178.6 million. Pre-tax income was \$33.6 million for the year ended December 31, 2014.

## BALANCE SHEET ANALYSIS

Total assets increased \$1.29 billion, or 13.9%, to \$10.60 billion at December 31, 2014, compared to \$9.31 billion at December 31, 2013. The increase in assets primarily relates to the increase in loans of \$1.60 billion, or 23.5%, to \$8.40 billion at December 31, 2014.

Total liabilities increased \$1.15 billion, or 13.6%, to \$9.60 billion at December 31, 2014, compared to \$8.45 billion at December 31, 2013. The increase in liabilities is due to the increase in total deposits of \$1.09 billion, or 13.9%, to \$8.93 billion.

Total stockholders' equity increased by \$145.4 million, or 17.0%, to \$1.00 billion at December 31, 2014, compared to \$855.5 million at December 31, 2013. There were several significant items that had offsetting effects on stockholders' equity during 2014, which include increases related to net income, ATM issuances, and unrealized gains on investment securities, offset by a reduction for the redemption of SBLF preferred stock. In the second quarter 2014, the Company began issuing common stock under a \$100 million ATM public offering. In total for 2014, the Company

raised \$13.7 million in net proceeds from the issuance of 548,122 shares of common stock. Also in 2014, accumulated other comprehensive income increased \$38.2 million as a result of unrealized gains on investment securities. In December 2014, the Company redeemed 70,500 of its 141,000 shares of Non-Cumulative Perpetual Preferred Stock, Series B. The shares were redeemed at their liquidation value of \$1,000 per share plus accrued dividends for a total redemption price of \$70.7 million.

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## Investment securities

Investment securities are classified at the time of acquisition as either HTM, AFS, or trading based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. HTM securities are carried at amortized cost, adjusted for amortization of premiums or accretion of discounts. AFS securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Investment securities classified as AFS are carried at fair value. Unrealized gains or losses on AFS securities are recorded as AOCI in stockholders' equity. Amortization of premiums or accretion of discounts on MBS is periodically adjusted for estimated prepayments. Investment securities measured at fair value are reported at fair value, with unrealized gains and losses included in current period earnings.

The investment securities portfolio of the Company is utilized as collateral for borrowings, required collateral for public deposits, and customer repurchase agreements, and to manage liquidity, capital, and interest rate risk. The following table summarizes the carrying value of the investment securities portfolio for each of the periods below:

	At December 31,		
	2014	2013	2012
	(in thousands)		
U.S. government sponsored agency securities	\$18,346	\$46,975	\$—
Municipal obligations	299,037	299,244	265,073
Preferred stock	82,612	61,484	75,555
Mutual funds	37,702	36,532	37,961
Residential MBS issued by GSEs	893,047	1,024,457	668,265
Commercial MBS issued by GSEs	2,147	—	—
Private label residential MBS	70,243	36,099	35,607
Private label commercial MBS	5,149	5,433	5,741
Trust preferred securities	25,546	23,805	24,135
CRA investments	24,332	24,882	25,816
Collateralized debt obligations	11,445	50	50
Corporate debt securities	52,489	97,777	97,781
Total investment securities	\$1,522,095	\$1,656,738	\$1,235,984

In May 2014, the Company's Finance and Investment Committee reassessed the Company's holdings in CDOs, and gave management the discretion to sell CDOs to reinvest in higher grade investment 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.

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Weighted average yield is calculated by dividing income within each maturity range by the outstanding amount of the related investment and has not been tax affected on tax-exempt obligations. For purposes of calculating the weighted average yield, AFS and trading securities are carried at amortized cost in the table below. The maturity distribution and weighted average yield of our investment security portfolios at December 31, 2014 are summarized in the table below:

	December 31, 2014									
	Due Under 1 Year		Due 1-5 Years		Due 5-10 Years		Due Over 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)									
Available-for-sale										
U.S. government sponsored agency securities	\$—	— %	\$—	— %	\$18,701	1.52 %	\$—	— %	\$18,701	1.52 %
Corporate debt securities	—	—	7,686	3.46	45,087	1.82	—	—	52,773	2.06
Municipal obligations	6,736	2.98	12,711	2.89	86,292	3.41	179,659	3.33	285,398	3.33
Preferred stock	2,358	12.16	28,798	8.13	—	—	52,036	6.50	83,192	7.23
Mutual funds	37,449	3.61	—	—	—	—	—	—	37,449	3.61
Residential MBS issued by GSEs	—	—	369	2.92	10,311	2.55	871,054	2.36	881,734	2.36
Commercial MBS issued by GSEs	—	—	—	—	—	—	2,047	4.21	2,047	4.21
Private label residential MBS	—	—	1,801	3.68	2,235	4.17	66,949	2.50	70,985	2.58
Private label commercial MBS	—	—	5,017	3.25	—	—	—	—	5,017	3.25
Trust preferred securities	—	—	—	—	—	—	32,000	1.23	32,000	1.23
CRA investments	24,302	2.16	—	—	—	—	—	—	24,302	2.16
Collateralized debt obligations	—	—	—	—	—	—	50	8.75	50	8.75
Total AFS securities	\$70,845	3.34 %	\$56,382	5.70 %	\$162,626	2.71 %	\$1,203,795	2.66 %	\$1,493,648	2.82 %
Measured at fair value										
Residential MBS issued by GSEs	\$—	— %	\$—	— %	\$—	— %	\$1,734	3.42 %	\$1,734	3.42 %

The Company does not own any subprime MBS in its investment portfolio. The majority of its MBS are GSE issued. The remaining MBS not GSE issued consist of \$59.9 million rated AAA, \$0.1 million rated AA, \$3.4 million rated A, and \$3.6 million rated BBB, and \$3.2 million are non-investment grade.

Gross unrealized losses at December 31, 2014 are primarily caused by interest rate fluctuations, credit spread widening and reduced liquidity in applicable markets. The Company has reviewed securities on which there is an unrealized loss in accordance with its accounting policy for OTTI securities described in "Note 2. Investment Securities" to the Consolidated Financial Statements contained herein. There were no impairment charges recorded during the years ended December 31, 2014, 2013, and 2012.

The Company does not consider any securities to be other-than-temporarily impaired as of December 31, 2014 and 2013. However, the Company cannot guarantee that additional OTTI will not occur in future periods. At

December 31, 2014, the Company had the intent and ability to retain its investments for a period of time sufficient to allow for any anticipated recovery in fair value.

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## Loans

The table below summarizes the distribution of the Company's loans at the end of each of the periods indicated:

	December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Commercial and industrial	\$3,327,629	\$2,236,740	\$1,659,003	\$1,120,107	\$744,659
Commercial real estate - non-owner occupied	2,058,620	1,843,415	1,505,600	1,301,172	1,038,488
Commercial real estate - owner occupied	1,734,617	1,561,862	1,396,797	1,252,182	1,223,150
Construction and land development	754,154	537,231	394,319	381,676	451,470
Residential real estate	298,872	350,312	407,937	443,020	527,302
Commercial leases	204,270	235,968	288,747	216,475	189,968
Consumer	32,633	45,153	31,836	72,504	71,545
Net deferred loan fees and costs	(12,530)	(9,266)	(6,045)	(7,067)	(6,040)
Loans, net of deferred loan fees and costs	8,398,265	6,801,415	5,678,194	4,780,069	4,240,542
Allowance for credit losses	(110,216)	(100,050)	(95,427)	(99,170)	(110,699)
Total	\$8,288,049	\$6,701,365	\$5,582,767	\$4,680,899	\$4,129,843

The following table sets forth the amount of loans outstanding by type of loan as of December 31, 2014 that were contractually due in one year or less, more than one year and less than five years, and more than five years based on remaining scheduled repayments of principal. Lines of credit or other loans having no stated final maturity and no stated schedule of repayments are reported as due in one year or less. The table also presents an analysis of the rate structure for loans within the same maturity time periods. Actual cash flows from these loans may differ materially from contractual maturities due to prepayment, refinancing or other factors.

	Due in one year or less	Due after one year to five years	Due after five years	Total
	(in thousands)			
Commercial and industrial				
Floating rate	\$669,208	\$663,879	\$655,783	\$1,988,870
Fixed rate	53,227	250,392	1,034,219	1,337,838
Commercial real estate — non-owner occupied				
Floating rate	107,087	557,250	592,299	1,256,636
Fixed rate	100,895	609,645	85,390	795,930
Commercial real estate — owner occupied				
Floating rate	36,206	205,298	734,678	976,182
Fixed rate	49,812	307,993	398,901	756,706
Construction and land development				
Floating rate	190,956	296,632	56,253	543,841
Fixed rate	123,773	71,835	8,605	204,213
Residential real estate				
Floating rate	22,340	25,933	181,981	230,254
Fixed rate	9,224	25,435	34,489	69,148
Leases				
Floating rate	—	5,202	—	5,202
Fixed rate	9,359	130,930	60,147	200,436
Consumer				
Floating rate	18,786	3,902	5,120	27,808
Fixed rate	1,635	2,587	979	5,201
Total	\$1,392,508	\$3,156,913	\$3,848,844	\$8,398,265





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As of December 31, 2014, approximately \$3.72 billion, or 74.1%, of total variable rate loans were subject to rate floors with a weighted average interest rate of 4.9%. At December 31, 2014, total loans consisted of 59.9% with floating rates and 40.1% with fixed rates.

**Concentrations of Lending Activities**

The Company's lending activities, including those within its CBL, are driven in large part by the customers served in the market areas where the Company has branch offices in the states of Arizona, Nevada and California. The following table presents a breakout of the in-footprint and out of footprint distribution of loans:

	December 31, 2014			December 31, 2013		
	In-Footprint	Out-of-Footprint	Total	In-Footprint	Out-of-Footprint	Total
Arizona	25.8	% 2.2	% 28.0	% 25.5	% 1.1	% 26.6
California	19.1	% 1.8	% 20.9	% 19.9	% 2.0	% 21.9
Nevada	19.7	% 0.3	% 20.0	% 30.2	% 1.4	% 31.6
Public Finance	8.6	% 0.9	% 9.5	% 6.0	% 0.4	% 6.4
Corporate Finance	1.0	% 4.4	% 5.4	% 0.8	% 3.1	% 3.9
Mortgage Warehouse Lending	3.1	% 1.2	% 4.3	% 1.5	% 0.4	% 1.9
Non-Profit	3.2	% 1.1	% 4.3	% 0.6	% 1.7	% 2.3
Resort Finance	1.4	% 2.1	% 3.5	% 0.1	% 0.4	% 0.5
Equipment Finance	2.3	% 1.0	% 3.3	% 2.9	% 1.3	% 4.2
Community Association Lending	0.1	% 0.7	% 0.8	% 0.1	% 0.6	% 0.7
Total	84.3	% 15.7	% 100.0	% 87.6	% 12.4	% 100.0

The Company monitors concentrations within five broad categories: geography, industry, product, call report classifications, and collateral. The Company's loan portfolio includes significant credit exposure to the CRE market. As of December 31, 2014 and 2013, CRE related loans accounted for approximately 54% and 58% of total loans, respectively. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 46% of these CRE loans, excluding construction and land loans, were owner occupied at December 31, 2014 and 2013. The Company is a participant in certain Shared National Credit loans, which make up approximately 6% and 5% of total loans as of December 31, 2014 and 2013, respectively.

**Interest Reserves**

Interest reserves are generally established at the time of the loan origination for construction and land development loans. The Company's practice is to monitor the construction, sales and/or leasing progress to determine the feasibility of ongoing construction and development projects. The Company discontinues the use of the interest reserve when a project is determined not to be viable and may take appropriate action to protect its collateral position via renegotiation and/or legal action as deemed appropriate. At December 31, 2014, the Company had 33 loans with an outstanding balance of \$218.4 million with available interest reserves of \$8.0 million. This is an increase from 7 loans at December 31, 2013 with an outstanding principal balance of \$23.1 million and available interest reserve amounts of \$1.9 million.

**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 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. As a result of the FDIC review performed as of March 31, 2014, the FDIC recommended that the Company revise its presentation of certain impaired loans individually assessed for impairment under ASC 450. Accordingly, the presentation of impaired loans with and

without a specific valuation allowance

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under ASC 310, which allows for the collective assessment of a group of loans in estimating the valuation allowance, has been revised to reflect this presentation.

Total non-performing loans decreased by \$9.3 million, or 5.6%, at December 31, 2014 to \$157.5 million from \$166.8 million at December 31, 2013.

	December 31,					
	2014	2013	2012	2011	2010	
	(dollars in thousands)					
Total non-accrual loans	\$67,659	\$75,680	\$104,716	\$90,392	\$116,999	
Loans past due 90 days or more on accrual status	5,132	1,534	1,388	2,589	1,458	
Troubled debt restructured loans (1)	84,720	89,576	84,609	112,483	116,696	
Total nonperforming loans	157,511	166,790	190,713	205,464	235,153	
Other impaired loans	9,239	11,587	7,442	4,027	3,182	
Total impaired loans	\$166,750	\$178,377	\$198,155	\$209,491	\$238,335	
Other assets acquired through foreclosure, net	\$57,150	\$66,719	\$77,247	\$89,104	\$107,655	
Non-accrual loans to gross loans	0.81	% 1.11	% 1.83	% 1.89	% 2.76	%
Loans past due 90 days or more on accrual status to total loans	0.06	0.02	0.02	0.05	0.03	
Interest income received on non-accrual loans	\$2,536	\$1,916	\$191	\$444	\$2,501	
Interest income that would have been recorded under the original terms of non-accrual loans	3,758	5,405	5,469	6,331	6,016	

(1) Includes accruing TDR loans only.

The composition of non-accrual loans was as follows:

	At December 31, 2014			At December 31, 2013		
	Non-accrual Balance	Percent	Percent of Total Loans	Non-accrual Balance	Percent	Percent of Total Loans
	(dollars in thousands)					
Commercial and industrial	\$3,490	5.16	% 0.04	% \$3,753	4.96	% 0.06
Commercial real estate	52,457	77.54	0.63	54,856	72.48	0.80
Construction and land development	5,326	7.87	0.06	4,525	5.98	0.07
Residential real estate	6,173	9.12	0.07	12,480	16.49	0.18
Consumer	213	0.31	0.01	66	0.09	—
Total non-accrual loans (1)	\$67,659	100.00	% 0.81	% \$75,680	100.00	% 1.11

(1) Includes non-accrual TDR loans of \$53.6 million and \$38.3 million as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, non-accrual loans totaled \$67.7 million and \$75.7 million, respectively. Non-accrual loans by segment at December 31, 2014 were \$24.2 million for Arizona, \$26.7 million for Nevada, \$0.4 million for California, \$0.2 million for CBL, and \$16.2 million for Corporate & Other. Non-accrual loans as a percentage of total gross loans were 0.81% and 1.11% at December 31, 2014 and 2013, respectively. Non-accrual loans as a percentage of each segment's total gross loans at December 31, 2014 were 1.03% for Arizona, 1.60% for Nevada, 0.02% for California, 0.01% for CBL, and 35.30% for Corporate & Other.

#### Troubled Debt Restructured Loans

A TDR loan is a loan that is granted a concession, for reasons related to a borrower's financial difficulties, that the lender 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 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 is no longer 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.

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As of December 31, 2014 and 2013, the aggregate amount of loans classified as impaired was \$166.8 million and \$178.4 million, respectively, a net decrease of 6.5%. The total specific allowance for credit losses related to these loans was \$10.8 million and \$5.3 million for December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Company had \$84.7 million and \$89.6 million, respectively, in loans classified as accruing restructured loans. Impaired loans by segment at December 31, 2014 were \$43.2 million for Arizona, \$78.1 million for Nevada, and \$5.2 million for California. Additionally, CBL and Corporate & Other held \$0.2 million and \$40.1 million, respectively, of impaired loans at December 31, 2014.

The following tables present a breakdown of total impaired loans and the related specific reserves for the periods indicated:

	December 31, 2014						
	Impaired Balance	Percent	Percent of Total Loans	Reserve Balance	Percent	Percent of Total Allowance	
	(dollars in thousands)						
Commercial and industrial	\$14,122	8.47	% 0.17	% \$1,965	18.25	% 1.78	%
Commercial real estate	111,217	66.70	1.32	4,619	42.91	4.19	
Construction and land development	21,748	13.04	0.26	3,112	28.91	2.82	
Residential real estate	19,300	11.57	0.23	1,052	9.77	0.95	
Consumer	363	0.22	—	17	0.16	0.02	
Total impaired loans	\$166,750	100.00	% 1.98	% \$10,765	100.00	% 9.76	%
	December 31, 2013						
	Impaired Balance	Percent	Percent of Total Loans	Reserve Balance	Percent	Percent of Total Allowance	
	(dollars in thousands)						
Commercial and industrial	\$17,341	9.72	% 0.25	% \$772	14.62	% 0.77	%
Commercial real estate	111,054	62.26	1.63	2,523	47.78	2.52	
Construction and land development	23,069	12.93	0.34	85	1.61	0.08	
Residential real estate	26,376	14.79	0.39	1,896	35.91	1.90	
Consumer	537	0.30	0.01	4	0.08	—	
Total impaired loans	\$178,377	100.00	% 2.62	% \$5,280	100.00	% 5.27	%

The amount of interest income recognized on impaired loans for the years ended December 31, 2014, 2013, and 2012 was approximately \$5.5 million, \$6.2 million, and \$6.8 million, respectively.

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## Allowance for Credit Losses

The following table summarizes the activity in our allowance for credit losses for the period indicated:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands)				
Allowance for credit losses:					
Balance at beginning of period	\$ 100,050	\$ 95,427	\$ 99,170	\$ 110,699	\$ 108,623
Provision charged to operating expense:					
Commercial and industrial	14,551	5,760	21,599	1,109	13,117
Commercial real estate	(6,176 )	2,972	15,823	21,959	49,582
Construction and land development	1,966	3,443	4,448	2,692	11,405
Residential real estate	(4,352 )	228	2,088	16,256	15,116
Consumer	(1,263 )	817	2,886	4,172	3,991
Total Provision	4,726	13,220	46,844	46,188	93,211
Recoveries of loans previously charged-off:					
Commercial and industrial	4,728	5,037	3,067	3,401	3,000
Commercial real estate	3,859	2,758	3,294	2,157	1,003
Construction and land development	2,160	2,060	2,903	2,154	3,197
Residential real estate	1,896	2,097	1,078	1,060	2,039
Consumer	459	930	357	174	164
Total recoveries	13,102	12,882	10,699	8,946	9,403
Loans charged-off:					
Commercial and industrial	(4,370 )	(4,000 )	(17,341 )	(9,757 )	(17,218 )
Commercial real estate	(964 )	(8,648 )	(19,166 )	(22,128 )	(33,821 )
Construction and land development	(87 )	(1,538 )	(10,992 )	(11,238 )	(23,623 )
Residential real estate	(1,728 )	(5,922 )	(7,063 )	(19,071 )	(20,663 )
Consumer	(513 )	(1,371 )	(6,724 )	(4,469 )	(5,213 )
Total charged-off	(7,662 )	(21,479 )	(61,286 )	(66,663 )	(100,538 )
Net recoveries (charge-offs)	5,440	(8,597 )	(50,587 )	(57,717 )	(91,135 )
Balance at end of period	\$ 110,216	\$ 100,050	\$ 95,427	\$ 99,170	\$ 110,699
Net recoveries (charge-offs) to average loans outstanding	0.07	% (0.14 )%	(0.99 )%	(1.32 )%	(2.22 )%
Allowance for credit losses to gross loans	1.31	1.47	1.67	2.07	2.61

During the fourth quarter of 2014, the Company revised its methodology for calculating the allowance for credit losses. The revised methodology now incorporates a 10-year historical loss rate, as the Company believes this methodology will capture a full business cycle. The incorporation of the 10-year historical loss rate and the associated qualitative factors adjustments to reflect the corresponding 10-year period increased the allowance for credit losses by \$0.2 million as of December 31, 2014.

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The following table summarizes the allocation of the allowance for credit losses by loan type. However, the allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	December 31, 2014		2013		2012		2011		2010		
	Amount	Percent of Loans to Gross Loans	Amount	Percent of Loans to Gross Loans	Amount	Percent of Loans to Gross Loans	Amount	Percent of Loans to Gross Loans	Amount	Percent of Loans to Gross Loans	
	(dollars in thousands)										
Commercial and industrial	\$54,566	42.0 %	\$39,657	36.3 %	\$32,860	34.3 %	\$25,535	27.9 %	\$30,782	22.0 %	
Commercial real estate	28,783	45.0	32,064	50.0	34,982	51.1	35,031	53.3	33,043	53.3	
Construction and land development	18,558	9.0	14,519	7.9	10,554	6.9	14,195	8.0	20,587	10.6	
Residential real estate	7,456	3.6	11,640	5.1	15,237	7.2	19,134	9.3	20,889	12.4	
Consumer	853	0.4	2,170	0.7	1,794	0.5	5,275	1.5	5,398	1.7	
Total	\$110,216	100.0 %	\$100,050	100.0 %	\$95,427	100.0 %	\$99,170	100.0 %	\$110,699	100.0 %	

The allowance for credit losses as a percentage of total loans decreased to 1.31% at December 31, 2014 from 1.47% at December 31, 2013. The total balance of the allowance for credit losses has increased due to the increase in the size of the loan portfolio. However, the increase in the allowance is not proportional to the increase in the portfolio as the Company has experienced improved credit quality in its portfolio as reflected in the net recoveries achieved in 2014 as well as a change in portfolio mix toward higher rated credits.

**Potential Problem Loans**

The Company classifies loans consistent with federal banking regulations using a nine category grading system. These loan grades are described in further detail in "Item 1. Business" of this Form 10-K. The following table presents information regarding potential problem loans, consisting of loans graded special mention, substandard, doubtful, and loss, but still performing, and excluding acquired loans:

	At December 31, 2014			
	Number of Loans	Loan Balance	Percent	Percent of Total Loans
	(dollars in thousands)			
Commercial and industrial	76	\$24,060	23.89	% 0.29 %
Commercial real estate	55	53,514	53.14	0.64
Construction and land development	6	15,646	15.53	0.19
Residential real estate	16	7,121	7.07	0.08
Consumer	10	377	0.37	—
Total	163	\$100,718	100.00	% 1.20 %



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	At December 31, 2013					
	Number of Loans	Loan Balance	Percent		Percent of Total Loans	
	(dollars in thousands)					
Commercial and industrial	68	\$ 15,532	14.05	%	0.23	%
Commercial real estate	63	71,390	64.55		1.05	
Construction and land development	7	13,357	12.08		0.20	
Residential real estate	20	8,988	8.13		0.13	
Consumer	17	1,317	1.19		0.02	
Total	175	\$ 110,584	100.00	%	1.63	%

Total potential problem loans are primarily secured by real estate.

## Other Assets Acquired Through Foreclosure

The following table represents the changes in other assets acquired through foreclosure:

	Year Ended December 31,		
	2014		
	Gross Balance	Valuation Allowance	Net Balance
	(in thousands)		
Balance, beginning of period	\$88,421	\$(21,702 )	\$66,719
Transfers to other assets acquired through foreclosure, net	13,777	—	13,777
Proceeds from sale of other real estate owned and repossessed assets, net	(33,643 )	7,725	(25,918 )
Valuation adjustments, net	—	(294 )	(294 )
Gains, net (1)	2,866	—	2,866
Balance, end of period	\$71,421	\$(14,271 )	\$57,150
	2013		
Balance, beginning of period	\$113,474	\$(36,227 )	\$77,247
Transfers to other assets acquired through foreclosure, net	24,911	—	24,911
Additions from acquisition of Centennial	5,622	—	5,622
Proceeds from sale of other real estate owned and repossessed assets, net	(61,510 )	18,268	(43,242 )
Valuation adjustments, net	—	(3,743 )	(3,743 )
Gains, net (1)	5,924	—	5,924
Balance, end of period	\$88,421	\$(21,702 )	\$66,719
	2012		
Balance, beginning of period	\$135,149	\$(46,045 )	\$89,104
Transfers to other assets acquired through foreclosure, net	28,315	—	28,315
Additions from acquisition of Western Liberty	5,094	—	5,094
Proceeds from sale of other real estate owned and repossessed assets, net	(55,811 )	14,847	(40,964 )
Valuation adjustments, net	—	(5,029 )	(5,029 )
Gains, net (1)	727	—	727
Balance, end of period	\$113,474	\$(36,227 )	\$77,247

(1) Includes net gains related to transfers to other assets of \$0.1 million, \$0.9 million, and \$0.5 million during the years ended December 31, 2014, 2013, and 2012, respectively, pursuant to accounting guidance.

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 reported at the lower of carrying value or fair value less estimated costs to sell the property. Costs relating to the



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development or improvement of the assets are capitalized and costs relating to holding the assets are charged to expense. The Company had \$57.2 million, \$66.7 million and \$77.2 million, respectively, of such assets at December 31, 2014, 2013, and 2012. At December 31, 2014, the Company held 67 OREO properties, compared to 70 at December 31, 2013.

**Goodwill and Other Intangible Assets**

Goodwill represents the excess consideration paid for net assets acquired in a business combination over their fair value and, is subsequently evaluated for impairment at least annually. The Company has goodwill of \$23.2 million and other intangibles, which consist primarily of core deposit intangibles, of \$2.7 million as of December 31, 2014. All goodwill and intangible balances at December 31, 2014 relate to the Nevada operating segment. 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 years ended December 31, 2014 and 2013, there were no events or circumstances that indicated an interim impairment test of goodwill or other intangible assets was necessary and, based on the Company's annual goodwill and intangibles impairment tests as of October 1, 2014 and 2013, it was determined that goodwill and intangible assets were not impaired. During the third quarter 2012, as a result of ongoing evaluations of various strategic alternatives related to Shine, management performed an interim impairment test and concluded that goodwill and intangibles related to Shine were impaired and, as a result, recorded a \$3.4 million impairment charge. Shine was subsequently sold in October 2012.

The following is a summary of acquired intangible assets:

	December 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Subject to amortization:						
Core deposit intangibles	\$26,157	\$23,468	\$2,689	\$26,157	\$22,007	\$4,150

**Deferred Tax Assets**

For the year ended December 31, 2014, the net deferred tax asset decreased \$18.0 million to \$62.7 million. This overall decrease in the net deferred tax asset was primarily the result of the decreases to deferred tax assets from changes in the fair market value of AFS securities, the fair market value adjustments related to acquired loans, changes in the allowance for other assets acquired through foreclosure, and stock-based compensation activity, which were partially offset by increases to deferred tax assets from AMT credit and LIHTC carryovers, return to provision adjustments, allowance for credit losses.

At December 31, 2014, the \$2.3 million deferred tax valuation allowance, compared to \$5.6 million at December 31, 2013, relates to net capital losses from ARPS securities sales and IRC Section 382 limits on NOL carryovers from the Western Liberty acquisition.

**Deposits**

The average balances and weighted average rates paid on deposits for the years ended December 31, 2014, 2013, and 2012 are presented below:

	Year Ended December 31, 2014		2013		2012			
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate		
	(dollars in thousands)							
Interest checking (NOW)	\$793,118	0.19	% \$640,062	0.21	% \$515,322	0.24	%	
Savings and money market	3,616,829	0.30	2,936,122	0.29	2,371,473	0.34		
Time	1,758,342	0.43	1,488,017	0.43	1,359,538	0.55		
Total interest-bearing deposits	6,168,289	0.32	5,064,201	0.32	4,246,333	0.40		
	2,153,686	—	1,954,248	—	1,788,267	—		

Non-interest-bearing demand  
deposits

Total deposits	\$8,321,975	0.24	%	\$7,018,449	0.23	%	\$6,034,600	0.28	%
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Deposits are the primary source for funding the Company's asset growth. Total deposits increased to \$8.93 billion at December 31, 2014, from \$7.84 billion at December 31, 2013, an increase of \$1.09 billion, or 13.9%. This increase was primarily from savings and money market accounts, certificates of deposit (\$100,000 or more), and interest bearing demand deposits which increased by \$559.3 million, \$827.8 million, and \$145.1 million, respectively. WAB is a member of CDARS and ICS, which provide mechanisms for obtaining FDIC insurance on large deposits. At December 31, 2014, the Company had \$700.7 million of CDARS deposits and \$479.2 million of ICS deposits, compared to \$518.0 million of CDARS deposits and \$355.3 million of ICS deposits at December 31, 2013. At December 31, 2014 and 2013, the Company also had \$321.5 million and \$174.2 million, respectively, of wholesale brokered deposits.

**Certificates of Deposit of \$100,000 or More**

The table below discloses the remaining maturity for certificates of deposit of \$100,000 or more:

	December 31,	
	2014	2013
	(in thousands)	
3 months or less	\$577,084	\$391,843
3 to 6 months	474,826	390,767
6 to 12 months	587,348	511,338
Over 12 months	121,746	128,675
Total	\$1,761,004	\$1,422,623

**Junior Subordinated Debt**

The Company has formed or acquired through mergers, six statutory business trusts, which exist for the exclusive purpose of issuing Cumulative Trust Preferred Securities. All of the funds raised from the issuance of these securities were passed to the Company and are reflected in the accompanying Consolidated Balance Sheet as junior subordinated debt, with a fair value of \$40.4 million as of December 31, 2014.

The junior subordinated debt has contractual balances and maturity dates as follows:

Name of Trust	Maturity	December 31,	
		2014	2013
		(in thousands)	
BankWest Nevada Capital Trust II	2033	\$15,464	\$15,464
Intermountain First Statutory Trust I	2034	10,310	10,310
First Independent Capital Trust I	2035	7,217	7,217
WAL Trust No. 1	2036	20,619	20,619
WAL Statutory Trust No. 2	2037	5,155	5,155
WAL Statutory Trust No. 3	2037	7,732	7,732
Total contractual balance		\$66,497	\$66,497
Unrealized gains on trust preferred securities measured at fair value, net		(26,060)	(24,639)
Junior subordinated debt, at fair value		\$40,437	\$41,858

The weighted average contractual interest rate of junior subordinated debt was 2.73% as of December 31, 2014 and 2013.

In the event of certain changes or amendments to regulatory requirements or Federal tax rules, the debt is redeemable in whole. The obligations under these instruments are fully and unconditionally guaranteed by the Company and rank subordinate and junior in right of payment to all other liabilities of the Company. The trust preferred securities qualify as Tier 1 Capital for the Company, subject to certain limitations, with the excess being included in total capital for regulatory purposes.

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## Capital Resources

The Company and WAB are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements could trigger certain mandatory or discretionary actions that, if undertaken, could have a direct material effect on the Company's business and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and WAB must meet specific capital guidelines that involve qualitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and WAB to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I leverage to average assets. As of December 31, 2014 and 2013, the Company and WAB met all capital adequacy requirements to which they are subject.

As of December 31, 2014 and 2013, the Company and WAB met the minimum capital ratio requirements necessary to be classified as well-capitalized, as defined by the banking agencies. To be categorized as well-capitalized, an entity must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. Federal banking regulators have proposed revisions to the bank capital requirement standards known as Basel III. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage. Based on the Company's assessment of these proposed regulations, as of December 31, 2014, the Company and WAB met the requirements necessary to be classified as well-capitalized under the proposed regulation. The actual capital amounts and ratios for the Company and WAB are presented in the following tables as of the periods indicated:

	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Tangible Average Assets	Total Capital Ratio	Tier 1 Capital Ratio	Tier 1 Leverage Ratio		
(dollars in thousands)									
December 31, 2014									
WAL	\$1,119,618	\$1,007,278	\$ 9,555,390	\$10,367,575	11.7	% 10.5	% 9.7	%	
WAB	1,057,253	945,687	9,435,459	10,232,297	11.2	10.0	9.2		
Well-capitalized ratios					10.0	6.0	5.0		
Minimum capital ratios					8.0	4.0	4.0		
December 31, 2013									
WAL	\$991,461	\$891,232	\$ 8,016,500	\$9,060,995	12.4	% 11.1	% 9.8	%	
WAB	931,564	834,560	7,931,887	8,832,546	11.7	10.5	9.5		
Well-capitalized ratios					10.0	6.0	5.0		
Minimum capital ratios					8.0	4.0	4.0		

## Contractual Obligations and Off-Balance Sheet Arrangements

The Company enters into contracts for services in the ordinary course of business that may require payment for services to be provided in the future and may contain penalty clauses for early termination of the contracts. To meet the financing needs of customers, the Company has financial instruments with off-balance sheet risk, including commitments to extend credit and standby letters of credit. The Company has also committed to irrevocably and unconditionally guarantee the payments or distributions with respect to the holders of preferred securities of the above named six trusts to the extent that the trusts have not made such payments or distributions: 1) accrued and unpaid distributions; 2) the redemption price; and 3) upon a dissolution or termination of the trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the trust remaining available for distribution. The Company does not believe that these off-balance sheet arrangements have or are reasonably likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. However, there can be no assurance that such arrangements will not have a future effect.



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The following table sets forth our significant contractual obligations as of December 31, 2014:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(in thousands)				
Time deposit maturities	\$1,918,361	\$1,780,636	\$133,692	\$4,030	\$3
Other borrowings	390,263	180,169	10,094	200,000	—
Junior subordinated debt	66,497	—	—	—	66,497
Purchase obligations	33,321	15,723	14,690	2,908	—
Operating lease obligations	29,165	6,058	10,531	8,811	3,765
Total	\$2,437,607	\$1,982,586	\$169,007	\$215,749	\$70,265

Purchase obligations primarily relate to contracts for software licensing and maintenance and outsourced service providers. Off-balance sheet commitments associated with outstanding letters of credit, commitments to extend credit and credit card guarantees as of December 31, 2014 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	Amount of Commitment Expiration per Period				
	Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(in thousands)				
Commitments to extend credit	\$2,164,523	\$811,800	\$794,270	\$267,156	\$291,297
Credit card commitments and financial guarantees	42,038	42,038	—	—	—
Standby letters of credit	49,556	32,440	13,379	3,737	—
Total	\$2,256,117	\$886,278	\$807,649	\$270,893	\$291,297

The following table sets forth certain information regarding short-term customer repurchase agreements, lines of credit, FHLB advances, and 10% Senior Notes:

	December 31,			
	2014	2013	2012	
	(dollars in thousands)			
Customer Repurchase Accounts:				
Maximum month-end balance	\$63,388	\$78,185	\$125,745	
Balance at end of year	54,899	71,192	79,034	
Average balance	57,855	61,128	98,716	
Lines of Credit:				
Maximum month-end balance	25,000	50,000	—	
Balance at end of year	25,000	3,000	—	
Average balance	1,499	23,858	277	
FHLB Advances:				
Maximum month-end balance	135,300	120,000	320,000	
Balance at end of year (1)	96,850	25,300	120,000	
Average balance	61,459	18,215	144,738	
10% Senior Notes:				
Maximum month-end balance	64,945	—	—	
Balance at end of year (2)	58,444	—	—	
Average balance	62,576	—	—	
Total Short-Term Borrowed Funds	\$235,193	\$99,492	\$199,034	
Weighted average interest rate at end of year	3.16	% 0.82	% 0.23	%



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Weighted average interest rate during year	4.15	%	0.63	%	0.46	%
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(1) Excludes premium of \$0.1 million and \$0.6 million, respectively as of December 31, 2014 and 2013.  
(2) Excludes discount of \$0.3 million as of December 31, 2014.

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The Company from time to time utilizes short-term borrowed funds to support short-term liquidity needs generally created by increased loan demand. The majority of these short-term borrowed funds consist of advances from the FHLB and FRB and customer repurchase agreements. The Company's borrowing capacity at FHLB and FRB is determined based on collateral pledged, generally consisting of securities and loans. In addition, the Company has borrowing capacity from other sources pledged by securities, including securities sold under agreements to repurchase, which are reflected at the amount of cash received in connection with the transaction, and may require additional collateral based on the fair value of the underlying securities. At December 31, 2014, total short-term borrowed funds consisted of customer repurchases of \$54.9 million, lines of credit of \$25.0 million, and FHLB advances of \$96.9 million. At December 31, 2013, total short-term borrowed funds consisted of customer repurchases of \$71.2 million, lines of credit of \$3.0 million, and FHLB advances of \$25.3 million.

### Critical Accounting Policies

The Notes to the Consolidated Financial Statements contain a discussion of our significant accounting policies, including information regarding recently issued accounting pronouncements, our adoption of such policies and the related impact of their adoption. We believe that certain of these policies, along with various estimates that we are required to make in recording our financial transactions, are important to have a complete understanding of our financial position. In addition, these estimates require us to make complex and subjective judgments, many of which include matters with a high degree of uncertainty. The following is a summary of these critical accounting policies and significant estimates.

#### 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 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) our 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. 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 ten-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 case, 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. For impaired collateral dependent loans, the reserve is calculated based on 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 Company's impairment analysis also incorporates various valuation considerations, including loan type, loss experience, and geographic criteria.

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.

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### Loans acquired with deteriorated credit quality

ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, applies to a loan with evidence of deterioration of credit quality since its origination, and for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. For these loans accounted for under ASC 310-30, management determines the value of the loan portfolio based, in part, on work provided by an appraiser. Factors considered in the valuation are projected cash flows for the loans, type of loan and related collateral, loan grade, delinquency and loan to value. Loans are grouped together according to similar characteristics and are treated in the aggregate when applying various valuation techniques. Loans are first evaluated individually to determine if there has been credit deterioration since origination. Once acquired loans are determined to have deteriorated credit quality, the Company evaluates such loans for common risk characteristics and aggregation into one or more pools. Common risk characteristics for pooling acquired loans may include credit ratings, loan type, collateral type, delinquency status, geographic location, loan to value, or combinations thereof. Management also estimates the amount of credit losses that are expected to be realized for individual loans by estimating the probability of default and the loss given default, which incorporates the liquidation value of collateral securing loans. These estimates are subjective. The accretion of the fair value adjustments attributable to interest rates on loans acquired with deteriorated credit quality is recorded in interest income in the Consolidated Income Statements over the estimated life of the pool. The fair value adjustment attributable to credit losses on these loans is non-accretable. When a loan is sold, paid off or transferred to OREO and liquidated, any remaining non-accretable yield is recorded in interest income.

Adjustments to these loan values in future periods may occur based on management's expectation of future cash flows to be collected over the lives of the loans. Estimating cash flows is performed at a pool level and incorporates analysis of historical cash flows, delinquencies, and charge-offs as well as assumptions about future cash flows. Performance can vary from period to period, causing changes in estimates of the expected cash flows. If, based on the review of a pool of loans, it is probable that a significant increase or improvement in cash flows previously expected to be collected, any valuation allowance established for the pool of loans is first reduced for the increase in the present value of cash flows expected to be collected, and any remaining increase in estimated cash flows increases the accretable yield and is recognized over the remaining estimated life of the loan pool. If based on the review of a pool of loans, it is probable that a decrease or impairment in cash flows previously expected to be collected or if actual cash flows are less than cash flows previously expected, the allowance for credit losses is increased for the decrease in the present value of the cash flows expected to be collected.

### 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.

### 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.

### Liquidity

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth, and business operations and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events.

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors, and regulators. Our liquidity, represented by cash and amounts due from banks, federal funds sold, and non-pledged

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marketable securities, is a result of our operating, investing, and financing activities and related cash flows. In order to ensure funds are available when necessary, on at least a quarterly basis, we project the amount of funds that will be required over a twelve month period and we strive to maintain relationships with a diversified customer base.

Liquidity requirements can also be met through short-term borrowings or the disposition of short-term assets. The Company has unsecured federal funds credit lines at correspondent banks totaling \$100.0 million and other lines of credit with correspondent banks totaling \$70.0 million, of which \$25.0 million is secured and \$45.0 million is unsecured. As of December 31, 2014, there was \$25.0 million drawn on the secured line of credit. In addition, loans and securities are pledged to the FHLB, providing \$1.61 billion in borrowing capacity, with outstanding borrowings and letters of credit of \$306.9 million and \$366.2 million, respectively, leaving \$935.0 million in available credit as of December 31, 2014. Loans and securities pledged to the FRB discount window provided \$1.15 billion in borrowing capacity. As of December 31, 2014, there were no outstanding borrowings from the FRB, thus our available credit totaled \$1.15 billion.

The Company has a formal liquidity policy and, in the opinion of management, our liquid assets are considered adequate to meet cash flow needs for loan funding and deposit cash withdrawals for the next 90-120 days. At December 31, 2014, there was \$862.5 million in liquid assets, comprised of \$165.3 million in cash, cash equivalents, and money market investments and \$697.2 million in unpledged marketable securities. At December 31, 2013, the Company maintained \$1.25 billion in liquid assets, comprised of \$309.7 million of cash and cash equivalents and \$938.0 million of unpledged marketable securities.

The parent company maintains additional liquidity that would be sufficient to fund its operations and certain non-bank affiliate operations for an extended period should funding from normal sources be disrupted. Since deposits are taken by WAB and not by the parent company, parent company liquidity is not dependent on the bank's deposit balances. In our analysis of parent company liquidity, we assume that the parent company is unable to generate funds from additional debt or equity issuance, receives no dividend income from subsidiaries and does not pay dividends to stockholders, while continuing to make nondiscretionary payments needed to maintain operations and repayment of contractual principal and interest payments owed by the parent company and affiliated companies. Under this scenario, the amount of time the parent company and its non-bank subsidiary can operate and meet all obligations before the current liquid assets are exhausted is considered as part of the parent company liquidity analysis.

Management believes the Parent maintains adequate liquidity capacity to operate without additional funding from new sources for over 12 months. WAB maintains sufficient funding capacity to address large increases in funding requirements, such as deposit outflows. This capacity is comprised of liquidity derived from a reduction in asset levels and various secured funding sources.

On a long-term basis, the Company's liquidity will be met by changing the relative distribution of our asset portfolios (for example, by reducing investment or loan volumes, or selling or encumbering assets). Further, the Company can increase liquidity by soliciting higher levels of deposit accounts through promotional activities and/or borrowing from correspondent banks, the FHLB of San Francisco and the FRB. At December 31, 2014, our long-term liquidity needs primarily relate to funds required to support loan originations, commitments, and deposit withdrawals, which can be met by cash flows from investment payments and maturities, and investment sales, if necessary.

The Company's liquidity is comprised of three primary classifications: 1) cash flows provided by operating activities; 2) cash flows used in investing activities; and 3) cash flows provided by financing activities. Net cash provided by or used in operating activities consists primarily of net income, adjusted for changes in certain other asset and liability accounts and certain non-cash income and expense items, such as the provision for credit losses, investment and other amortization and depreciation. For the years ended December 31, 2014, 2013, and 2012, net cash provided by operating activities was \$163.3 million, \$165.0 million and \$160.6 million, respectively.

Our primary investing activities are the origination of real estate and commercial loans and the purchase and sale of securities. Our net cash provided by and used in investing activities has been primarily influenced by our loan and securities activities. The net increase in loans for the years ended December 31, 2014, 2013, and 2012, was \$1.56 billion, \$728.8 million, and \$915.7 million, respectively. The net decrease in investment securities for the years ended December 31, 2014 and 2012 was \$187.0 million and \$262.0 million, respectively, compared to the net increase in investment securities for the year ended December 31, 2013 of \$451.1 million.

Net cash provided by financing activities has been impacted significantly by increased deposit levels. During the years ended December 31, 2014, 2013, and 2012, deposits increased \$1.09 billion, \$1.05 billion, and \$679.5 million, respectively.

Fluctuations in core deposit levels may increase our need for liquidity as certificates of deposit mature or are withdrawn before maturity, and as non-maturity deposits, such as checking and savings account balances, are withdrawn. Additionally, we are exposed to the risk that customers with large deposit balances will withdraw all or a portion of such deposits, due in part to the FDIC limitations on the amount of insurance coverage provided to depositors. To mitigate the uninsured deposit risk, we have joined the CDARS and ICS programs, which allow an individual customer to invest up to \$50.0 million and \$110.0 million,

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respectively, through one participating financial institution or, a combined total of \$150.0 million per individual customer, with the entire amount being covered by FDIC insurance. As of December 31, 2014, we had \$700.7 million of CDARS and \$479.2 million of ICS deposits.

As of December 31, 2014, we had \$321.5 million of wholesale brokered deposits outstanding. Brokered deposits are generally considered to be deposits that have been received from a third party that is acting on behalf of that party's customer. Often, a broker will direct a customer's deposits to the banking institution offering the highest interest rate available. Federal banking laws and regulations place restrictions on depository institutions regarding brokered deposits because of the general concern that these deposits are at a greater risk of being withdrawn and placed on deposit at another institution offering a higher interest rate, thus posing liquidity risk for institutions that gather brokered deposits in significant amounts. The Company does not anticipate using brokered deposits as a significant liquidity source in the near future.

Federal and state banking regulations place certain restrictions on dividends paid. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the bank. Dividends paid by WAB to the Parent would be prohibited if the effect thereof would cause the bank's capital to be reduced below applicable minimum capital requirements. WAB, LVSP, and WAEF paid dividends to the Parent in the amount of \$60.0 million, \$6.0 million and \$1.5 million during the year ended December 31, 2014. Subsequent to December 31, 2014, WAB and LVSP paid a dividend of \$22.0 million and \$3.0 million, respectively, to the Parent.

### Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices, and equity prices. Our market risk arises primarily from interest rate risk inherent in our lending, investing, and deposit taking activities. To that end, management actively monitors and manages our interest rate risk exposure. We generally manage our interest rate sensitivity by evaluating re-pricing opportunities on our earning assets to those on our funding liabilities.

Management uses various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities, all of which are designed to ensure that exposure to interest rate fluctuations is limited to within our guidelines of acceptable levels of risk-taking. Hedging strategies, including the terms and pricing of loans and deposits and management of the deployment of our securities, are used to reduce mismatches in interest rate re-pricing opportunities of portfolio assets and their funding sources.

Interest rate risk is addressed by the ALCO or its equivalent, which includes members of executive management, finance, and operations. ALCO monitors interest rate risk by analyzing the potential impact on the net EVE and net interest income from potential changes in interest rates and considers the impact of alternative strategies or changes in balance sheet structure. We manage our balance sheet in part to maintain the potential impact on EVE and net interest income within acceptable ranges despite changes in interest rates.

Our exposure to interest rate risk is reviewed at least quarterly by the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in both EVE and net interest income in the event of hypothetical changes in interest rates. If potential changes to EVE and net interest income resulting from hypothetical interest rate changes are not within the limits established by the bank's BOD, the BOD may direct management to adjust the asset and liability mix to bring interest rate risk within Board-approved limits.

Net Interest Income Simulation. In order to measure interest rate risk at December 31, 2014, we used a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest income forecasted using an immediate increase and decrease in interest rates and a net interest income forecast using a flat market interest rate environment derived from spot yield curves typically used to price our assets and liabilities. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately and, proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options) and, accordingly, the simulation model uses estimated market speeds to derive prepayments and reinvests proceeds at modeled yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.



This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that could impact our results, including changes by management to mitigate interest rate changes or secondary factors such as changes to our credit risk profile as interest rates change.

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Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment speeds that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the modeled assumptions may have significant effects on our actual net interest income.

This simulation model assesses the changes in net interest income that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates. At December 31, 2014, our net interest income exposure for the next twelve months related to these hypothetical changes in market interest rates was within our current guidelines.

## Sensitivity of Net Interest Income

	Interest Rate Scenario (change in basis points from Base)						
	Down 100	Base	Up 100	Up 200	Up 300	Up 400	
	(in thousands)						
Interest Income	\$424,696	\$430,631	\$463,943	\$504,556	\$547,218	\$590,563	
Interest Expense	28,447	28,600	53,628	78,664	103,690	128,704	
Net Interest Income	396,249	402,031	410,315	425,892	443,528	461,859	
% Change	(1.4	)%	2.1	% 5.9	% 10.3	% 14.9	%

**Economic Value of Equity.** We measure the impact of market interest rate changes on the NPV of estimated cash flows from our assets, liabilities, and off-balance sheet items, defined as EVE, using a simulation model. This simulation model assesses the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates.

At December 31, 2014, our EVE exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us. The following table shows our projected change in EVE for this set of rate shocks at December 31, 2014:

## Economic Value of Equity

	Interest Rate Scenario (change in basis points from Base)							
	Down 100	Base	Up 100	Up 200	Up 300	Up 400		
	(in thousands)							
Assets	10,904,341	10,763,241	10,577,492	10,392,777	10,208,647	10,026,295		
Liabilities	9,201,117	8,973,401	8,770,872	8,592,511	8,428,847	8,278,276		
Net Present Value	1,703,224	1,789,840	1,806,620	1,800,266	1,779,800	1,748,019		
% Change	(4.8	)%	0.9	% 0.6	% (0.6	)%	(2.3	)%

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, asset prepayments, and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates. Actual amounts may differ from the projections set forth above should market conditions vary from the underlying assumptions.

**Derivative Contracts.** In the normal course of business, the Company uses derivative instruments to meet the needs of its customers and manage exposure to fluctuations in interest rates. The following table summarizes the aggregate notional amounts, market values and terms of the Company's derivative positions with derivative market makers as of December 31, 2014 and 2013:

## Outstanding Derivatives Positions

December 31,  
2014

Notional	Net Value	Weighted Average Term (Years)	2013		
			Notional	Net Value	Weighted Average Term (Years)
(dollars in thousands)					
\$647,703	\$(57,813	) 17.6	\$294,997	\$1,598	16.8



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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 ASU 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 NOL 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 housing projects that qualify for the LIHTC. 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 14. 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.

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 adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

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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 adoption of this guidance is not expected to 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 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.

#### SUPERVISION AND REGULATION

Bank holding companies and banks operate in an extensively regulated environment under state and federal law. These laws and regulations are intended primarily for the protection of depositors and the FDIC's deposit insurance fund, or DIF, and not for the benefit of stockholders or creditors. The following discussion is only intended to summarize some of the significant statutes and regulations that affect the banking industry, and therefore is not a comprehensive survey of the statutory and regulatory landscape. These summaries are not intended to be complete and are qualified in their entirety by reference to the particular statute or regulation described. Moreover, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, and its implementing regulations have made multiple changes to the regulation, supervision, examination and operation of financial institutions. These regulations have been in effect for only a limited time, and we cannot predict the long-term impact their implementation will have on capital, credit and real estate markets or on our operations and activities.

Regulatory oversight of financial institutions, including banks and bank holding companies, has increased in recent periods. Regulators conduct a variety of evaluations, including compliance and safety and soundness examinations. As a result of these reviews, regulators may require that we change our practices or policies, write down assets or increase reserves (and therefore reduce our capital base), and take or omit to take other actions as deemed prudent by the regulator. Given the implementation of new laws and regulations, we cannot predict the outcome of future regulatory evaluations or whether we will become subject to conditions, policies or directives resulting from regulatory evaluations.

#### The Dodd-Frank Wall Street Reform and Consumer Protection Act

As a result of the financial crisis, the U.S. Congress passed and, on July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act has had, and will continue to have, a broad impact on the financial services industry. The federal regulatory agencies have issued a number of requests for public comment, proposed rules and final regulations to implement the requirements of the Dodd-Frank Act. The following items provide a brief description of the impact of the Dodd-Frank Act on the operations and activities, both currently and prospectively, of the Company and its subsidiaries.

**Deposit Insurance.** The Dodd-Frank Act and implementing final rules from the FDIC make permanent the \$250,000 deposit insurance limit for insured deposits. The assessment base against which an insured depository institution's deposit insurance premiums paid to the DIF are calculated has been revised to use the institution's average

consolidated total assets less its average equity rather than its deposit base. These provisions could increase the FDIC deposit insurance premiums paid by WAB.

**Increased Capital Standards and Enhanced Supervision.** The federal banking agencies have issued rules to establish new minimum leverage and risk-based capital requirements for banks and bank holding companies that are no lower than existing regulatory capital and leverage standards applicable to insured depository institutions. Among other things, these new capital requirements changed the types of securities and other instruments that bank holding companies are permitted to use as qualifying regulatory capital going forward. Compliance with heightened capital standards may reduce our ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations, and may also reduce our ability to raise additional capital on favorable terms in the future. The Dodd-Frank Act also increases

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regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency. Compliance with new regulatory requirements and expanded examination processes could increase our cost of operations.

**State Enforcement of Consumer Financial Protection Laws.** The Dodd-Frank Act created the CFPB, which is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws.

The Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB. State attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain state-chartered institutions. Although we currently offer only limited consumer products or services, compliance with any such new regulations could increase our cost of operations and, as a result, could limit our ability to expand into these products and services.

**Transactions with Affiliates and Insiders.** The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained. Additionally, limitations on transactions with insiders are expanded through the strengthening on loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution’s board of directors.

**Corporate Governance.** The Dodd-Frank Act addresses many corporate governance and executive compensation matters that have affected or will affect most U.S. publicly traded companies, including us. The Dodd-Frank Act: 1) grants stockholders of U.S. publicly-traded companies an advisory vote on executive compensation; 2) adds disclosure and voting requirements for golden parachute compensation that is payable to named executive officers in connection with sale transactions; 3) enhances independence requirements for compensation committee members; 4) requires compensation committees to select compensation consultants, counsel or other advisers only after considering certain factors that affect their independence; 5) will require companies listed on national securities exchanges to adopt incentive-based compensation claw-back policies for executive officers; 6) will require U.S. publicly-traded companies to disclose information that shows the relationship between executive compensation and financial performance and the ratio of the compensation of the CEO to the median compensation of employees; and 7) provides the SEC with authority to issue rules requiring companies to include stockholder nominees for director in their proxy materials and to adopt procedures for companies to comply with these new rules. The SEC has adopted final implementing rules regarding the stockholder advisory vote on compensation, golden parachute payments, compensation committee independence and advisers, and has proposed rules on CEO-to-median employee pay ratio disclosure. The SEC also promulgated rules, which would have required public companies, under certain circumstances, to include stockholder-nominated candidates for director in their proxy statements. These proxy access rules were subsequently invalidated by a federal appeals court decision, though the SEC could propose new rules in the future. In addition, the SEC amended an existing rule, which is unaffected by the federal appeals court’s decision, that may require companies to include in their proxy materials stockholder proposals that seek to adopt procedures for including stockholder director nominees in future company proxy materials.

Although the Dodd-Frank Act contains some specific timelines for the Federal regulatory agencies to follow, in some instances, the agencies have been unable to meet these deadlines and it remains unclear when implementing rules will be proposed and finalized for some required rulemakings. We continue to monitor the rulemaking process and, while our current assessment is that the Dodd-Frank Act and the implementing regulations will not have a materially greater effect on us than the rest of the industry, given the uncertainty associated with the manner in which certain provisions of the Dodd-Frank Act will be implemented, and lack of clear understanding of the impact of those provisions that have been enacted on our operations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, require new policies and procedures to comply with new requirements, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect



our business.

These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. As we now exceed \$10 billion in total assets, the Company will need to comply with certain additional requirements (discussed below) created by the Dodd-Frank Act that apply only to bank holding companies and banks with \$10 billion or more in total assets. Failure to comply with the new requirements will negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

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### Bank Holding Company Regulation

General. WAL is a bank holding company, registered with the Board of Governors of the Federal Reserve or the Federal Reserve, under the BHCA. As such, the Federal Reserve is the Company's primary federal regulator, and the Company is subject to extensive regulation, supervision and examination by the Federal Reserve. The Company must file reports with the Federal Reserve and provide it with such additional information as it may require.

A bank holding company is required to serve as a source of financial and managerial strength for its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. Under Federal Reserve policy, the Company must stand ready to use its available resources to provide adequate capital to its subsidiary bank during a period of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary bank. Such support may be required at times when, absent the Federal Reserve's policy, a bank holding company may not be inclined to provide it. The expectation to serve as a source of financial strength is in addition to certain guarantees required under the prompt correction action provisions discussed below. A bank holding company's failure to meet these obligations will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of Federal Reserve regulations, or both.

Among its powers, the Federal Reserve may require a bank holding company to terminate an activity or terminate control of, divest or liquidate subsidiaries or affiliates that the Federal Reserve determines constitute a significant risk to the financial safety or soundness of the bank holding company or any of its bank subsidiaries. Subject to certain exceptions, bank holding companies also are required to give written notice to and receive approval from the Federal Reserve before purchasing or redeeming their common stock or other equity securities. The Federal Reserve also may regulate provisions of a bank holding company's debt, including by imposing interest rate ceilings and reserve requirements. In addition, the Federal Reserve requires all bank holding companies to maintain capital at or above certain prescribed levels.

Other limitations on expansion were also implemented by the Dodd-Frank Act's amendments to the BHCA. These limits include, among other things, prohibitions on mergers or acquisitions if the resulting institution would own or control more than 10% of the aggregate consolidated liabilities of all U.S. financial companies - including both bank holding companies and non-bank financial companies.

Holding Company Bank Ownership. The BHCA requires every bank holding company to obtain the approval of the Federal Reserve before it may: 1) acquire, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of any class of the outstanding voting shares of such other bank or bank holding company; 2) acquire all or substantially all the assets of another bank or bank holding company; or 3) merge or consolidate with another bank holding company. The BHCA further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any area of the U.S., or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties' performance under the CRA. In addition, the FRB must take into account an institution's effectiveness in combating money laundering.

Holding Company Non-bank Ownership. With certain exceptions, the BHCA prohibits a bank holding company from acquiring or retaining, directly or indirectly, ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company, or from engaging, directly or indirectly, in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities that have been identified, by statute or by Federal Reserve regulation or order, as activities so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto. Business activities that have been determined to be related to banking, and therefore appropriate for bank holding companies and their affiliates to engage in, include securities brokerage

services, investment advisory services, fiduciary services and certain management advisory and data processing services, among others. As described below, a bank holding company that qualifies as a “financial holding company” also may engage in a broader range of activities that are financial in nature (and complementary to such activities). Bank holding companies that qualify and elect to become financial holding companies may engage in non-bank activities that have been identified by the GLBA, or by Federal Reserve and Treasury regulation, as financial in nature or incidental to a financial activity. The Federal Reserve may also determine that a financial holding company may engage in certain activities

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that are complementary to a financial activity. Activities that are defined as financial in nature include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, engaging in insurance underwriting and agency activities, and making merchant banking investments in non-financial companies. In order to become and remain a financial holding company, a bank holding company and its bank subsidiaries, must be well-capitalized, well-managed, and, except in limited circumstances, have at least satisfactory CRA ratings. A financial holding company must also file a certification with the Federal Reserve that all of its depository institution subsidiaries are well-capitalized and well-managed. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary bank or the company may discontinue or divest investments in companies engaged in impermissible bank holding company activities. On March 30, 2009, the Company withdrew its election to be a financial holding company, and is now required to limit its activities to those permissible for a bank holding company.

**Change in Control.** In the event that the BHCA is not applicable to a person or entity, the Change in Bank Control Act of 1978 requires prior notice to the appropriate federal banking agency before any person or entity may acquire “control” of a bank or bank holding company. A limited number of exemptions apply to such transactions. Subject to more recent guidance issued by the Federal Reserve, control is deemed to exist if a person or entity acquires 25% or more of the outstanding shares of any class of voting stock of the bank holding company or insured depository institution. Control is presumed to exist, subject to rebuttal, if a person or entity acquires 10% or more but less than 25% of such voting stock and either the issuer has a class of registered securities under Section 12 of the Exchange Act, or no other person or entity will own, control or hold the power to vote a greater percentage of such voting stock immediately after the transaction. In some instances, such as when an investor is a private equity fund, the Federal Reserve will require information from an entity acquiring 5% or more of a class of voting securities of a bank holding company.

The Federal Reserve has stated that generally it will be able to conclude that an investor does not have “control” of a bank or bank holding company if it does not own in excess of 15% of the voting power and 33% of the total equity of the relevant bank or bank holding company. Under prior Federal Reserve guidance, a board seat was generally not permitted for non-controlling investment of 10% or greater of the equity or voting power. Under revised guidance, however, the Federal Reserve may permit a non-controlling investor to have up to two board seats if the investor’s aggregate board representation is proportionate to its total interest in the bank or bank holding company but does not exceed 25% of the voting members of the board and another stockholder of the bank or bank holding company controls the bank or bank holding company under the BHCA. The Federal Reserve has also set forth the terms of nonvoting equity securities it will deem to be voting securities and gives examples of other indicia of control beyond just equity ownership limits.

**Prohibition on Propriety Trading and Certain Fund Relationships.** On December 10, 2013, federal financial regulators released final rules implementing Section 619 of the Dodd-Frank Act, also known as the Volcker Rule, which prohibits both bank holding companies and banks from engaging in proprietary trading and from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund. Although the Volcker Rule became effective on July 21, 2012, it provided for a two-year conformance period to allow banking entities to wind down their prohibited trading operations and investments. The Federal Reserve has since extended the conformance period for an additional year, until July 21, 2015. For banks and bank holding companies with legacy collateralized loan obligations, the Federal Reserve has extended the conformance period until July 21, 2017.

The final rules prohibit a banking entity from engaging in proprietary trading, defined as engaging as principal for the trading account of the banking entity in any purchase or sale of one or more financial instruments, including securities, derivatives, and futures contracts. Loans, non-derivative commodities, and foreign exchange or currency are not considered financial instruments. There are also several exemptions from the definition of proprietary trading, such as trading conducted 1) as part of a repurchase agreement; 2) as part of a liquidity management plan; 3) as part of

a written securities lending agreement; 4) through deferred compensation, stock-bonus, profit-sharing, or pension plan of the banking entity; 5) in the ordinary course of collecting a debt; or 6) to satisfy existing delivery obligations in connection with judicial, administrative, self-regulatory, or arbitration proceedings.

Additionally, a banking entity may not, as principal, directly or indirectly acquire or retain any ownership interest in or sponsor a covered fund, including a hedge fund or private equity fund. Like the prohibition on proprietary trading, there are also several exemptions from the definition of covered fund, including, among other things, loan securitizations, joint ventures, certain types of foreign funds, entities issuing asset-backed commercial paper, and registered investment companies. Further, the final rules permit banking entities, subject to certain conditions and limitations, to invest in or sponsor a covered fund in connection with 1) organizing and offering the covered fund; 2) certain risk-mitigating hedging activities; and 3) de minimis investments in covered funds.

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Under the Volcker Rule, the term "covered funds" is defined as any issuer that would be an investment company under the Investment Company Act but for the exemption in section 3(c)(1) or 3(c)(7) of that Act. Under this definition, investment vehicles selling securities backed by pools of trust preferred securities would be covered funds. In order to avoid the detrimental regulatory capital implications associated with that situation, federal financial regulatory agencies released an interim final rule on January 14, 2014 that permits a banking entity to retain an interest in, or act as sponsor of, an issuer so long as 1) the issuer was established before May 19, 2010; 2) the banking entity reasonably believes that the offering proceeds received by the issuer were invested primarily in any trust preferred security or subordinated debt instruments issued prior to May 19, 2010 by a holding company with less than \$15 billion in total consolidated assets; and 3) the banking entity's interest in the issuer was acquired on or before December 10, 2013 (unless acquired pursuant to a merger or acquisition).

Banking entities are expected to establish a compliance program as soon as practicable, but in no event later than July 21, 2015. Banking entities that do not engage in activities covered by the Volcker Rule are not required to develop a compliance program and such banking entities need only develop a compliance program before engaging in any such activities.

**Risk Committee.** Publicly traded bank holding companies with \$10 billion or more in total assets are required to establish a Board risk committee responsible for oversight of enterprise-wide risk management practices. The committee must include at least one risk management expert with experience in managing risk exposures of large, complex firms. We passed \$10 billion in total assets as of the quarter ending June 30, 2014 and, although compliance with this requirement begins on the first day of the ninth quarter following the date we equaled or exceeded \$10 billion in total assets, in anticipation of passing the \$10 billion total assets threshold, we established a Board risk committee in April 2014.

**Stress Testing.** Pursuant to the Dodd-Frank Act, any banking organization, including both a bank holding company and a depository institution, with more than \$10 billion in total consolidated assets and regulated by a federal financial regulatory agency is required to conduct annual stress tests to ensure it has sufficient capital during periods of economic downturn. The Federal Reserve and the FDIC release stress-test scenarios on February 15 of each year, and banking organizations are required to submit the results of their tests to the appropriate regulator by July 31 of the same year. The results of each year's stress tests are publicly disclosed in October, following each banking organization's submission. A banking organization that crosses the \$10 billion total consolidated assets threshold after March 31 of any given year must conduct its first annual company-run stress test in the second calendar year after the year in which it crossed the applicability threshold. We passed the \$10 billion threshold after March 31, 2014, so our first annual stress test will occur in the first quarter of 2016 and will be submitted to the appropriate federal regulators by July 31, 2016. Public disclosure of the results is required by no later than October 31, 2016. Following the consolidation of our three subsidiary banks into a single bank charter, the vast majority of our assets are held in WAB. WAB's total assets also passed \$10 billion and we will be required to conduct stress tests at both the holding company and bank level.

**State Law Restrictions.** As a Delaware corporation, the Company is subject to certain limitations and restrictions under applicable Delaware corporate law. For example, Delaware law imposes restrictions relating to indemnification of directors, maintenance of books, records and minutes and observance of certain corporate formalities.

The Company is a bank holding company within the meaning of Arizona law. Under section 6-142 of the Arizona Revised Statutes, no person may acquire control of a company that controls an Arizona bank without the prior approval of the Arizona Superintendent of Financial Institutions, or Arizona Superintendent. A person who has the power to vote 15% or more of the voting stock of a controlling company is presumed to control the company.

### **Bank Regulation**

**General.** 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, FIB in Northern Nevada, BON in Southern Nevada, and TPB in California. The Company also serves business customers through a robust national platform of specialized financial services including AAB, WACF, WAEF, WAPF, WARF, and WAWL.

WAB was a state-chartered, non-member bank and was subject to regulation, supervision and examination by the FDIC during 2014. On January 30, 2015, WAB became a member of the Federal Reserve System and now both WAL and WAB are regulated by the FRB. In addition, WAB is chartered in Arizona and is subject to supervision by the Arizona Department of Financial Institutions.

Federal and state banking laws and the implementing regulations promulgated by the federal and state banking regulatory agencies cover most aspects of the bank's operations, including capital requirements, reserve requirements against deposits and for possible loan losses and other contingencies, dividends and other distributions to stockholders, customers' interests in

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deposit accounts, payment of interest on certain deposits, permissible activities and investments, securities that a bank may issue and borrowings that a bank may incur, rate of growth, number and location of branch offices and acquisition and merger activity with other financial institutions. Also, certain provisions applicable to bank holding companies discussed above, such as the Change in Bank Control Act, the Volcker Rule and the annual stress testing requirements for institutions with total consolidated assets in excess of \$10 billion, are also applicable to banks.

**Deposit Insurance Assessments.** Deposits in WAB are insured by the FDIC to applicable limits through the DIF. The Company's subsidiary bank is required to pay deposit insurance premiums, which are generally assessed semiannually and paid quarterly. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. The risk matrix utilizes four risk categories which are distinguished by capital levels and supervisory ratings. Once WAB reports total assets of \$10 billion or more for four consecutive quarters, it will be classified as a large and highly complex institution and, as of the next following quarter be subject to the scorecard for large and highly complex institutions, as discussed more fully below, to determine its total base assessment rate. Banks with higher levels of capital and a low degree of supervisory concern are assessed lower premiums than banks with lower levels of capital or a higher degree of supervisory concern. On February 7, 2011, the FDIC approved a final rule to implement deposit insurance assessment changes called for under the Dodd-Frank Act. The final rate schedule went into effect on April 1, 2011. The deposit insurance initial base assessment rates currently range from 2.5 basis points (for a financial institution in Risk Category I) to 45 basis points (for financial institutions in Risk Category IV), but may be higher under certain conditions. The base for deposit insurance assessments has been changed under the Dodd-Frank Act and the FDIC's implementing rules, and is now defined as average consolidated total assets during the assessment period less average tangible equity capital during the assessment period. The bank's average consolidated total assets and average tangible equity capital are defined in the schedule of quarterly averages in the Consolidated Reports of Condition and Income, commonly referred to as Call Reports, using a daily averaging method. In addition, the FDIC collects the FICO deposit assessments on assessable deposits. FICO assessments are set quarterly, and were set at 0.62 basis points for each quarter in 2014, and 0.6 basis points for the first quarter of 2015.

As discussed above, the Dodd-Frank Act changed the assessment base for deposit insurance premiums from an institution's deposit base to its average consolidated total assets less its average equity. For small banks, the FDIC's method for calculating assessment rates will remain the same. For banking institutions with \$10 billion or more in assets, however, the FDIC will use a different method based on the bank's CAMELS rating, and two other scores for the bank's ability to withstand asset-related or funding-related stress. In addition, the FDIC has the ability to adjust a large bank's assessment depending on certain risk factors not captured in the three scores. The goal of the new pricing system is to raise assessment rates on larger banks with complex or high-risk operations. For banks with \$10 billion or more in assets, the initial base assessment rate ranges from 5 to 35 basis points. After the effect of potential base-rate adjustments, the total base assessment rate could range from 2.5 to 45 basis points.

As we continue to grow, WAB will be subject to the assessment rate calculations for large banks if it remains over the \$10 billion threshold. As a result, the FDIC may assess a higher deposit insurance premium on WAB. In addition, the Dodd-Frank Act increased the minimum target DIF ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. In setting the assessments necessary to achieve the 1.35% ratio, the FDIC is required to offset the effect of the increased ratio on insured institutions with assets of less than \$10 billion. The FDIC intends to present a proposed rule to implement this requirement only when the DIF reserve ratio is closer to 1.15%, which they project to be sometime in 2018. If WAB remains over the \$10 billion threshold, it will not receive the benefit of whatever offset in assessments the FDIC determines to be appropriate.

**Supervision and Examination.** Federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. If, as a result of an examination of a bank, the FRB were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of the bank's operations had become unsatisfactory, or that the bank or its management was in violation of any law or regulation, the FRB may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe



or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the bank’s capital, to restrict the bank’s growth, to assess civil monetary penalties against the bank’s officers or directors, and to remove officers and directors. If it is determined that such conditions cannot be corrected or there is an imminent risk of loss to depositors, the bank’s deposit insurance could be terminated.

The CFPB has examination authority over banks with more than \$10 billion in total assets as it relates to compliance with the federal consumer financial protection laws. Included among these laws are new standards prohibiting any financial institution from providing consumer financial products and services in an unfair, deceptive or abusive manner. As WAB has now passed this \$10 billion threshold, it will be subject to the examination of the CFPB with respect to its consumer products and services.

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Under Arizona law, the Arizona Department of Financial Institutions has many of the same remedial powers with respect to its state-chartered banks.

**Debit Interchange Fees.** Section 1075 of the Dodd-Frank Act, often referred to as the Durbin Amendment, amends the federal Electronic Fund Transfer Act to set standards for the pricing of interchange transaction fees on electronic debit transactions. In 2014, the Company's bank subsidiary was not required to comply with the Durbin Amendment's limitations on debit card interchange fees due to an exemption for debit card issuers which, together with their affiliates, parent companies, and subsidiaries have assets of less than \$10 billion. Since the Company has now passed the \$10 billion threshold, WAB will need to comply with the restrictions on debit card interchange fees beginning on July 1, 2015. Losing the exemption from the Durbin Amendment's requirements will negatively affect the amount of revenue we receive from debit card interchange fees. In 2014, we earned \$2.0 million from debit card interchange fees.

### Capital Standards

**Regulatory Capital Guidelines.** The Federal Reserve and the FDIC have risk-based capital adequacy guidelines intended to measure capital adequacy with regard to the degree of risk associated with a banking organization's operations for transactions reported on the balance sheet as assets and transactions, such as letters of credit and recourse arrangements, that are reported as off-balance-sheet items. The Company and WAB are required to comply with these capital adequacy standards. Under these guidelines, the nominal dollar amounts of assets on the balance sheet and credit-equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages. In general, for most assets, these range from 0.0% for assets with very low credit risk, such as cash and certain U.S. government securities, to 100.0% for assets with relatively higher credit risk, such as business loans. Certain assets perceived as very risky, such as CDO securities and certain types of CRE loans, are weighted even higher. A banking organization's risk-based capital ratios are obtained by dividing its Tier 1 capital and total qualifying capital (Tier 1 capital and a limited amount of Tier 2 capital) by its total risk-adjusted assets and certain off-balance-sheet items. Tier 1 capital consists of common stock, retained earnings, non-cumulative perpetual preferred stock, trust preferred securities up to a certain limit, and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt, other qualifying term debt, a limited amount of the allowance for loan and lease losses and certain other instruments that have some characteristics of equity. The inclusion of elements of Tier 2 capital as qualifying capital is subject to certain other requirements and limitations. Since December 31, 1992, to be considered adequately capitalized, the Federal Reserve and the FDIC have required a minimum ratio of Tier 1 capital to risk-adjusted assets and certain off-balance-sheet items of 4.0% and a minimum ratio of qualifying total capital to risk-adjusted assets and certain off-balance-sheet items of 8.0%.

The Federal Reserve and the FDIC require banking organizations to maintain a minimum amount of Tier 1 capital relative to average total assets, referred to as the leverage ratio. The principal objective of the leverage ratio is to constrain the maximum degree to which a banking organization may leverage its equity capital base. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, to be considered adequately capitalized, the minimum leverage ratio of Tier 1 capital to total average assets is 4.0%. However, an institution with a 4.0% leverage ratio would be unlikely to receive the highest rating since a strong capital position is a significant part of the regulators' rating criteria. All banking organizations not rated in the highest category must maintain an additional capital cushion of 100 to 200 basis points. The Federal Reserve and the FDIC have the discretion to set higher minimum capital requirements for specific institutions. Furthermore, the Federal Reserve has previously indicated that it may consider a "tangible Tier 1 capital leverage ratio" (thereby deducting all intangibles from Tier 1 capital) and other indicators of capital strength in evaluating proposals for expansion or new activities. The Company's Tier 1 leverage ratio at December 31, 2014 was 9.7%. A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the Federal Reserve or the FDIC, as appropriate, to ensure the maintenance of required capital levels.

The federal regulatory authorities' risk-based capital guidelines are based upon the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines

for use by each country's supervisors in determining the supervisory policies they apply. In 2004, the Basel Committee published a new capital accord ("Basel II") to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk – an internal ratings-based approach tailored to individual institutions' circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. In July 2010, the Basel Committee adopted the key design elements for Basel III and, in September 2010, adopted the transition measures. The requirements of the Dodd-Frank Act have largely surpassed the regulatory requirements called for by Basel III. Regulators have begun the process of adopting standards required under the Dodd-Frank Act to remove reliance on credit rating agencies. In June 2012, the federal banking agencies announced three proposed rulemakings on proposed regulatory capital rules designed, in part to implement the Basel III requirements and to implement the "standardized" approach of Basel II for

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non-core banks and bank holding companies. The Federal Reserve Board in July 2013 and the FDIC in September 2013 promulgated final rules implementing Basel III, providing for a strengthened set of capital requirements, as well as the risk-weighting approach under Basel II.

The capital framework under the Basel III final rule will replace the existing regulatory capital rules for all banks, savings associations and U.S. bank holding companies with greater than \$500 million in total assets, and all savings and loan holding companies. Effective on January 1, 2015 the final rules require:

- ▲ a ratio of common equity tier 1 capital to total risk-weighted assets of not less than 4.5%;
- A minimum leverage capital ratio of 4.0% for all banking organizations (currently 3.0% for certain banking organizations);
- ▲ a minimum tier 1 risk-based capital ratio ranging from 4.0% to 6.0%; and
- ▲ a minimum total risk-based capital ratio of 8.0%.

In addition, the new regulations subject a banking organization to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization did not maintain a capital conservation buffer of common equity tier 1 capital in an amount greater than 2.5% of its total risk-weighted assets. The effect of the capital conservation buffer will be to increase the minimum common equity tier 1 capital ratio to 7.0%, the minimum tier 1 risk-based capital ratio to 8.5% and the minimum total risk-based capital ratio to 10.5%.

The new regulations also change the capital categories for insured depository institutions for purposes of prompt corrective action as, discussed more fully below.

The final Basel III framework also requires banks and bank holding companies to measure their liquidity against specific liquidity tests. Although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, the Basel III framework would require specific liquidity tests by rule. In October 2013, the Federal Reserve approved a proposed rule implementing the Basel III liquidity framework, which requires certain covered financial institutions to maintain a minimum amount of liquid assets to withstand a 30-day standardized supervisory liquidity stress scenario. In general, the new liquidity rules apply only to large, complex banking organizations, and would not include a bank or bank holding company with fewer than \$50 billion in total consolidated assets.

Additionally, under the new regulations, the method for calculating the ratios has been revised to generally enhance risk sensitivity as well as provide alternatives to credit ratings for calculating risk-weighted assets. We are currently assessing the impact of the revised capital standards on WAB and the Company.

Trust Preferred Securities. Under the increased capital standards established by the Dodd-Frank Act, bank holding companies are prohibited from including in their regulatory Tier 1 capital hybrid debt and equity securities issued on or after May 19, 2010. Among the hybrid debt and equity securities included in this prohibition are trust preferred securities, which the Company has used in the past as a tool for raising additional Tier 1 capital and otherwise improving its regulatory capital ratios. Although the Company may continue to include our existing trust preferred securities as Tier 1 capital, the prohibition on the use of these securities as Tier 1 capital going forward may limit the Company's ability to raise capital in the future.

Prompt Corrective Action. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve problems at insured depository institutions, including institutions that fall below one or more of the prescribed minimum capital ratios described above. The federal banking regulators are required to take "prompt corrective action" with respect to capital-deficient institutions. An institution that is classified based upon its capital levels as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it was in the next lower capital category if its primary federal banking supervisory authority, after notice and opportunity for hearing, determines that an unsafe or unsound condition or practice warrants such treatment. At each successively lower capital category, an insured depository institution is subject to additional restrictions. A bank holding company must financially guarantee that a subsidiary bank that adopts a capital restoration plan will meet its plan obligations, in an amount not to exceed 5% of the subsidiary bank's assets or the amount required to meet regulatory capital requirements, whichever is less. Any capital loans made by a bank holding company to a subsidiary bank are subordinated to the claims of depositors in the bank and to certain other indebtedness of the subsidiary bank. In the event of the bankruptcy of a bank holding company, any commitment by the bank holding company to a federal

banking regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee and would be entitled to priority of payment.

In addition to measures that may be taken under the prompt corrective action provisions, federal banking regulatory authorities may bring enforcement actions against banks and bank holding companies for unsafe or unsound practices in the conduct of

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their businesses or for violations of any law, rule or regulation, any condition imposed in writing by the appropriate federal banking regulatory authority or any written agreement with the authority. Possible enforcement actions include the appointment of a conservator or receiver, the issuance of a cease-and-desist order that could be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, including MOUs, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders. In addition, a bank holding company's inability to serve as a source of strength for its subsidiary banks could serve as an additional basis for a regulatory action against the bank holding company.

As mentioned above, in July 2013, the Federal Reserve Board promulgated a final rule and the FDIC promulgated an interim final rule implementing Basel III, providing revised prompt corrective action ratios effective on January 1, 2015. Under the new regulations, certain changes to the prompt corrective action ratios will be implemented, including an increase in the Tier I risk-based capital ratios as follows:

- "Well capitalized" will increase from 6% or greater to 8% or greater;
- "Adequately capitalized" will increase from 4% or greater to 6% or greater,
- "Undercapitalized" will increase from less than 4% to less than 6%; and
- "Significantly undercapitalized" will increase from less than 3% to less than 4%.

Additionally, an institution's common equity Tier I risk based capital ratio would be required to be 6.5% or greater to be deemed "well capitalized," 4.5% or greater to be considered "adequately capitalized," less than 4.5% to be deemed "undercapitalized," 3.0% or less to be deemed "significantly undercapitalized" and equal to or less than 2.0% to be deemed "critically undercapitalized."

**Dividends.** The Company has never declared or paid cash dividends on its common stock. The Company currently intends to retain any future earnings for future growth and does not anticipate paying any cash dividends in the foreseeable future. Any determination in the future to pay dividends will be at the discretion of WAL's Board of Directors and will depend on the company's earnings, financial condition, results of operations, business prospects, capital requirements, regulatory restrictions, contractual restrictions and other factors that the Board of Directors may deem relevant.

The Company's ability to pay dividends is subject to the regulatory authority of the Federal Reserve. The supervisory concern of the Federal Reserve focuses on a bank holding company's capital position, its ability to meet its financial obligations as they come due, and its capacity to act as a source of financial strength to its subsidiaries. In addition, Federal Reserve policy discourages the payment of dividends by a bank holding company that are not supported by current operating earnings.

As a Delaware corporation, the Company is also subject to limitations under Delaware law on the payment of dividends. Under the Delaware General Corporation Law, dividends may only be paid out of surplus or out of net profits for the year in which the dividend is declared or the preceding year, and no dividends may be paid on common stock at any time during which the capital of outstanding preferred stock or preference stock exceeds our net assets. From time to time, the Company may become a party to financing agreements and other contractual obligations that have the effect of limiting or prohibiting the declaration or payment of dividends such as the Series B Preferred Stock it issued pursuant to the SBLF. So long as the SBLF Preferred Stock remains outstanding, the Company may only declare and pay dividends on its common stock if: 1) SBLF Preferred Stock dividend payments are current, and 2) the Company's Tier 1 capital following payment of the common stock dividend would remain at or above the applicable threshold provided in Schedule A of the Certificate of Designations for the SBLF Preferred Stock. Additional restrictions on common stock dividends apply if the Company does not timely pay dividends on the SBLF Preferred Stock. Holding company expenses and obligations with respect to its outstanding trust preferred securities and corresponding subordinated debt also may limit or impair the Company's ability to declare and pay dividends. Since the Company has no significant assets other than the voting stock of its subsidiaries, it currently depends on dividends from WAB and, to a lesser extent, its non-bank subsidiaries, for a substantial portion of its revenue and as the primary sources of its cash flow. The ability of a state bank to pay cash dividends is restricted by federal law or regulations. For example, under the Federal Deposit Insurance Corporation Act, an insured institution may not pay a

dividend if payment would cause it to become undercapitalized or if it is already undercapitalized. Furthermore, the FDIC has issued a policy statement indicating that banks should generally pay dividends only out of current operating earnings.

Arizona law also imposes restrictions on the ability of WAB to pay dividends. Under section 6-187 of the Arizona Revised Statutes, WAB may pay dividends on the same basis as any other Arizona corporation, except that cash dividends paid out of

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capital surplus require the prior approval of the Arizona Superintendent. Under section 10-640 of the Arizona Revised Statutes, a corporation may not make a distribution to stockholders if to do so would render the corporation insolvent or unable to pay its debts as they become due. However, an Arizona bank may not declare a non-stock dividend out of capital surplus without the approval of the Arizona Superintendent.

Redemption. A bank holding company may not purchase or redeem its equity securities without the prior written approval of the Federal Reserve if the purchase or redemption combined with all other purchases and redemptions by the bank holding company during the preceding 12 months equals or exceeds 10% of the bank holding company's consolidated net worth. However, prior approval is not required if the bank holding company is well-managed, not the subject of any unresolved supervisory issues and both before and immediately after the purchase or redemption is well-capitalized.

### Increasing Competition in Financial Services

The Dodd-Frank Act has established new standards for branching by out-of-state banks. Under the new standard, a bank may establish a de novo branch in any location in any state where a bank chartered in that state would be permitted to locate a branch.

### Selected Regulation of Banking Activities

Transactions with Affiliates. Banks are subject to restrictions imposed by Sections 23A and 23B of Federal Reserve Act and regulations adopted by the Federal Reserve thereunder with regard to extensions of credit to affiliates, investments in securities issued by affiliates and the use of affiliates' securities as collateral for loans to any borrower. Specifically, WAB may only engage in lending and other "covered transactions" with non-bank affiliates to the following extent: 1) in the case of any single such affiliate, the aggregate amount of covered transactions of the bank and its subsidiaries may not exceed 10% of the capital stock and surplus of the bank; and 2) in the case of all affiliates, the aggregate amount of covered transactions of the bank and its subsidiaries may not exceed 20% of the capital stock and surplus of the bank. Covered transactions are also subject to certain collateralization requirements. "Covered transactions" are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. The Dodd-Frank Act has expanded the definition of covered transactions and increased the timing and other aspects of the collateral requirements associated with covered transactions. All covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on prevailing market terms and on terms substantially the same, or at least as favorable to the bank, as those prevailing at that time for comparable transactions with or involving non-affiliated persons. These laws and regulations may limit the ability of the Company to obtain funds from WAB for its cash needs, including funds for payment of dividends, interest and operational expenses.

Insider Credit Transactions. Banks also are subject to certain restrictions regarding extensions of credit to executive officers, directors or principal stockholders of a bank and its affiliates or to any related interests of such persons (i.e., insiders). All extensions of credit to insiders must be made on substantially the same terms and pursuant to the same credit underwriting procedures as are applicable to comparable transactions with persons who are neither insiders nor employees, and must not involve more than the normal risk of repayment or present other unfavorable features. Insider loans also are subject to certain lending limits, restrictions on overdrafts to insiders and requirements for prior approval by the bank's board of directors. In addition to enhancing restrictions on insider transactions, the Dodd-Frank Act increases the types of transactions with insiders subject to these restrictions, including certain asset sales with insiders.

Lending Limits. In addition to the limits set forth above, state banking law generally limits the amount of funds that a bank may lend to a single borrower. Under Arizona law, the obligations of one borrower to a bank may not exceed 20% of the bank's capital, plus an additional 10% of its capital if the additional amounts are fully secured by readily marketable collateral.

Banking Agency Loan Guidance. In December 2006, the Federal Reserve, FDIC and other federal banking agencies issued final guidance on sound risk management practices for concentrations in CRE, or CRE lending. The CRE guidance provided supervisory criteria, including numerical indicators to direct examiners in identifying institutions



with potentially significant CRE loan concentrations that may warrant greater supervisory scrutiny. The CRE criteria do not constitute limits on CRE lending, but the CRE guidance does provide certain additional expectations, such as enhanced risk management practices and levels of capital, for banks with concentrations in CRE lending. The FDIC issued additional guidance in March 2008 reinforcing the 2006 guidance and addressing steps institutions with potentially significant CRE concentrations should take to reduce or mitigate the risk of the concentration. During 2007, the Federal Reserve, FDIC and other federal banking agencies issued final guidance on subprime mortgage lending to address issues relating to certain subprime mortgages, especially adjustable-rate mortgage products that can cause

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payment shock. The subprime guidance described the prudent safety and soundness and consumer protection standards that the regulators expect banks and financial institutions to follow to ensure borrowers obtain loans they can afford to repay.

**Tying Arrangements.** The Company and its subsidiary bank are prohibited from engaging in certain tying arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. With certain exceptions for traditional banking services, the Company's subsidiary bank may not condition an extension of credit to a customer on a requirement that the customer obtain additional credit, property or services from the bank, the Company or any of its other subsidiaries, that the customer provide some additional credit, property or services to the bank, the Company or any of the Company's other subsidiaries or that the customer refrain from obtaining credit, property or other services from a competitor.

**Regulation of Management.** Federal law sets forth circumstances under which officers or directors of a bank or bank holding company may be removed by the institution's primary federal banking supervisory authority. Federal law also prohibits a management official of a bank or bank holding company from serving as a management official with an unaffiliated bank or bank holding company that has offices within a specified geographic area that is related to the location of the bank's offices and the asset size of the institutions.

**Safety and Soundness Standards.** Federal law imposes upon banks certain non-capital safety and soundness standards. The federal banking agencies have issued joint guidelines for safe and sound banking operations. These standards cover internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, earnings asset growth, compensation and benefits. Additional standards apply to asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan, acceptable to its regulators, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

### **Consumer Protection Laws and Regulations**

The bank regulatory authorities have increased their attention in recent years on compliance with the consumer protection laws and their implementing regulations. Examination and enforcement activities have become more intense in nature, and insured institutions have been advised to monitor carefully their compliance with such laws and regulations. Banks are subject to many federal consumer protection statutes and regulations, some of which are discussed below. The Dodd-Frank Act created the CFPB which has rulemaking and oversight authority of most federal consumer financial protection laws. On July 21, 2011, the rulemaking and certain enforcement authority for enumerated federal consumer financial protection laws was transferred to the CFPB. As a result of this transfer, the CFPB now has significant interpretive and enforcement authority with respect to many of the federal laws and regulations under which we operate. In accordance with this authority, the CFPB has officially transferred many of the regulations formerly administered by the Federal Reserve and the U.S. Department of Housing and Urban Development, to a new chapter of Title 12 of the Code of Federal Regulations maintained by the CFPB, many of which deal with consumer credit, account disclosures and residential mortgage lending. Although the CFPB did not make significant or substantive changes to the rules as part of this transfer, it now has authority to promulgate guidance and interpretations of these rules and regulations in a manner that could differ from prior interpretations of the other federal regulatory bodies.

**Community Reinvestment Act.** The CRA and its implementing regulations are intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, when examining insured depository institutions, to assess a bank's record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, and holding company formations. A CRA rating other than "outstanding" or "satisfactory" can substantially delay or block a transaction. Based upon its most recent CRA examination dated October 15, 2013, WAB received a rating of "satisfactory."

**Equal Credit Opportunity Act.** The Equal Credit Opportunity Act generally prohibits discrimination in any aspect of a credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin,

sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act. Federal agencies interpret this law to prohibit, in certain circumstances, facially neutral credit policies that have a disparate impact on one or more groups of consumers.

Truth in Lending Act. The TILA is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. Under TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

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**Fair Housing Act.** The FHA regulates many practices, and makes it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by regulators and/or courts to be illegal under the FHA, including some practices that are not specifically mentioned in the FHA.

**Home Mortgage Disclosure Act.** The HMDA grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that is intended to help to show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a “fair lending” aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. Beginning with data reported for 2005, the amount of information that financial institutions collect and disclose concerning applicants and borrowers has expanded, which has increased the attention that HMDA data receives from state and federal banking supervisory authorities, community-oriented organizations and the general public.

**Real Estate Settlement Procedures Act.** The RESPA requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. RESPA also prohibits certain practices perceived as abusive, such as kickbacks and fee-splitting under certain circumstances.

Penalties under the above laws may include fines, reimbursements and other penalties. Violation or inadequate compliance management also can result in one or more of the enforcement actions described above and could restrict the ability of a bank to engage in certain activities or transactions, such as mergers and acquisitions. Due to heightened regulatory concern related to compliance with these laws generally, the Company and its subsidiary bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

**Predatory Lending.** “Predatory lending” is a far-reaching concept and potentially covers a broad range of behavior. As such, it does not lend itself to a concise or comprehensive definition. However, predatory lending typically involves one or more of the following elements:

- making unaffordable loans based on the borrower’s assets rather than the borrower’s ability to repay an obligation;
- inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced, or “loan flipping”; and
- engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

The HOEPA and regulations adopted by the Federal Reserve thereunder require certain disclosures and extend additional protection to borrowers in closed end consumer credit transactions, such as home repairs or renovation, that are secured by a mortgage on the borrower’s primary residence. The HOEPA disclosures and protections are applicable to such “high cost” transactions with any of the following features:

- **APR:** The APR for first lien mortgage loans more than eight percentage points above the yield on U.S. Treasury securities having a comparable maturity or 10 percentage points on a subordinate lien mortgage loan; and
- **Points and Fees:** The total points and fees paid in connection with the credit transaction exceed the greater of either 8% of the loan amount or a specified dollar amount that is inflation-adjusted each year.

Under regulations effective on January 10, 2014, the CFPB revised these thresholds as follows:

- **APR:** The APR threshold is reduced to 6.5 percentage points on a first lien mortgage loan and 8.5 percentage points on a subordinate lien mortgage loan;
- **Points and Fees:** The points and fees threshold is reduced to 5% of the total loan amount for a loan of \$20,000 or more, or the lesser of 8% or a \$1,000 for a loan under \$20,000. The \$20,000 and \$1,000 amounts will be adjusted annually for inflation; and

**Prepayment Penalty:** The new regulations add a third prepayment penalty threshold. A mortgage loan may also be a high cost transaction where a prepayment penalty 1) may be charged more than 36 months after consummation or account opening, or 2) is in an amount more than 2% of the amount prepaid.

In December 2008, the Federal Reserve issued rules under HOEPA in order to address certain practices in the subprime mortgage market. The proposed rules would require disclosures and additional protections or prohibitions on practices



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connected with “higher-priced mortgages,” including requiring creditors to verify a borrower’s income and assets, make a determination that the borrower had the ability to repay, prior to extending a higher-priced mortgage, and establish escrow accounts for property taxes and insurance. The FRB's rules defined a higher-priced mortgage as a closed-end loan secured by a consumer’s principal dwelling and with an interest rate exceeding the yield on comparable U.S. Treasury securities by at least 3 percentage points for first-lien loans, or 5 percentage points for subordinate-lien loans. Effective January 14, 2014, the CFPB revised these amounts to 1.5 percentage points for a first lien loan or 3.5% for a subordinate lien loan. In addition to existing protections, these regulations require a creditor extending a higher-priced mortgage to obtain one or more appraisals meeting certain specified standards, provide applicants with a notification regarding the use of the appraisals, and give applicants a copy of the written appraisals used.

In addition, the CFPB expanded the requirement that creditors verify a borrower's income and assets, and make a determination of the borrower’s ability to repay, to nearly all closed-end loans secured by a borrower’s principal residence. Failure to make such a determination provides a borrower with a defense to foreclosure by way of set off or recoupment equal to the sum of all finance charges and fees paid by the borrower, as well as actual damages, court costs and attorney fees. A creditor is not required to make such a determination where the mortgage meets certain statutory requirements to be considered a “qualified mortgage.” A mortgage loan will be considered a qualified mortgage where it is sold to Fannie Mae or Freddie Mac, or where it meets certain requirements, including a debt-to-income ratio of 43% or less and limits on points and fees. These requirements became effective on January 10, 2014.

**Privacy.** Under the GLBA, all financial institutions, including the Company, WAB and certain of their non-banking affiliates and subsidiaries, are required to establish policies and procedures to restrict the sharing of non-public customer data with non-affiliated parties at the customer’s request and to protect customer data from unauthorized access. In addition, the FCRA includes many provisions concerning national credit reporting standards and permits consumers, including customers of our subsidiary bank, to opt out of information-sharing for marketing purposes among affiliated companies. The Fair and Accurate Credit Transactions Act of 2004 amended certain provisions of the FCRA, and requires banks and other financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The CFPB has extensive rulemaking authority under the FCRA, and the Company and WAB are subject to these provisions. We have developed policies and procedures for the Company and WAB to maintain compliance and believe they are in compliance with all privacy, information sharing and notification provisions of the GLBA and the FCRA.

Under California law, every business that owns or licenses personal information about a California resident must maintain reasonable security procedures and policies to protect that information. All customer records that contain personal information and that are no longer required to be retained must be destroyed. Any person that conducts business in California, maintains customers’ personal information in unencrypted computer records and experiences a breach of security with regard to those records must promptly disclose the breach to all California residents whose personal information was or is reasonably believed to have been acquired by unauthorized persons as a result of such breach. Any person who maintains computerized personal data for others and experiences a breach of security must promptly inform the owner or licensee of the breach. A business may not provide personal information of its customers to third parties for direct mailing purposes unless the customer “opts in” to such information sharing. A business that fails to provide this privilege to its customers must report the uses made of its customers’ data upon a customer’s request.

### **Compliance**

In order to assure that the Company and WAB are in compliance with the laws and regulations that apply to their operations, including those summarized herein, the Company and its subsidiary bank employ compliance and risk management staff. The Company is regularly examined by their respective state and federal banking agencies, as part of which their compliance with applicable laws and regulations is assessed.

In April of 2014, the Company formed a Board-level risk committee to approve and periodically review the Company’s risk-management policies and oversee operations of our risk-management framework. The risk committee has a formal, written charter approved by the board of directors. The committee meets quarterly, or more frequently if

necessary, and maintains records of its proceedings and risk-management decisions. The risk committee includes at least one director with experience in identifying, assessing and managing risk exposures of large, complex firms and is chaired by an independent director that is not an employee of the Company, and has not been an employee for at least three years.

Corporate Governance and Accounting Legislation

Sarbanes-Oxley Act of 2002. SOX was adopted for the stated purpose of increasing corporate responsibility, enhancing penalties for accounting and auditing improprieties at publicly traded companies, and protecting investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. It applies generally to all companies that file or

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are required to file periodic reports with the SEC under the Exchange Act, which includes the Company. Under SOX, the SEC and securities exchanges adopted extensive additional disclosure, corporate governance and other related rules. Among its provisions, SOX subjects bonuses issued to top executives to disgorgement if a subsequent restatement of a company's financial statements was due to corporate misconduct, prohibits an officer or director from misleading or coercing an auditor, prohibits insider trades during pension fund "blackout periods," imposes new criminal penalties for fraud and other wrongful acts, and extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

### Anti-Money Laundering and Anti-Terrorism Legislation

Congress enacted the BSA to require financial institutions, including the Company and its subsidiary bank, to maintain certain records and to report certain transactions to prevent such institutions from being used to hide money derived from criminal activity and tax evasion. The BSA establishes, among other things: 1) record keeping requirements to assist government enforcement agencies in tracing financial transactions and flow of funds; 2) reporting requirements for Suspicious Activity Reports and Currency Transaction Reports to assist government enforcement agencies in detecting patterns of criminal activity; 3) enforcement provisions authorizing criminal and civil penalties for illegal activities and violations of the BSA and its implementing regulations; and 4) safe harbor provisions that protect financial institutions from civil liability for their cooperative efforts. The intensity of regulatory scrutiny of BSA compliance and the severity of penalties for violations of the BSA has increased substantially in recent years.

Title III of the USA PATRIOT Act of 2001 amended the BSA and incorporates anti-terrorist financing provisions into the requirements of the BSA and its implementing regulations. Among other things, the USA PATRIOT Act requires all financial institutions, including the Company, its subsidiary bank and several of their non-banking affiliates and subsidiaries, to institute and maintain a risk-based anti-money laundering compliance program that includes a customer identification program, provides for information sharing with law enforcement and between certain financial institutions by means of an exemption from the privacy provisions of the GLBA, prohibits U.S. banks and broker-dealers from maintaining accounts with foreign "shell" banks, establishes enhanced due diligence requirements for certain foreign correspondent banking and foreign private banking accounts and imposes additional record keeping requirements for certain correspondent banking arrangements. The USA PATRIOT Act also grants broad authority to the Secretary of the Treasury to take actions to combat money laundering, and federal bank regulators are required to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve any application submitted by a financial institution. The Company and its affiliates have adopted policies, procedures and controls that are designed to comply with the BSA and the USA PATRIOT Act, and they engage in relatively few transactions of any kind with foreign financial institutions or foreign persons.

The Treasury's OFAC administers and enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals. As a result, all U.S. Companies, including the Company, its affiliates and subsidiaries, must scrutinize transactions to ensure that they do not represent obligations of, or ownership interests in, entities owned or controlled by sanctioned targets. In addition, we and our subsidiary bank must restrict transactions with certain targeted countries except as permitted by OFAC.

### Regulatory Reform

As noted elsewhere in this Form 10-K, the requirements of the Dodd-Frank Act call for a number of rulemakings, studies and regulatory guidance from Federal regulators. The Company and WAB continue to monitor this ongoing regulatory process to determine the level of impact that it will have on its operations and activities.

Although the Dodd-Frank Act contains some specific timelines for the Federal regulatory agencies to follow, in some instances, the agencies have been unable to meet these deadlines and it remains unclear when implementing rules will be proposed and finalized. While our current assessment is that the Dodd-Frank Act and its implementing regulations will not have a materially greater effect on the Company than the rest of the commercial banking industry, given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our



business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements as we continue to grow. As we now exceed \$10 billion in total assets, the Company will need to comply with certain additional requirements created by the Dodd-Frank Act that apply only to bank holding companies and banks with \$10 billion or more in total assets. For more information, see “-The Dodd-Frank Wall Street Reform and Consumer Protection Act,” discussed above. Failure to comply with the new requirements would negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

For a discussion of quantitative and qualitative disclosures about market risk, please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosure about Market Risk."

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Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and Supplementary Data included in this Annual Report is immediately following the Index to Consolidated Financial Statements page to this Annual Report.

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McGladrey LLP

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Western Alliance Bancorporation

We have audited the accompanying Consolidated Balance Sheets of Western Alliance Bancorporation and Subsidiaries (collectively referred to herein as the Company) as of December 31, 2014 and 2013, and the related Consolidated Statements of Income, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated February 17, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ McGladrey LLP

Phoenix, Arizona

February 17, 2015

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CONSOLIDATED BALANCE SHEETS

	December 31,	
	2014	2013
	(in thousands, except per share amounts)	
Assets:		
Cash and due from banks	\$125,329	\$134,906
Interest-bearing deposits in other financial institutions	39,067	170,608
Cash and cash equivalents	164,396	305,514
Money market investments	451	2,632
Investment securities - measured at fair value	1,858	3,036
Investment securities - AFS, at fair value; amortized cost of \$1,493,648 at December 31, 2014 and \$1,404,048 at December 31, 2013	1,520,237	1,370,696
Investment securities - HTM, at amortized cost; fair value of \$0 at December 31, 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	8,398,265	6,801,415
Less: allowance for credit losses	(110,216)	(100,050)
Total loans	8,288,049	6,701,365
Premises and equipment, net	113,818	105,565
Other assets acquired through foreclosure, net	57,150	66,719
Bank owned life insurance	141,969	140,562
Goodwill	23,224	23,224
Other intangible assets, net	2,689	4,150
Deferred tax assets, net	62,686	80,688
Prepaid expenses	5,927	4,778
Other assets	192,769	185,221
Total assets	\$10,600,498	\$9,307,342
Liabilities:		
Deposits:		
Non-interest-bearing demand	\$2,288,048	\$2,199,983
Interest-bearing	6,642,995	5,638,222
Total deposits	8,931,043	7,838,205
Customer repurchase agreements	54,899	71,192
Other borrowings	390,263	341,096
Junior subordinated debt, at fair value	40,437	41,858
Other liabilities	182,928	159,493
Total liabilities	9,599,570	8,451,844
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock - par value \$0.0001 and liquidation value per share of \$1,000; 20,000,000 authorized; 70,500 and 141,000 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively	70,500	141,000
Common stock - par value \$0.0001; 200,000,000 authorized; 88,691,249 shares issued and outstanding at December 31, 2014 and 87,186,403 at December 31, 2013	9	9
Additional paid in capital	828,327	797,146
Retained earnings (accumulated deficit)	85,453	(61,111)
Accumulated other comprehensive income (loss)	16,639	(21,546)

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Total stockholders' equity	1,000,928	855,498
Total liabilities and stockholders' equity	\$10,600,498	\$9,307,342
See accompanying Notes to Consolidated Financial Statements.		

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CONSOLIDATED INCOME STATEMENTS

	Year Ended December 31,		
	2014	2013	2012
	(in thousands, except per share amounts)		
Interest income:			
Loans, including fees	\$370,922	\$326,714	\$280,985
Investment securities	38,603	30,382	32,780
Dividends	4,606	4,021	4,022
Other	2,248	1,538	508
Total interest income	416,379	362,655	318,295
Interest expense:			
Deposits	20,012	16,335	16,794
Other borrowings	9,639	11,506	9,116
Junior subordinated debt	1,754	1,823	1,928
Customer repurchase agreements	81	96	194
Total interest expense	31,486	29,760	28,032
Net interest income	384,893	332,895	290,263
Provision for credit losses	4,726	13,220	46,844
Net interest income after provision for credit losses	380,167	319,675	243,419
Non-interest income:			
Service charges and fees	10,451	9,920	9,452
Income from bank owned life insurance	4,508	4,809	4,439
Gain (loss) on sales of investment securities, net	757	(1,195)	) 3,949
Unrealized gains (losses) on assets and liabilities measured at fair value, net	1,212	(6,483)	) 653
Loss on extinguishment of debt	(502)	) (1,387)	) —
Bargain purchase gain from acquisition	—	10,044	17,562
Other fee revenue	3,763	3,963	3,564
Other income	5,252	2,576	6,886
Total non-interest income	25,441	22,247	46,505
Non-interest expense:			
Salaries and employee benefits	126,630	113,434	105,044
Occupancy	18,192	19,126	18,815
Legal, professional, and directors' fees	14,278	13,633	10,237
Data processing	10,232	8,744	6,134
Insurance	8,862	8,094	8,511
Loan and repossessed asset expenses	4,721	4,246	6,675
Marketing	2,300	2,581	2,306
Customer service	2,031	2,105	2,219
Intangible amortization	1,461	2,388	3,256
Goodwill and intangible impairment	—	—	3,435
Net (gain) loss on sales / valuations of repossessed and other assets	(5,421)	) (2,387)	) 4,207
Merger / restructure expenses	198	5,752	2,819
Other expense	24,625	18,550	15,202
Total non-interest expense	208,109	196,266	188,860
Income from continuing operations before provision for income taxes	197,499	145,656	101,064
Income tax expense	48,390	29,830	25,935

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Income from continuing operations	149,109	115,826	75,129	
Loss from discontinued operations, net of tax	(1,158	) (861	) (2,490	)
Net income	147,951	114,965	72,639	
Dividends on preferred stock	1,387	1,410	3,793	
Net income available to common stockholders	\$ 146,564	\$ 113,555	\$ 68,846	

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	Year Ended December 31,		
	2014	2013	2012
	(in thousands, except per share amounts)		
Earnings per share from continuing operations:			
Basic	\$1.70	\$1.34	\$0.87
Diluted	1.69	1.32	0.86
Loss per share from discontinued operations:			
Basic	(0.01	) (0.01	) (0.03
Diluted	(0.02	) (0.01	) (0.03
Earnings per share available to common stockholders:			
Basic	1.69	1.33	0.84
Diluted	1.67	1.31	0.83
Weighted average number of common shares outstanding:			
Basic	86,693	85,682	82,285
Diluted	87,506	86,541	82,912
Dividends declared per common share	\$—	\$—	\$—
See accompanying Notes to Consolidated Financial Statements.			

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Net income	\$147,951	\$114,965	\$72,639
Other comprehensive income (loss), net:			
Unrealized gain on transfer of HTM securities to AFS, net of tax effect of \$(5,367) for the respective period presented	8,976	—	—
Unrealized gain (loss) on AFS securities, net of tax effect of \$(17,749), \$18,240, \$(8,974) for each respective period presented	29,683	(30,503	) 15,842
Unrealized loss on cash flow hedge, net of tax effect of \$0, \$10, \$284 for each respective period presented	—	(17	) (502
Realized (gain) loss on sale of AFS securities included in income, net of tax effect of \$283, \$(447), \$1,428, for each respective period presented	(474	) 748	(2,521
Net other comprehensive income (loss)	38,185	(29,772	) 12,819
Comprehensive income	\$186,136	\$85,193	\$85,458
See accompanying Notes to Consolidated Financial Statements.			

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	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)							
Balance, December 31, 2011	141	\$ 141,000	82,362	\$ 8	\$ 743,780	\$ (4,593 )	\$ (243,512 )	\$ 636,683
Net income (1)	—	—	—	—	—	—	72,639	72,639
Issuance of common stock, net of offering costs of \$24	—	—	2,966	1	31,952	—	—	31,953
Exercise of stock options	—	—	397	—	2,802	—	—	2,802
Stock-based compensation	—	—	183	—	1,939	—	—	1,939
Restricted stock grants, net	—	—	557	—	4,379	—	—	4,379
Dividends on preferred stock	—	—	—	—	—	—	(3,793 )	(3,793 )
Other comprehensive income, net	—	—	—	—	—	12,819	—	12,819
Balance, December 31, 2012 (1)	141	\$ 141,000	86,465	\$ 9	\$ 784,852	\$ 8,226	\$ (174,666 )	\$ 759,421
Net income (1)	—	—	—	—	—	—	114,965	114,965
Exercise of stock options	—	—	440	—	4,595	—	—	4,595
Stock-based compensation	—	—	131	—	3,547	—	—	3,547
Restricted stock grants, net	—	—	150	—	4,152	—	—	4,152
Dividends on preferred stock	—	—	—	—	—	—	(1,410 )	(1,410 )
Other comprehensive loss, net	—	—	—	—	—	(29,772 )	—	(29,772 )
Balance, December 31, 2013 (1)	141	\$ 141,000	87,186	\$ 9	\$ 797,146	\$ (21,546 )	\$ (61,111 )	\$ 855,498
Net income	—	—	—	—	—	—	147,951	147,951
Exercise of stock options	—	—	625	—	8,294	—	—	8,294
Stock-based compensation	—	—	86	—	2,913	—	—	2,913
Restricted stock grants, net	—	—	246	—	6,228	—	—	6,228
Issuance of common stock under ATM offering, net of	—	—	548	—	13,746	—	—	13,746

offering costs of \$485								
Preferred stock redemption	(70 )	(70,500 )	—	—	—	—	—	(70,500 )
Dividends on preferred stock	—	—	—	—	—	—	(1,387 )	(1,387 )
Other comprehensive income, net	—	—	—	—	—	38,185	—	38,185
Balance, December 31, 2014	71	\$70,500	88,691	\$9	\$828,327	\$16,639	\$85,453	\$1,000,928

(1) As adjusted, see "Note 14. Income Taxes " to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31,		
	2014	2013	2012
	(in thousands)		
Cash flows from operating activities:			
Net income	\$147,951	\$114,965	\$72,639
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for credit losses	4,726	13,220	46,844
Depreciation and amortization	6,166	6,859	6,305
Stock-based compensation	12,465	7,699	6,318
Excess tax benefit of stock-based compensation	(4,194)	) (1,552)	) (293)
Deferred income taxes	(7,182)	) (13,717)	) 21,723
Net amortization of discounts and premiums for investment securities	8,035	9,727	10,799
Goodwill and intangible impairment	—	—	3,435
Accretion and amortization of fair market value adjustments due to acquisitions of loans	(15,958)	) (10,917)	) (1,721)
Accretion and amortization of fair market value adjustments due to acquisitions of other assets and liabilities	(552)	) 437	3,256
Income from bank owned life insurance	(4,508)	) (4,809)	) (4,439)
Unrealized (gains) / losses on assets and liabilities measured at fair value, net	(1,212)	) 6,483	(653)
(Gains) / Losses on:			
Sales of investment securities	(757)	) 1,195	(3,949)
Acquisition of Centennial (2013)/Western Liberty (2012)	—	(10,044)	) (17,562)
Extinguishment of debt	502	1,387	—
Other assets acquired through foreclosure, net	(2,866)	) (5,924)	) (727)
Valuation adjustments of other repossessed assets, net	294	3,743	5,029
Sale of premises, equipment, and other assets, net	(2,849)	) (206)	) (95)
Sale of minority interest in Miller / Russell & Associates, Inc	—	—	(892)
Changes in, net of acquisitions:			
Other assets	8,257	33,185	5,135
Other liabilities	14,971	13,318	9,402
Net cash provided by operating activities	163,289	165,049	160,554
Cash flows from investing activities:			
Investment securities - measured at fair value			
Principal pay downs and maturities	1,144	1,881	1,355
Investment securities - AFS			
Purchases	(143,052)	) (729,768)	) (322,283)
Principal pay downs and maturities	226,455	208,228	365,477
Proceeds from sales	95,826	63,153	225,296
Investment securities - HTM			
Purchases	—	—	(13,584)
Principal pay downs and maturities	6,600	5,375	5,735
Purchase of investment tax credits	(32,484)	) (40,355)	) (24,297)
Sale (purchase) of money market investments, net	2,181	(1,968)	) 6,679
Proceeds from bank owned life insurance	1,046	2,582	—

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Liquidation of restricted stock	4,911	750	2,584
Loan fundings and principal collections, net	(1,560,633 )	(728,793 )	(915,689 )
Purchase of premises, equipment, and other assets, net	(13,925 )	(18,873 )	(8,554 )
Proceeds from sale of other real estate owned and repossessed assets, net	25,918	43,242	40,964
Cash and cash equivalents acquired in acquisition, net	—	21,204	51,209
Net cash used in investing activities	(1,386,013 )	(1,173,342 )	(585,108 )

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	December 31,		
	2014	2013	2012
	(in thousands)		
Cash flows from financing activities:			
Net increase in deposits	1,093,353	1,045,173	679,474
Net increase (decrease) in borrowings	40,407	70,159	(204,592 )
Early extinguishment of debt	(6,501 )	(10,887 )	—
Proceeds from exercise of common stock options	8,294	4,595	2,802
Redemption of preferred stock	(70,500 )	—	—
Excess tax benefit of stock-based compensation	4,194	1,552	293
Cash dividends paid on preferred stock	(1,387 )	(1,410 )	(3,793 )
Proceeds from issuance of stock in offerings, net	13,746	—	—
Net cash provided by financing activities	1,081,606	1,109,182	474,184
Net (decrease) increase in cash and cash equivalents	(141,118 )	100,889	49,630
Cash and cash equivalents at beginning of year	305,514	204,625	154,995
Cash and cash equivalents at end of year	\$164,396	\$305,514	\$204,625
Supplemental disclosure:			
Cash paid during the year for:			
Interest	\$26,516	\$28,613	\$28,953
Income taxes	35,556	19,105	1,740
Non-cash investing and financing activity:			
Transfers to other assets acquired through foreclosure, net	13,777	24,911	28,315
Unfunded commitments to purchase investment tax credits and SBIC commitments	9,798	50,000	53,203
Non-cash assets acquired in acquisitions	—	410,827	116,772
Non-cash liabilities acquired in acquisitions	—	421,987	118,443
Change in unrealized gain (loss) on AFS securities, net of tax	29,209	(29,755 )	13,321
Change in unfunded obligations	(28,522 )	(34,422 )	—
Transfer of HTM securities to AFS, amortized cost	275,292	—	—
Unrealized gain on transfer of HTM securities to AFS, net of tax	8,976	—	—
See accompanying Notes to Consolidated Financial Statements.			

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

NOTES TO 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, FIB in Northern Nevada, BON in Southern Nevada, and TPB in California. The Company also serves business customers through a robust national platform of specialized financial services including AAB, WACF, WAEF, WAPF, WARF, and WAWL. On July 1, 2014, all of the outstanding shares of common stock of WAEF, which was previously a subsidiary of WAL, were contributed to WAB by WAL and it is now a subsidiary of the Bank. 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 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 other assets and liabilities carried at fair value; and accounting for income taxes. 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 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 December 31, 2014, WAL has eight wholly-owned subsidiaries: WAB, LVSP and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities.

The Bank 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; BW Nevada Holdings, LLC, which owns the Company's 2700 West Sahara Avenue, Las Vegas, Nevada office building, and WAEF, which offers equipment finance services nationwide.

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 and for the years ended December 31, 2014, 2013, and 2012 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

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





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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 Consolidated Income Statement from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing), and federal funds sold. Cash flows from loans originated by the Company and customer deposit accounts are reported net.

The Company maintains amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Cash reserve requirements

Depository institutions are required by law to maintain reserves against their transaction deposits. The reserves must be held in cash or with the FRB and banks are permitted to meet this requirement by maintaining the specified amount as an average balance over a two-week period. The total of reserve balances was approximately \$11.6 million and \$19.1 million as of December 31, 2014 and 2013, respectively.

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 Consolidated Financial Statements for further discussion regarding the Company's HTM portfolio during the year ended December 31, 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 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 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.

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

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,

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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

WAB is a member of the FHLB system and maintains an investment in capital stock of the FHLB based on the borrowing capacity used. The Company also maintains an investment in its primary correspondent bank. 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. Our investment in FHLB stock is carried at cost. The Company conducts a periodic review and evaluation of our FHLB stock to determine if any impairment exists.

### 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 deferred fees and costs, 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. Purchased loans are recorded at estimated fair value on the date of purchase, comprised of unpaid principal less estimated credit losses and interest rate fair value adjustments.

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 are 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 Consolidated Financial Statements.

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. 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 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.

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**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, 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, 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 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 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 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 allowance for credit losses, and may require us 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.

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 Company's impairment analysis also incorporates various valuation considerations, including loan type, loss experience, and geographic criteria.

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.

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## Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when the 1) assets have been isolated from the Company; 2) transferee obtains the right to pledge or exchange the transferred assets; and 3) Company no longer maintains effective control over the transferred assets through an agreement to repurchase the transferred assets before maturity.

## Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the terms of the lease or the estimated lives of the improvements, whichever is shorter. Depreciation and amortization is computed using the following estimated lives:

	Years
Bank premises	31
Furniture, fixtures, and equipment	3 - 10
Leasehold improvements	3 - 10

Management periodically reviews premises and equipment in order to determine if facts and circumstances suggest that the value of an asset is not recoverable.

## 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. The Company can first elect to assess, through qualitative factors, whether it is more likely than not that goodwill is impaired. Pursuant to this guidance, if the qualitative assessment indicates potential impairment, the Company will proceed with the two-step process. The first step tests for impairment, while the second step, if necessary, measures the impairment. The resulting impairment amount, if any, is charged to current period earnings as non-interest expense.

The Company's intangible assets consist of core deposit intangible assets that are amortized over periods ranging from 5 to 12 years. The Company evaluates the remaining useful lives of its core deposit intangible assets each reporting period, as required by ASC 350, Intangibles—Goodwill and Other, to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life has changed, the remaining carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life. The Company has not revised its estimates of the useful lives of its core deposit intangibles during the years ended December 31, 2014, 2013, or 2012.

## 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.

## Investments in low income housing credits

The Company invests in Limited Partnerships formed for the purpose of investing in low income housing projects, which qualify for federal LIHTC. These investments are expected to generate tax credits over the next ten years. The Company adopted the amended guidance in ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, beginning on January 1, 2014 and now accounts for these investments using the proportional amortization method. See "Note 14. 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.





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At December 31, 2014, other assets included \$126.6 million related to this investment and other liabilities included \$51.4 million related to future unconditional equity commitments. At December 31, 2013, other assets included \$125.3 million related to this investment and other liabilities included \$66.6 million related to future unconditional equity commitments.

Bank owned life insurance

BOLI is stated at its cash surrender value with changes recorded in other non-interest income in the Consolidated Income Statements. The face amount of the underlying policies including death benefits was \$321.9 million and \$323.9 million as of December 31, 2014 and 2013, respectively. There are no loans offset against cash surrender values, and there are no restrictions as to the use of proceeds.

Customer repurchase agreements

The Company enters into repurchase agreements with customers, whereby it pledges securities against overnight investments made from the customer's excess collected funds. The Company records these at the amount of cash received in connection with the transaction.

Stock compensation plans

The Company has the Incentive Plan, as amended, which is described more fully in "Note 10. Stockholders' Equity" of these Notes to Consolidated Financial Statements. Compensation expense for stock options and non-vested restricted stock awards is based on the fair value of the award on the measurement date which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of stock options. The fair value of non-vested restricted stock awards is the market price of the Company's stock on the date of grant.

See "Note 10. Stockholders' Equity" of these Notes to Consolidated Financial Statements for further discussion of stock options, stock warrants and restricted stock awards.

Derivative financial instruments

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

The Company recognizes derivatives as assets or liabilities in the Consolidated Balance Sheets at their fair value in accordance with 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.

The Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. Both at inception and at least quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in either the fair value or cash flows of the hedged item. Retroactive effectiveness is assessed, as well as the continued

expectation that the hedge will remain effective prospectively. The Company discontinues hedge accounting prospectively when it is determined that a hedge is no longer highly effective. When hedge accounting is discontinued on a fair value hedge that no longer qualifies as an effective hedge, the derivative continues to be reported at fair value on the Consolidated Balance Sheets, but the carrying amount of the hedged

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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 Sheets 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 and GAAP, 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 asset 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. See "Note 14. Income Taxes" of these Notes to Consolidated Financial 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 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

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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 December 31, 2014 and 2013. The estimated fair value amounts for December 31, 2014 and 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 16. Fair Value Accounting" in these Notes to 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.



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### Investment securities

The fair values of 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 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 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.

### 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 borrowings

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

### Junior subordinated debt

Junior subordinated debt is 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.





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### 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 NOL 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 housing projects that qualify for the LIHTC. 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 14. 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.

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

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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 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 2014-12, 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 adoption of this guidance is not expected to 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 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.

## 2. INVESTMENT SECURITIES

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

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Available-for-sale				
U.S. government sponsored agency securities	\$ 18,701	\$—	\$(355)	) \$ 18,346
Corporate debt securities	52,773	717	(1,001)	) 52,489
Municipal obligations	285,398	13,688	(49)	) 299,037
Preferred stock	83,192	2,099	(2,679)	) 82,612
Mutual funds	37,449	500	(247)	) 37,702
Residential MBS issued by GSEs	881,734	11,440	(1,985)	) 891,189
Commercial MBS issued by GSEs	2,047	100	—	) 2,147
Private label residential MBS	70,985	379	(1,121)	) 70,243
Private label commercial MBS	5,017	132	—	) 5,149
Trust preferred securities	32,000	—	(6,454)	) 25,546
CRA investments	24,302	30	—	) 24,332
Collateralized debt obligations	50	11,395	—	) 11,445

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Total AFS securities	\$1,493,648	\$40,480	\$(13,891	)	\$1,520,237
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Securities measured at fair value

Residential MBS issued by GSEs	\$1,858
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In May 2014, the Company's Finance and Investment Committee reassessed the Company's holdings in CDOs, and gave management the discretion to sell CDOs to reinvest in higher grade investment 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.

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	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
<b>Held-to-maturity</b>				
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
<b>Available-for-sale</b>				
U.S. government-sponsored agency securities	\$49,110	\$—	\$(2,135)	) \$46,975
Municipal obligations	121,671	316	(6,322)	) 115,665
Preferred stock	68,110	853	(7,479)	) 61,484
Mutual funds	37,423	93	(984)	) 36,532
Residential MBS issued by GSEs	1,028,402	5,567	(12,548)	) 1,021,421
Private label residential MBS	38,250	—	(2,151)	) 36,099
Private label commercial MBS	5,252	181	—	5,433
Trust preferred securities	32,000	—	(8,195)	) 23,805
CRA investments	23,830	—	(548)	) 23,282
Total AFS securities	\$1,404,048	\$7,010	\$(40,362)	) \$1,370,696

## Securities measured at fair value

Residential MBS issued by GSEs \$3,036

For additional information on the fair value changes of the securities measured at fair value, see the trading securities table in "Note 16. Fair Value Accounting" of these Notes to 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 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, a loss is recorded in other comprehensive income rather than earnings when the Company determines there is 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 years ended December 31, 2014, 2013 and 2012. The Company does not consider any securities to be other-than-temporarily impaired as of December 31, 2014 and 2013. OTTI is reassessed quarterly. 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 December 31, 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	December 31, 2014					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale						
U.S. government sponsored agency securities	\$—	\$—	\$355	\$18,346	\$355	\$18,346
Corporate debt securities	139	9,860	862	29,139	1,001	38,999
Preferred stock	232	13,811	2,447	28,109	2,679	41,920
Mutual funds	247	25,855	—	—	247	25,855
Residential MBS issued by GSEs	227	49,217	1,758	97,296	1,985	146,513
Municipal obligations	—	—	49	4,430	49	4,430
Private label residential MBS	157	24,056	964	26,614	1,121	50,670
Trust preferred securities	—	—	6,454	25,546	6,454	25,546
Total AFS securities	\$1,002	\$122,799	\$12,889	\$229,480	\$13,891	\$352,279
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	\$46,975	\$—	\$—	\$2,135	\$46,975
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	601,757	614	8,984	12,548	610,741
Municipal obligations	3,545	72,301	2,777	17,923	6,322	90,224
Private label residential MBS	2,009	32,516	142	3,583	2,151	36,099
Trust preferred securities	—	—	8,195	23,807	8,195	23,807
CRA investments	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			