WESTERN ALLIANCE BANCORPORATION
Form 10-Q
November 08, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended September 30, 2010 or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition period from __________ to __________
Commission File Number: 001-32550

WESTERN ALLIANCE BANCORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Nevada **(State or Other Jurisdiction of Incorporation or Organization)**	**88-0365922** **(I.R.S. Employer I.D. Number)**
One E. Washington Street, Phoenix, AZ **(Address of Principal Executive Offices)**	**85004 (Zip Code)**
(602) 389-3500 **(Registrant s telephone number, including area code)**	

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

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

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. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common stock issued and outstanding: 81,515,238 shares as of October 31, 2010.

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Part I. Financial Information
Item 1 Financial Statements

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (unaudited)	December 31, 2009
	(in thousands, except per share amounts)	
Assets:		
Cash and due from banks	**$ 108,395**	$ 116,841
Federal funds sold and other	**1,009**	3,473
Interest-bearing demand deposits in other financial institutions	**506,551**	276,516
Cash and cash equivalents	**615,955**	396,830
Money market investments	**1,635**	54,029
Investment securities measured, at fair value	**32,428**	58,670
Investment securities available-for-sale, at fair value; amortized cost of $875,118 at September 30, 2010 and $740,783 at December 31, 2009	**871,535**	744,598
Investment securities held-to-maturity, at amortized cost; fair value of $24,629 at September 30, 2010 and $7,482 at December 31, 2009	**24,104**	7,482
Investments in restricted stock, at cost	**39,029**	41,378
Loans:		
Held for investment, net of deferred fees	**4,173,480**	4,079,639
Less: allowance for credit losses	**(108,170)**	(108,623)
Total loans	**4,065,310**	3,971,016
Premises and equipment, net	**116,547**	125,883
Goodwill and other intangible assets	**40,180**	43,121
Other assets acquired through foreclosure, net	**110,096**	83,347
Bank owned life insurance	**94,780**	92,510
Deferred tax assets, net	**70,083**	68,957
Prepaid expenses	**28,237**	35,323
Other assets	**69,125**	30,135
Discontinued operations, assets held for sale	**102**	
Total assets	**$ 6,179,146**	$ 5,753,279
Liabilities:		
Deposits:		
Non-interest-bearing demand	**$ 1,421,710**	$ 1,157,013
Interest-bearing	**3,906,818**	3,565,089
Total deposits	**5,328,528**	4,722,102
Customer repurchase agreements	**86,835**	223,269
Other borrowings	**72,888**	29,352

Junior subordinated debt, at fair value	**36,323**	42,438
Subordinated debt		60,000
Other liabilities	**34,808**	100,393
Total liabilities	**5,559,382**	5,177,554
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock par value $.0001 and liquidation value per share of $1,000; 20,000,000 authorized; 140,000 issued and outstanding	**130,094**	127,945
Common stock par value $.0001; 200,000,000 authorized; 81,502,898 shares issued and outstanding at September 30, 2010 and 72,503,902 at December 31, 2009	**8**	7
Surplus	**737,762**	684,092
Retained deficit	**(245,502)**	(241,724)
Accumulated other comprehensive income (loss)	**(2,598)**	5,405
Total stockholders equity	**619,764**	575,725
Total liabilities and stockholders equity	**$ 6,179,146**	$ 5,753,279

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	**$ 64,273**	$ 61,380	**$ 190,641**	$ 187,901
Investment securities taxable	**5,527**	5,730	**16,639**	17,939
Investment securities non-taxable	**20**	55	**102**	350
Dividends taxable	**167**	32	**303**	335
Dividends non-taxable	**390**	74	**691**	796
Other	**328**	475	**1,063**	889
Total interest income	**70,705**	67,746	**209,439**	208,210
Interest expense:				
Deposits	**9,531**	16,067	**32,677**	48,130
Customer repurchase agreements	**74**	867	**471**	3,163
Borrowings	**896**	585	**1,714**	2,697
Junior subordinated and subordinated debt	**736**	1,257	**2,934**	3,719
Total interest expense	**11,237**	18,776	**37,796**	57,709
Net interest income	**59,468**	48,970	**171,643**	150,501
Provision for credit losses	**22,965**	50,750	**74,827**	108,307
Net interest income after provision for credit losses	**36,503**	(1,780)	**96,816**	42,194
Non-interest income:				
Mark to market gains (losses), net	**(210)**	1,987	**6,341**	5,609
Gain on sales of securities, net	**5,460**	4,146	**19,757**	15,933
Securities impairment charges		(1,044)	**(1,174)**	(44,083)
Portion of impairment charges recognized in other comprehensive loss (before tax)				2,047
Net securities impairment charges recognized in earnings		(1,044)	**(1,174)**	(42,036)
Gain on extinguishment of debt			**3,000**	
Gain on sale of subsidiary	**568**		**568**	
Trust and investment advisory fees	**1,001**	2,369	**3,395**	6,967
Service charges and fees	**2,276**	2,212	**6,791**	5,874
Operating lease income	**998**	1,079	**2,928**	2,976
Income from bank owned life insurance	**773**	574	**2,271**	1,523
Derivative (losses), net	**(66)**	(70)	**(202)**	(200)
Other	**1,367**	1,294	**3,881**	3,520

Total non-interest income (loss)	**12,167**	12,547	**47,556**	166
Non-interest expenses:				
Salaries and employee benefits	**21,860**	23,694	**65,461**	70,697
Occupancy expenses, net	**4,890**	5,346	**14,505**	15,762
Insurance	**4,115**	2,326	**11,366**	9,034
Net loss on sales/valuations of repossessed assets and bank premises, net	**4,855**	7,283	**15,836**	16,193
Repossessed asset and loan expenses	**1,918**	1,430	**5,847**	4,585
Legal, professional and director fees	**1,546**	1,810	**5,553**	4,995
Marketing	**878**	543	**3,079**	3,122
Customer service	**987**	1,001	**3,205**	3,145
Intangible amortization	**901**	945	**2,714**	2,835
Data processing	**842**	951	**2,427**	3,303
Operating lease depreciation	**627**	722	**1,963**	2,479
Goodwill impairment		576		45,576
Other	**2,690**	3,821	**8,257**	9,931
Total non-interest expenses	**46,109**	50,448	**140,213**	191,657
Income (loss) from continuing operations before income taxes	**2,561**	(39,681)	**4,159**	(149,297)
Benefit for income taxes	**(79)**	(16,724)	**(1,830)**	(28,195)
Income (loss) from continuing operations	**2,640**	(22,957)	**5,989**	(121,102)
Loss from discontinued operations, net of tax benefit	**(631)**	(958)	**(2,368)**	(3,392)
Net income (loss)	**2,009**	(23,915)	**3,621**	(124,494)
Dividends and accretion on preferred stock	**2,466**	2,439	**7,399**	7,295
Net loss available to common shareholders	**$ (457)**	$ (26,354)	**$ (3,778)**	$ (131,789)
Loss per share basic and diluted				
Continuing operations	**$ 0.00**	$ (0.35)	**$ (0.02)**	$ (2.36)
Discontinued	**$ (0.01)**	$ (0.01)	**$ (0.03)**	$ (0.06)
	$ (0.01)	$ (0.37)	**$ (0.05)**	$ (2.42)
Average number of common shares basic	**75,554**	71,697	**73,240**	54,471
Average number of common shares diluted	**75,554**	71,697	**73,240**	54,471

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	*2009*	***2010***	*2009*
	(in thousands)			
Net income/(loss)	**$ 2,009**	$ (23,915)	**$ 3,621**	$ (124,494)
Other comprehensive (loss)/ income, net:				
Unrealized gain/(loss) on securities AFS, net	**(2,363)**	7,103	**3,967**	9,886
Impairment loss on securities, net		630	**728**	39,201
Realized (gain) on sale of securities AFS included in income, net	**(3,493)**	(2,646)	**(12,698)**	(9,714)
Net other comprehensive (loss)/ income	**(5,856)**	5,087	**(8,003)**	39,373
Comprehensive (loss)/ income	**$ (3,847)**	$ (18,828)	**$ (4,382)**	$ (85,121)

There was no impairment loss recognized for the three months ended September 30, 2010. Amount of impairment losses reclassified out of accumulated other comprehensive income into earnings for the nine months ended September 30, 2010 and the three and nine months ended September 30, 2009 were $1.2 million, and $1.0 million and $41.1 million, respectively. The income tax benefit related to these losses was $1.3 million for the three months ended September 30, 2009. For the nine months ended September 30, 2010 and 2009, the income tax benefit related to these losses was $1.2 million and $2.8 million, respectively.

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

	Preferred Stock		*Common Stock*			*Accumulated Other Comprehensive Income*	*Retained Earnings*	*Total Stockholders*
	Shares	*Amount*	*Shares*	*Amount*	*Surplus*	*(Loss)*	*(Deficit)*	*Equity*
					(in thousands)			
Balance, December 31, 2009	140	$ 127,945	72,504	$ 7	$ 684,092	$ 5,405	$ (241,724)	$ 575,725
Net Income							**3,621**	**3,621**
Stock-based compensation			**218**		**2,742**			**2,742**
Restricted stock grants, net			**554**		**3,082**			**3,082**
Stock options exercised			**15**		**78**			**78**
Stock warrants exercised			**162**		**195**			**195**
Issuance of common stock, net (1)			**8,050**	**1**	**47,573**			**47,574**
Dividends on preferred stock							**(5,250)**	**(5,250)**
Accretion on preferred stock discount		**2,149**					**(2,149)**	
Other comprehensive income, net						**(8,003)**		**(8,003)**
Balance, September 30, 2010	**140**	**$ 130,094**	**81,503**	**$ 8**	**$ 737,762**	**$ (2,598)**	**$ (245,502)**	**$ 619,764**

(1) Net of offering costs of $474

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2010	2009
	(in thousands)	
Cash flows from operating activities:		
Net income/ (loss)	$ **3,621**	$ (124,494)
Adjustments to reconcile net income/ (loss) to cash (used in) provided by operating activities:		
Provision for credit losses	**74,827**	108,307
Depreciation and amortization	**10,660**	8,865
Stock-based compensation	**5,824**	6,701
Deferred income taxes and income taxes receivable	**3,183**	(40,173)
Net amortization of discounts and premiums for investment securities	**4,482**	1,845
Goodwill impairment		45,576
Securities impairment	**1,174**	42,036
(Gains)/Losses on:		
Sales of securities, AFS	**(19,757)**	(15,933)
Derivatives	**202**	200
Sales of repossessed assets and premises, net	**15,836**	16,193
Sale of loans, net	**(16)**	
Extinguishment of debt	**(3,000)**	
Changes in:		
Other assets	**(104,511)**	54,217
Other liabilities	**(65,585)**	(3,111)
Fair value of assets and liabilities measured at fair value	**(6,341)**	(5,409)
Servicing rights, net	**26**	28
Other, net		(3,508)
Net cash (used in) provided by operating activities	**(79,375)**	91,340
Cash flows from investing activities:		
Proceeds from sale of securities measured at fair value	**12,735**	33,678
Principal pay downs and maturities of securities measured at fair value	**13,599**	17,436
Purchases of securities measured at fair value		(5,224)
Proceeds from sale of available-for-sale securities	**488,918**	113,109
Principal pay downs and maturities of available-for-sale securities	**706,207**	86,410
Purchase of available-for-sale securities	**(1,314,053)**	(314,853)
Purchase of short-term investments		(51,674)
Purchase of securities held-to-maturity	**(20,000)**	
Principal pay downs and maturities of securities held-to-maturity	**2,746**	795
Loan originations and principal collections, net	**(169,105)**	(25,648)
Investment in money market	**52,394**	
Liquidation of restricted stock, net	**2,349**	2
Sale and purchase of premises and equipment, net	**1,330**	2,054
Sale of other real estate owned, net	**24,448**	(986)

Net cash used in investing activities	**(198,432)**	(144,901)

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

Cash flows from financing activities:		
Net increase in deposits	**606,426**	968,249
Deposits assumed from the FDIC		131,720
Net decrease in borrowings	**(149,942)**	(614,593)
Proceeds from issuance of common stock options and stock warrants	**274**	78
Proceeds from issuance stock, net	**47,573**	191,268
Accretion of discount on preferred stock	**(2,149)**	
Cash dividends paid on preferred stock	**(5,250)**	(5,250)
Net cash provided by financing activities	**496,932**	671,472
Net increase in cash and cash equivalents	**219,125**	617,911
Cash and cash equivalents at beginning of year	**396,830**	139,954
Cash and cash equivalents at end of year	**$ 615,955**	$ 757,865
Supplemental disclosure:		
Cash paid during the period for:		
Interest	**$ 37,432**	$ 56,731
Income taxes, net		
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	**66,973**	73,457
Assets transferred to held for sale	**102**	

See the accompanying notes.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operation

Western Alliance Bancorporation (WAL or the Company), incorporated in the state of Nevada, is a bank holding company providing full service banking and related services to locally owned businesses, professional firms, real estate developers and investors, local non-profit organizations, high net worth individuals and other consumers through its five wholly owned subsidiary banks; Bank of Nevada and First Independent Bank of Nevada, operating in Nevada, Alliance Bank of Arizona, operating in Arizona; and Torrey Pines Bank and Alta Alliance Bank, operating in California. In addition, its non-bank subsidiaries, Shine Investment Advisory Services, Inc. and Western Alliance Equipment Finance offer a broad array of financial products and services aimed at satisfying the needs of small to mid-sized businesses and their proprietors, including financial planning, custody and investments, and equipment leasing nationwide. These entities are collectively referred to herein as the Company. The Company divested its wholly owned subsidiary Premier Trust, Inc as of September 1, 2010.

Basis of Presentation

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States (GAAP) and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in these Consolidated Financial Statements. All significant intercompany balances and transactions have been eliminated.

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (FASB ASC), as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements. Rules and releases of the United States Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB ASC became effective for the Company on September 30, 2009 and supersedes all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the FASB ASC became non-authoritative. The FASB ASC does not change or alter GAAP and, therefore, the adoption of the FASB ASC did not impact the Company s Consolidated Financial Statements.

Use of estimates in the preparation of financial statements

The preparation of financial statements 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; fair value of other real estate owned; determination of the valuation allowance related to deferred tax assets; impairment of goodwill and other intangible assets and other than temporary impairment on securities. 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 financial statements during their preparation.

Principles of consolidation

WAL has 12 wholly-owned subsidiaries; Bank of Nevada (BON), Alliance Bank of Arizona (ABA), Torrey Pines Bank (TPB), Alta Alliance Bank (AAB), First Independent Bank of Nevada (FIBN), which are all banking subsidiaries; Western Alliance Equipment Finance, Inc. (WAEF), which provides equipment leasing; and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities. In addition, WAL maintains an 80 percent interest in Shine Investment Advisory Services Inc. (Shine), a registered investment advisor. WAL divested formerly wholly-owned subsidiary Premier Trust, Inc. as of September 1, 2010.

BON has a wholly-owned Real Estate Investment Trust (REIT) that is used to hold certain commercial real estate loans, residential real estate loans and other loans in a real estate investment trust. The Company does not have any other entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2009 and for the three and nine months ended September 30, 2009 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders equity as previously reported.

Interim financial information

The accompanying unaudited consolidated financial statements as of September 30, 2010 and 2009 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

Investment securities

Investment securities may be classified as held-to-maturity (HTM), available-for-sale (AFS) or trading. The appropriate classification is initially decided at the time of purchase. Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions. These securities are carried at amortized cost. The sale of a security within three months of its maturity date, or after at least 85 percent of the principal outstanding has been collected, is considered a maturity for purposes of classification and disclosure.

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

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

In estimating whether there are any other than temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near term prospects of the issuer, 3) the impact of changes in market interest rates and 4) the 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.

Declines in the fair value of individual debt securities available for sale that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other than temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings and 2) market or other factors is recognized in other comprehensive income or loss. Credit loss is recorded if the present value of cash flows is less than amortized cost. For individual debt securities where the Company intends to sell the security or more likely than not will not recover all of its amortized cost, the other than temporary impairment is recognized in earnings equal to the entire difference between the securities cost basis and its fair value at the balance sheet date. For individual debt securities for which a credit loss has been recognized in earnings, interest accruals and amortization and accretion of premiums and discounts are suspended when the credit loss is recognized. Interest received after accruals have been suspended is recognized on a cash basis.

Securities measured at fair value are equity and debt securities for which the Company elected early adoption of FASB ASC 825 *Financial Instruments* (ASC 825), effective January 1, 2007. Securities for which the fair value measurement classification was made generally were fixed rate with a relatively long duration and low coupon rates. Securities measured at fair value are reported at fair value with unrealized gains and losses included in current period

earnings.
Allowance for credit losses
Credit risk is inherent in the business of extending loans and leases to borrowers. Like other financial institutions, the Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through

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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 other factors. The Company formally re-evaluates and establishes the appropriate level of the allowance for credit losses on a quarterly basis.

Our allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in the level of nonperforming loans and other factors. Qualitative factors include the economic condition of our operating markets and the state of certain industries. Specific changes in the risk factors are based on perceived risk of similar groups of loans classified by collateral type, purpose and terms. An internal one-year and three-year loss history are 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 have declined significantly in recent periods. 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 banking regulatory agencies, as an integral part of their examination processes, periodically review our subsidiary banks 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 examinations. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

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

The Company uses an appraised value method to determine the need for a reserve on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. Due to the rapidly changing economic and market conditions of the regions within which we operate, the Company obtains independent collateral valuation analysis on a regular basis for each loan, typically every six months.

The general allowance covers all non-impaired loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above. The change in the allowance from one reporting period to the next may not directly correlate to the rate of change of the nonperforming loans for the following reasons:

1. A loan moving from impaired performing to impaired nonperforming does not mandate an increased reserve. The individual account is evaluated for a specific reserve requirement when the loan moves to impaired status, not when it moves to nonperforming status, and is reevaluated at each subsequent reporting period. Because our nonperforming loans are predominately collateral dependent, reserves are primarily based on collateral value, which is not affected by borrower performance but rather by market conditions.

2. Not all impaired accounts require a specific reserve. The payment performance of the borrower may require an impaired classification, but the collateral evaluation may support adequate collateral coverage. For a number of impaired accounts in which borrower performance has ceased, the collateral coverage is now sufficient because a partial charge off of the account has been taken. In those instances, neither a general reserve nor a specific reserve is assessed.

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 other real estate owned and other repossessed property and are initially reported at fair value of the asset less selling costs. Subsequent valuation adjustments are based on the lower of carrying value or fair value, less estimated costs to sell the property. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to non-interest expense. Property is evaluated regularly (typically every six months) to ensure the recorded amount is supported by its current fair value and valuation allowances.

Goodwill

The Company recorded as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. As per this guidance, a two-step process is outlined for impairment testing of goodwill. Impairment testing is generally performed annually, as well as when an event triggering impairment may have occurred. 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.

Income taxes

Western Alliance Bancorporation 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 carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are 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.

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of $70.1 million at September 30, 2010 is more likely than not based on expectations as to future taxable income and based on available tax planning strategies as defined in FASB ASC 740 *Income Taxes* (ASC 740) that could be implemented if necessary to prevent a carryforward from expiring.

The most significant source of these timing differences is the credit loss reserve build which accounts for $39.9 million of the $70.1 million net deferred tax asset. In general, the Company will need to generate approximately $195 million of taxable income during the respective carryforward periods to fully realize its deferred tax assets.

As a result of the recent losses, the Company is in a three-year cumulative pretax loss position at September 30, 2010. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. The Company has concluded that there is sufficient positive evidence to overcome this negative evidence. This positive evidence includes Company forecasts, exclusive of tax planning strategies that show realization of deferred tax assets by December 31, 2013 based on current projections, or by December 31, 2014 under stressed conditions. In addition, the Company has evaluated tax planning strategies, including potential sales of businesses and assets in which it could realize the excess of appreciated value over the tax basis of its assets. The amount of deferred tax assets considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are significantly lower than forecasted due to deterioration in market conditions.

Based on the above discussion, the net operating loss carryforward of 20 years provides sufficient time to utilize deferred federal and state tax assets pertaining to the existing net operating loss carryforwards and any net operating loss (NOL) that would be created by the reversal of the future net deductions that have not yet been taken on a tax return.

Fair values of financial instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities. FASB ASC 820 *Fair Value Measurements and Disclosures* (ASC 820) establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The Company uses various valuation approaches, including market, income and/or cost approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the assumptions market participants would use 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 Observable quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Observable quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly in the market.

Level 3 Model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect our 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.

FASB ASC 825, *Financial Instruments* (ASC 825) 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 weaknesses 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 September 30, 2010 or 2009. The estimated fair value amounts for 2010 and 2009 have been measured as of period-end, and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end.

The information in Note 11, Fair Value of Financial Instruments, 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 and federal funds sold and other approximates their fair value.

Securities

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

The fair value 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 collateralized debt obligations (CDOs) and structured notes 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 uses a third party which has estimated the future cash flows and discount rate using observable market inputs adjusted based on assumptions regarding the adjustments a market participant would assume necessary for each specific security. As a result, the resulting fair values have been categorized as Level 3 in the fair value hierarchy.

Restricted stock

The Company s subsidiary banks are members of the Federal Home Loan Bank (FHLB) system and maintain an investment in capital stock of the FHLB. Alta Alliance Bank is a member of the Federal Reserve Bank (FRB) system and maintains an investment in capital stock of the FRB. The Company s subsidiary banks also maintain an investment in their 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 our FHLB stock to determine if any impairment exists.

Loans

For variable rate loans that reprice frequently and that have experienced no significant change in credit risk, fair values are based on carrying values. Variable rate loans comprised approximately 64.8% and 66.8% of the loan portfolio at September 30, 2010 and December 31, 2009, respectively. Fair value for all other loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality with adjustments that the Company believes a market participant would consider in determining fair value. As a result, the fair value for loans disclosed in Note 11, Fair Value of Financial Instruments, is categorized as Level 3 in the fair value hierarchy.

Accrued interest receivable and payable

The carrying amounts reported in the consolidated balance sheets for accrued interest receivable and payable approximate their fair value. Accrued interest receivable and payable fair value measurements disclosed in Note 11 Fair Value of Financial Instruments, are classified as Level 3 in the fair value hierarchy.

Derivative financial instruments

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

Deposit liabilities

The fair value disclosed for demand and savings deposits is by definition equal to the amount payable on demand at their reporting date (that is, their carrying amount) which the Company believes a market participant would consider in determining fair value. The carrying amount for variable-rate deposit accounts approximates their fair value. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits. The fair value measurement of the deposit liabilities disclosed in Note 11, Fair Value of Instruments, is categorized as Level 3 in the fair value hierarchy.

Federal Home Loan Bank and Federal Reserve 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 and FRB advances and other borrowings have been categorized as Level 3 in the fair value hierarchy.

Junior subordinated and subordinated debt

Junior subordinated debt and subordinated debt are valued by comparing interest rates and spreads to benchmark indices offered to institutions with similar credit profiles to our own and discounting the contractual cash flows on our debt using these market rates. The junior subordinated debt and subordinated debt have been categorized as Level 3 in the fair value hierarchy.

Off-balance sheet instruments

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

Derivative financial instruments

All derivatives are recognized on the balance sheet at their fair value, with changes in fair value reported in current-period earnings. These instruments consist primarily of interest rate swaps.

Certain derivative transactions that meet specified criteria qualify for hedge accounting. 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 balance sheet at fair value and is not designated as a hedging instrument.

Recent Accounting Pronouncements

FASB ASC 810, *Consolidation* (ASC 810). Effective January 1 2010, further new authoritative accounting guidance under ASC Topic 810 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity s financial statements. The new authoritative accounting guidance under ASC Topic 810 was effective January 1, 2010 and did not have a significant impact on the Company s consolidated financial statements.

FASB ASC Topic 860 *Transfers and Servicing* (ASC 860) was amended to enhance reporting about transfers of financial assets including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new authoritative guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC 860 was effective January 1, 2010 and did not have a significant impact on the Company s consolidated financial statements.

Issued October 2009, ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing* amends FASB ASC Topic 470, *Debt* (ASC 470), and provides guidance for accounting and reporting for own-share lending arrangements issued in contemplation of a convertible debt issuance. At the date of issuance, a share-lending arrangement entered into on an entity s own shares should be measured at fair value in accordance with ASC 820 and recognized as an issuance cost, with an offset to additional paid-in capital. Loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs. The amendments also require several disclosures including a description and the terms of the arrangement and the reason for entering into the arrangement. The effective dates of the amendments are dependent upon the date the share-lending arrangement was entered into and include retrospective application for arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. The Company has no plans to issue convertible debt and, therefore, does not expect the update to have an impact on its consolidated financial statements.

In January 2010 the FASB issued ASU 2010-06 *Fair Value Measurements and Disclosures* Topic 820 which provides guidance requiring enhanced fair value disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in level 3 fair value measurements and (4) the transfers between levels 1, 2, and 3. The increased disclosure requirements further set forth in the update that in the reconciliation for fair value measurements using significant unobservable inputs (level 3), a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, gross amounts shall be disclosed as opposed to a single net figure). Increased disclosures regarding the level 3 fair value reconciliation are required for fiscal years beginning after December 15, 2010.

In April 2010 the FASB issued ASU 2010-18 *Loan Modifications* Topic 310 which provides guidance that loans accounted for within a pool need not be removed from the pool when loan modifications are made, even if the modifications would otherwise be considered trouble debt restructurings. Under this guidance an entity will continue to evaluate the pool of loans when performing its impairment analysis. The effective date of the amendments in this update is in the first interim period ending on or after July 15, 2010. The amendments are to be applied prospectively. The Company does not expect the adoption to have a significant impact on its consolidated financial statements.

In July 2010 the FASB issued ASU 2010-20 *Receivables* Topic 310 which amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and related allowance for credit losses. An entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The Company does not expect the adoption to have a significant impact on its consolidated financial statements.

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2. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In the first quarter of 2010, the Company decided to sell its credit card segment, PartnersFirst, and has presented certain activities as discontinued operations. During the first quarter of 2010, the Company transferred certain assets with balances at September 30, 2010 of $0.1 million to held-for-sale and reported a portion of its operations as discontinued. At September 30, 2010, the Company had $46.1 million of outstanding credit card loans which will have continuing cash flows related to the collection of these loans. These credit card loans are included in loans held for investment as of September 30, 2010 and December 31, 2009.

The following table summarizes the operating results of the discontinued operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
	(in thousands)			
Affinity card revenue	$ 444	$ 614	$ 1,394	$ 1,307
Non-interest expenses	(1,532)	(2,263)	(5,477)	(7,076)
Loss before income taxes	(1,088)	(1,649)	(4,083)	(5,769)
Income tax benefit	(457)	(691)	(1,715)	(2,377)
Net loss	$ (631)	$ (958)	$ (2,368)	$ (3,392)

3. EARNINGS PER SHARE

Diluted earnings per share is based on the weighted average outstanding common shares during each period, including common stock equivalents. Basic earnings (loss) per share is based on the weighted average outstanding common shares during the period.

Basic and diluted (loss) per share, based on the weighted average outstanding shares, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
	(in thousands, except per share amounts)			
Basic:				
Net loss available to common stockholders	**$ (457)**	$ (26,354)	**$ (3,778)**	$ (131,789)
Average common shares outstanding	**75,554**	71,697	**73,240**	54,471
Loss per share	**$ (0.01)**	$ (0.37)	**$ (0.05)**	$ (2.42)
Diluted:				
Net loss available to common stockholders	**$ (457)**	$ (26,354)	**$ (3,778)**	$ (131,789)
Average common shares outstanding	**75,554**	71,697	**73,240**	54,471
Loss per share	**$ (0.01)**	$ (0.37)	**$ (0.05)**	$ (2.42)

As of September 30, 2010 and 2009, all stock options and restricted stock were considered anti-dilutive and excluded for purposes of calculating diluted loss per share.

4. INVESTMENT SECURITIES

Carrying amounts and fair values of investment securities at September 30, 2010 and December 31, 2009 are summarized as follows:

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September 30, 2010
(in thousands)

	Amortized Cost	OTTI Recognized in Other Comprehensive Loss	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)					
Securities held to maturity						
Collateralized debt obligations	$ 288	$	$ 288	$ 535	$ (7)	$ 816
Corporate bonds	20,000		20,000	$ 119	$ (154)	19,965
Municipal obligations	2,316		2,316	32		2,348
Other	1,500		1,500			1,500
	$ 24,104	$	$ 24,104	$ 686	$ (161)	$ 24,629

	Amortized Cost	OTTI Recognized in Other Comprehensive Loss	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)				
Securities available for sale					
U.S. Government-sponsored agency securities	$ 275,460	$	$ 1,745	$ (56)	$ 277,149
Municipal obligations	318		4		322
Adjustable-rate preferred stock	39,885		561	(429)	40,017
Direct obligation and GSE residential mortgage backed	490,004		5,494	(1,566)	493,932
Private label residential mortgage-backed securities	10,250	(1,811)	1,170	(253)	9,356
Trust preferred securities	32,067			(9,054)	23,013
Corporate bonds	5,000		119		5,119
Other	22,134		493		22,627
	$ 875,118	$ (1,811)	$ 9,586	$ (11,358)	$ 871,535

Securities measured at fair value	
U.S. Government-sponsored agency	$ 2,535
Direct obligation and GSE residential mortgage backed	29,893

$ 32,428

	December 31, 2009 (in thousands)					
	Amortized Cost	**OTTI Recognized in Other Comprehensive Loss**	**Net Carrying Amount**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
Securities held to maturity						
Collateralized debt obligations	$ 1,462	$ (544)	$ 918	$ 340	$ (340)	$ 918
Municipal obligations	5,064		5,064			5,064
Other	1,500		1,500			1,500
	$ 8,026	$ (544)	$ 7,482	$ 340	$ (340)	$ 7,482

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	Amortized Cost	OTTI Recognized in Other Comprehensive Loss	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
			(in thousands)		
Securities available for sale					
Municipal obligations	$ 324	$	$ 2	$ (10)	$ 316
Adjustable-rate preferred stock	7,825		10,471		18,296
Direct obligation and GSE residential mortgage-backed securities	600,307		9,699	(4,250)	605,756
Private label residential mortgage-backed securities	12,829	(1,811)	1,045	(762)	11,301
Trust preferred securities	32,098			(10,048)	22,050
FDIC guarantee corporate bonds	71,680		104	(594)	71,190
Other	15,720		21	(52)	15,689
	$ 740,783	$ (1,811)	$ 21,342	$ (15,716)	$ 744,598

Securities measured at fair value	
U.S. Government-sponsored agencies	$ 2,479
Direct obligation and GSE residential mortgage-backed securities	49,317
Private label residential mortgage-backed securities	6,874
	$ 58,670

Gross unrealized gains on the adjustable rate preferred stock (ARPS) securities are considered after-tax amounts as the previous impairment losses on these securities were also not tax-effected. This was due to a deferred tax valuation allowance that was originally booked on the ARPS impairment losses. Sales of these ARPS at current values would generate after-tax gains to the Company.

The Company conducts an other-than-temporary impairment (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 the severity and duration of the decline. In determining whether an impairment is OTTI, the Company considers the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, and the Company s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. For marketable equity securities, the Company also considers the issuer s financial condition, capital strength, and near-term prospects.

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

Gross unrealized losses at September 30, 2010 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 described above and recorded no impairment charges and $1 million for the three months ended September 30, 2010 and 2009, and $1.2 million and $42 million for the nine months ended September 30, 2010 and 2009, respectively. The impairment charge for 2010 is attributed to the Company s CDOs. For the first nine months of 2009, the impairment charges included $36.4 million related to impairment losses in the Company s ARPS, $1.8 million related to impairment losses in the Company s CDO portfolio and $3.8 million related to the Company s collateralized mortgage obligation (CMO) portfolio.

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The Company does not consider any other securities to be other-than-temporarily impaired as of September 30, 2010 and December 31, 2009. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, additional OTTI may occur in future periods.
Information pertaining to securities with gross unrealized losses at September 30, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	September 30, 2010			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities held to maturity				
Collateralized debt obligations	$ 7	$ 113	$	$
Corporate bonds	154	14,846		
	$ 161	$ 14,959	$	$

	September 30, 2010			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities available for sale				
U.S Government-sponsered agency	$ 56	$ 19,939	$	$
Municipal obligations		100		
Direct obligation and GSE residential mortgage-backed securities	1,498	125,060	68	9,268
Private label residential mortgage-backed securities			2,064	6,901
Adjustable-rate preferred stock	429	24,452		
Trust preferred securities			9,054	23,013
	$ 1,983	$ 169,551	$ 11,186	$ 39,182

	December 31, 2009			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities held to maturity				

Collateralized debt obligations	$ 663	$ 724	$ 221	$
	$ 663	$ 724	$ 221	$

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	December 31, 2009			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Direct obligation and GSE residential mortgage-backed securities	$ 3,946	$ 285,044	$ 303	$ 23,847
Municipal obligations	10	207		
Private label residential mortgage-backed securities			2,573	11,301
Trust preferred securities	594	51,110	10,048	22,050
Other	53	13,197		
	$ 4,603	$ 349,558	$ 12,924	$ 57,198

At September 30, 2010 and December 31, 2009, 35 and 64 debt securities (excluding adjustable rate preferred stock, debt obligations and other structured securities), respectively, have unrealized losses with aggregate depreciation of approximately 2.3% and 2.1%, respectively, from the Company s amortized cost basis. These unrealized losses relate primarily to fluctuations in the current interest rate environment. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysis reports. Since material downgrades have not occurred and management does not have the intent to sell the debt securities for the foreseeable future, none of the securities described in the above table or in this paragraph were deemed to be other than temporarily impaired.

At September 30, 2010 and December 31, 2009, two investments in trust preferred securities have unrealized losses with aggregate depreciation of approximately 39.3% and 31.3%, respectively, from the Company s amortized cost basis. At September 30, 2010 the combined net unrealized loss on trust preferred securities classified as available-for sale (AFS) was $9.1 million, compared with $10.0 million at December 31, 2009. The Company is actively monitoring its debt and other structured securities portfolios classified as AFS for declines in fair value. These unrealized losses relate primarily to fluctuations in the current interest rate environment, and specifically to the widening of credit spreads on virtually all corporate and structured debt, which began in 2007. The Company has the intent and ability to hold trust preferred securities for the foreseeable future; none were deemed to be OTTI.

The amortized cost and fair value of securities as of September 30, 2010 and December 31, 2009, by contractual maturities, are shown below. The actual maturities of the mortgage-backed securities may differ from their contractual maturities because the loans underlying the securities may be repaid without any penalties. Therefore, these securities are listed separately in the maturity summary. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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	September 30, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Securities held to maturity				
Due in one year or less	$ 940	$ 940	$ 2,029	$ 2,029
Due after one year through five years	1,001	1,022	648	648
Due after five years through ten years	15,375	15,232	1,387	1,387
Due after ten years	5,288	5,935	2,462	1,918
Other	1,500	1,500	1,500	1,500
	$ 24,104	$ 24,629	$ 8,026	$ 7,482
Securities available for sale				
Due in one year or less	$ 6,669	$ 6,631	$	$
Due after one year through five years	1,633	1,674	71,695	71,206
Due after five years through ten years	292,231	294,094	56	57
Due after ten years	62,447	52,577	40,176	40,589
Mortgage backed securities	490,004	493,932	613,136	617,057
Other	22,134	22,627	15,720	15,689
	$ 875,118	$ 871,535	$ 740,783	$ 744,598

The following table summarizes the Company s investment ratings position as of September 30, 2010:

	As of September 30, 2010					
	Investment-grade (1)				Noninvestment-grade (1)	
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Totals
Municipal obligations	$ 1,054	$ 643	$	$	$	$ 1,697
Direct & GSE residential mortgage-backed securities	523,826					523,826
Private label residential mortgage-backed securities	6,798				2,558	9,356
U.S Government-sponsered agency	279,684					279,684
Adjustable-rate preferred stock			35,144	4,872		40,016
Collateralized debt obligations					288	288
Trust preferred securities			21,593	1,420		23,013
Corporate bonds		5,000	20,119			25,119
Total (2)	$ 811,362	$ 5,643	$ 76,856	$ 6,292	$ 2,846	$ 902,999

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

(2) Securities values are shown at carrying value as of September 30, 2010. Unrated securities consist of CRA investments with a carrying value of $22.6 million, municipals of $0.9 million, and an other investment of $1.5 million.

The following table summarizes the Company s investment ratings position as of December 31, 2009.

	Securities ratings profile As of December 31, 2009					
	Investment-grade (1)				Noninvestment-grade (1)	
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Totals
	(in thousands)					
Municipal obligations	$ 1,047	$ 2,392	$	$	$	$ 3,439
Direct & GSE residential mortgage-backed securities	657,552					657,552
Private label residential mortgage-backed securities	10,355				7,820	18,175
Adjustable-rate preferred stock					18,296	18,296
CDOs & trust preferred securities			20,700	1,350	919	22,969
FDIC guaranteed corporate bonds	71,190					71,190
Total (2)	$ 740,144	$ 2,392	$ 20,700	$ 1,350	$ 27,035	$ 791,621

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

(2) Securities values are shown at carrying value as of December 31, 2009. Unrated securities consist of CRA investments with a carrying value of $15.7 million, municipals of $1.9 million and an other investment of $1.5 million.

Securities with carrying amounts of approximately $352.4 million and $491.9 million at September 30, 2010 and December 31, 2009 were pledged for various purposes as required or permitted by law.

5. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

The composition of the Company s loans held for investment portfolio as of September 30, 2010 and December 31, 2009 is as follows:

	September 30, 2010	**December 31, 2009**
	(in thousands)	
Construction and land development	**$ 488,343**	$ 623,198
Commercial real estate owner occupied	**1,227,704**	1,091,363
Commercial real estate non-owner occupied	**981,374**	933,261
Residential real estate	**533,598**	568,319
Commercial and industrial	**695,375**	685,089
Commercial leases	**181,437**	117,104
Consumer	**71,379**	80,300
Deferred fees and unearned income, net	**(5,730)**	(18,995)
	4,173,480	4,079,639

Allowance for credit losses	**(108,170)**	(108,623)
Total loans, net	**$ 4,065,310**	$ 3,971,016

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

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	September 30, 2010	December 31, 2009
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	**$ 42,235**	$ 51,718
Impaired loans without a specific valuation allowance under ASC 310	**203,519**	181,754
Total impaired loans	**$ 245,754**	$ 233,472
Valuation allowance related to impaired loans	**$ (9,904)**	$ (13,383)

Total impaired loans were $245.8 million at September 30, 2010, a net increase of $12.3 million from December 31, 2009. The increase in impaired loans was mostly attributed to increased impaired commercial real estate loans, residential real estate and consumer/credit card loans which were $124.4 million, $44.0 million and $1.0 million, respectively, at September 30, 2010 compared to $85.4 million, $39.6 million and $0.2 million at December 31, 2009, respectively. This increase was partially offset by decreased impaired construction and land and commercial and industrial loans of $25.4 million and $6.3 million, respectively, to $63.8 million and $12.5 million respectively at September 30, 2010 from December 31, 2009.

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans have been charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable, in the table above as Impaired loans without specific valuation allowance under ASC 310. The valuation allowance disclosed above is included in the allowance for credit losses reported in the consolidated balance sheets as of September 30, 2010 and December 31, 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Average investment in impaired loans for the period	**$ 228,298**	$ 219,598	**$ 224,889**	$ 204,300
Interest recognized during the period for impaired loans	**$ 1,307**	$ 852	**$ 3,445**	$ 4,553

The Company is not committed to lend significant additional funds on these impaired loans.

The following table summarizes nonperforming assets:

	September 30, 2010	December 31, 2009
	(in thousands)	
Nonaccrual loans	**$ 130,905**	$ 153,702
Loans past due 90 days or more on accrual status	**5,667**	5,538
Troubled debt restructured loans (accruing)	**101,540**	46,480
Total nonperforming loans	**238,112**	205,719
Foreclosed collateral	**110,096**	83,347
Total nonperforming assets	**$ 348,208**	$ 289,066

Allowance for Credit Losses

The following table summarizes the changes in the allowance for credit losses:

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
	(in thousands)			
Balance, beginning	**$ 110,013**	$ 84,143	**$ 108,623**	$ 74,827
Provision for credit losses	**22,965**	50,750	**74,827**	108,307
Recoveries of amounts charged off	**2,019**	1,206	**7,477**	2,608
Charge-offs	**(26,827)**	(31,918)	**(82,757)**	(81,561)
Balance, ending	**$ 108,170**	$ 104,181	**$ 108,170**	$ 104,181

6. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

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

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
	(in thousands)			
Balance, beginning of period	$ 104,365	$ 42,147	$ 83,347	$ 14,545
Additions	25,499	36,991	73,801	78,236
Dispositions	(15,768)	(1,714)	(29,978)	(6,861)
Valuation adjustments in the period, net	(4,000)	(4,617)	(17,074)	(13,113)
Balance, end of period	$ 110,096	$ 72,807	$ 110,096	$ 72,807

At September 30, 2010 and 2009, the majority of the Company s repossessed assets were properties located in Nevada.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is created when a company acquires a business. When a business is acquired, the purchased assets and liabilities are recorded at fair value and intangible assets are identified. Excess consideration paid to acquire a business over the fair value of the net assets is recorded as goodwill. The Company s annual goodwill impairment testing date is October 1.

The Company determined that there was no triggering event or other factor to indicate an interim test of goodwill impairment was necessary for the first, second and third quarters of 2010. During the third quarter 2009, the Company determined that it was necessary to perform an interim test for goodwill impairment on its former subsidiary Miller/Russell and Associates. As a result of the goodwill impairment test, the Company determined that the Miller/Russell reporting unit was impaired by $0.6 million.

During the first quarter 2009, as a result of the significant decline in the Company s stock price and depressed economic conditions among financial institutions in general, the Company determined that it was necessary to perform an interim test for goodwill impairment. As a result of the March 31, 2009 goodwill impairment test, the Company determined that the Bank of Nevada reporting unit was impaired by $45.0 million.

The goodwill impairment charges had no effect on the Company s cash balances or liquidity. In addition, because goodwill is not included in the calculation of regulatory capital, the Company s regulatory ratios were not affected by this non-cash expense. No assurance can be given that goodwill will not be further impaired in future periods.

8. INCOME TAXES

The reconciliation between the statutory federal income tax rate and the Company s effective tax rate are summarized as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands)			
Income tax at statutory rate	**$ 896**	$ (14,466)	**$ 1,456**	$ (54,247)
Increase (decrease) resulting from:				
State income taxes, net of federal benefits	**(528)**	(301)	**(954)**	(924)
Dividends received deductions	**(137)**		**(242)**	(279)
Bank-owned life insurance	**(269)**	(190)	**(794)**	(522)
Tax-exempt income	**(63)**	(64)	**(213)**	(259)
Nondeductible expenses	**86**	95	**270**	281
Nondeductible goodwill impairment		201		15,951
Deferred tax asset valuation allowance		(490)	**(2,033)**	9,681
Restricted stock write off		(2,200)	**565**	(254)
Other, net	**(64)**	691	**115**	2,377
	$ (79)	$ (16,724)	**$ (1,830)**	$ (28,195)

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. For the nine months ended September 30, 2010, the net deferred tax assets increased $1.1 million to $70.1 million. This increase in the net deferred tax asset was primarily the result of the reversal of a portion of the deferred tax asset valuation allowance on ARPS impaired securities, offset by the write off of a portion of the deferred tax asset related to restricted stock.

9. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments and Letters of Credit

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets.

Lines of credit are obligations to lend money to a borrower. Credit risk arises when the borrowers current financial condition may indicate less ability to pay than when the commitment was originally made. In the case of standby letters of credit, the risk arises from the possibility of the failure of the customer to perform according to the terms of a contract. In such a situation, the third party might draw on the standby letter of credit to pay for completion of the contract the Company would look to its customer to repay these funds with interest. To minimize the risk, the Company uses the same credit policies in making commitments and conditional obligations as it would for a loan to that customer.

Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party in borrowing arrangements. The Company generally has recourse to recover from the customer any amounts paid under the guarantees. Typically letters of credit issued have expiration dates within one year.

A summary of the contractual amounts for unfunded commitments and letters of credit are as follows:

	September 30, 2010	December 31, 2009
	(in thousands)	

Commitments to extend credit, including unsecured loan commitments of $126,532 at September 30, 2010 and $110,491 at December 31, 2009	**$ 670,602**	$ 682,870
Credit card commitments and financial guarantees	**324,004**	305,903
Standby letters of credit, including unsecured letters of credit of $3,121 at September 30, 2010 and $3,826 at December 31, 2009	**30,099**	38,891
	$ 1,024,705	$ 1,027,664

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. 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.

The Company has exposure to credit losses from unfunded commitments and letters of credit. As funds have not been disbursed on these commitments, they are not reported as loans outstanding. Credit losses related to these commitments are not included in the allowance for credit losses reported in Note 5, Loans, Leases and Allowance for Credit Losses of these Consolidated Financial Statements and are accounted for as a separate loss contingency as a liability. This loss contingency for unfunded loan commitments and letters of credit was $0.3 million as of September 30, 2010 and December 31, 2009, respectively. Changes to this liability are adjusted through other non-interest expense.

Concentrations of Lending Activities

The Company s lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the States of Nevada, California and Arizona. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company grants commercial, construction, real estate and consumer loans to customers through branch offices located in the Company s primary markets. The Company s business is concentrated in these areas and the loan portfolio includes significant credit exposure to the commercial real estate market of these areas. As of September 30, 2010 and December 31, 2009, commercial real estate related loans which include construction and land accounted for approximately 64% and 65% of total loans, and approximately 3% and 5% of commercial real estate loans, respectively, are secured by undeveloped land. 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% and 54% of total commercial real estate loans were owner occupied at September 30, 2010 and December 31, 2009, respectively. In addition, approximately 3% and 4% of total loans were unsecured as of September 30, 2010 and December 31, 2009, respectively.

Contingencies

The Company is involved in various lawsuits of a routine nature that are being handled and defended in the ordinary course of the Company s business. Expenses are being incurred in connection with defending the Company, but in the opinion of Management, based in part on consultation with legal counsel, the resolution of these lawsuits will not have a material impact on the Company s financial position, results of operations, or cash flows.

Lease Commitments

The Company leases the majority of its office locations and many of these leases contain multiple renewal options and provisions for increased rents. Total rent expense of $1.4 million is included in occupancy expenses for the three month periods ended September 30, 2010 and 2009, and $3.9 million and $4.1 million for the nine month periods ended September 30, 2010 and 2009, respectively.

10. FAIR VALUE ACCOUNTING

The Company adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), effective January 1, 2007. This standard was subsequently codified under FASB ASC 825, *Financial Instruments* (ASC 825). At the time of adoption, the Company elected to apply this fair value option (FVO) treatment to the following instruments:

- Junior subordinated debt;
- All investment securities previously classified as held to maturity, with the exception of tax-advantaged municipal bonds; and
- All fixed-rate securities previously classified as available for sale.

The Company continues to account for these items under the fair value option. There were no financial instruments purchased by the Company in 2010 and 2009 which met the ASC 825 fair value election criteria, and therefore, no additional instruments have been added under the fair value option election.

All securities for which the fair value measurement option had been elected are included in a separate line item on the balance sheet entitled securities measured at fair value.

ASC 825 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 825 are described below:

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

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, 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 all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect our 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.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

For the three and nine months ended September 30, 2010 and 2009, gains and losses from fair value changes included in the Consolidated Statement of Operations were as follows:

	Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
Description	**Unrealized Gain (Loss) on Assets and Liabilities Measured at Fair Value, Net**	**Interest Income on Securities**	**Interest Expense on Junior Subordinated Debt**	**Total Changes Included in Current-Period Earnings**
	(in thousands)			
Three Months Ended September 30, 2010				
Securities measured at fair value	$ (210)	$ 71	$	$ (139)
Junior subordinated debt			288	(288)
	$ (210)	$ 71	$ 288	$ (427)

Nine Months Ended September 30, 2010

Securities measured at fair value	$ 226	$ 337	$	$ 563
Junior subordinated debt	6,115		821	5,294
	$ 6,341	$ 337	$ 821	$ 5,857

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	Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
Description	Unrealized Gain (Loss) on Assets and Liabilities Measured at Fair Value, Net	Interest Income on Securities	Interest Expense on Junior Subordinated Debt	Total Changes in Fair Values Included in Current-Period Earnings
	(in thousands)			
Three months ended September 30, 2009				
Securities measured at fair value	$ 1,498	$ 403	$	$ 1,901
Junior subordinated debt	489		234	723
	$ 1,987	$ 403	$ 234	$ 2,624
Nine Months Ended September 30, 2009				
Securities measured at fair value	$ 4,893	$ 641	$	$ 5,534
Junior subordinated debt	716		697	1,413
	$ 5,609	$ 641	$ 697	$ 6,947

The difference between the aggregate fair value of junior subordinated debt ($36.3 million) and the aggregate unpaid principal balance thereof ($66.5 million) was $30.2 million at September 30, 2010.

Interest income on securities measured at fair value is accounted for similarly to those classified as available-for-sale and held-to-maturity. As of January 1, 2007, a discount or premium was calculated for each security based upon the difference between the par value and the fair value at that date. These premiums and discounts are recognized in interest income over the term of the securities. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations. Interest expense on junior subordinated debt is also determined under a constant yield calculation.

Fair value on a recurring basis

Financial assets and financial liabilities measured at fair value on a recurring basis include the following:

AFS Securities: Adjustable-rate preferred securities are reported at fair value utilizing Level 1 inputs. Other securities classified as AFS are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things.

Securities measured at fair value: All of the Company s securities measured at fair value, the majority of which is mortgage-backed securities, are reported at fair value utilizing Level 2 inputs in the same manner as described above for securities available for sale.

Interest rate swap: Interest rate swaps are reported at fair value utilizing Level 2 inputs. The Company obtains dealer quotations to value its interest rate swaps.

Junior subordinated debt: The Company estimates the fair value of its junior subordinated debt using a discounted cash flow model which incorporates the effect of the Company s own credit risk in the fair value of the liabilities (Level 3). The Company s cash flow assumptions were based on the contractual cash flows based as the Company anticipates that it will pay the debt according to its contractual terms. The Company evaluated priced offerings on individual issuances of trust preferred securities and estimated the discount rate based, in part, on that information. The Company estimated the discount rate at 6.98%, which is a 669 basis point spread over 3 month LIBOR (0.29% as of September 30, 2010).

The fair value of these assets and liabilities were determined using the following inputs at September 30, 2010 and December 31, 2009:

	Fair Value Measurements at Reporting Date Using:			
As of September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Assets:				
Securities measured at fair value				
U.S. Government-sponsored agency securities	$	$ 2,535	$	$ 2,535
Direct obligation & GSE residential mortgage-backed		29,893		29,893
	$	$ 32,428	$	$ 32,428
Securities available for sale				
U.S. Government-sponsored agency securities	$	$ 277,149	$	$ 277,149
Municipal Obligations		322		322
Corporate bonds	5,119			5,119
Direct obligation & GSE residential mortgage-backed		493,932		493,932
Private label residential mortgage-backed securities		9,356		9,356
Adjustable-rate preferred stock	40,017			40,017
Trust preferred	23,013			23,013
Other	22,627			22,627
	$ 90,776	$ 780,759	$	$ 871,535
Interest rate swaps	$	$ 1,860	$	$ 1,860

Liabilities:	(Level 1)	(Level 2)	(Level 3)	Fair Value
Junior subordinated debt	$	$	$ 36,323	$ 36,323
Interest rate swaps	$	$ 1,860	$	$ 1,860

		Fair Value Measurements at Reporting Date Using:		
Description	**As of December 31, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Active Markets for Similar Assets (Level 2)**	**Unobservable Inputs (Level 3)**
Assets:				
Securities available for sale	$ 744,598	$ 111,536	$ 633,062	$
Securities measured at fair value	58,670		58,670	
Interest rate swaps	1,139		1,139	
Total	$ 804,407	$ 111,536	$ 692,871	$
Liabilities:				
Junior subordinated debt	$ 42,438	$	$	$ 42,438
Interest rate swaps	1,139		1,139	
Total	$ 43,577	$	$ 1,139	$ 42,438

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Securities AFS	Securities Measured at Fair Value	Junior Subordinated Debt	Fixed-Rate Term Borrowings
			(in thousands)	
Beginning balance January 1, 2010	$	$	$ (42,438)	$
Total gains (losses) (realized/unrealized)				
Included in earnings			6,115	
Included in other comprehensive income				
Purchases, issuances, and settlements, net				
Transfers to held-to-maturity				
Transfers in and/or out of Level 3				
Ending balance September 30, 2010	$	$	$ (36,323)	$
The amount of total 2010 gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at the reporting date	$	$	$ 6,115	$
The amount of total 2009 gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at the reporting date	$	$	$ 1,179	$ 1,515

Fair value on a nonrecurring basis

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents such assets carried on the balance sheet by caption and by level within the ASC 825 hierarchy as of September 30, 2010:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
		(in thousands)		
As of September 30, 2010:				
	$ 32,331	$	$	$ 32,331

Impaired loans with a specific valuation allowance		
Impaired loans without specific valuation allowance	113,209	113,209
Goodwill valuation of reporting units	25,925	25,925
Other assets acquired through foreclosure	110,096	110,096
Collateralized debt obligations	816	816

The following table presents such assets carried on the balance sheet by caption and by level within the ASC 825 hierarchy as of December 31, 2009:

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		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
		(in thousands)		
As of December 31, 2009:				
Impaired loans with specific valuation allowance	$38,335	$	$	$ 38,335
Impaired loans without specific valuation allowance	80,594			80,594
Goodwill valuation of reporting units	25,925			25,925
Other assets acquired through foreclosure	83,347			83,347
Collateralized debt obligations	918			918

Impaired loans: The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral. The fair value of collateral is determined based on third-party appraisals. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal which are generally obtained every six months, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the collateral is further impaired below appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement. These Level 3 impaired loans had an aggregate carrying amount of $42.2 million and specific reserves in the allowance for loan losses of $9.9 million as September 30, 2010.

Goodwill: In accordance with FASB ASC 350, *Intangibles Goodwill and Other* (ASC 350), goodwill has been written down to its implied fair value of $25.9 million by charges to earnings in prior periods. Some of the inputs used to determine the implied fair value of the Company and the corresponding amount of the impairment included the quoted market price of our common stock, market prices of common stocks of other banking organizations, common stock trading multiples, discounted cash flows, and inputs from comparable transactions. The Company s adjustments were primarily based on the Company s assumptions, therefore the resulting fair value measurement was determined to be level 3.

Other assets acquired through foreclosure: Other assets acquired through foreclosure consist of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily repossessed assets formerly leased) are classified as other assets acquired through foreclosure and other repossessed property and are initially reported at the fair value using appraised value, less cost to sell, such properties are generally re-appraised every six months. There is risk for subsequent volatility. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to expense. The Company had $110.1 million of such assets at September 30, 2010. When significant adjustments were based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the collateral is further impaired below appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement.

Collateralized debt obligations: The Company previously wrote down its trust-preferred CDO portfolio to $0.3 million when it determined these CDOs were other-than-temporarily impaired under generally accepted accounting principles due to the continued expected weakness of the U.S. economy, the decline in the market value of these CDOs, credit rating downgrades and the increase in deferrals and defaults by the issuers of the underlying

CDOs. These CDOs represent interests in various trusts, each of which is collateralized with trust preferred debt issued by other financial institutions.

Credit vs. non-credit losses

The Company has elected to apply provisions of ASC 320 as of January 1, 2009 to its AFS and HTM investment securities portfolios. The OTTI is separated into (a) the amount of total impairment related to the credit loss and (b) the amount of the total impairment related to all other factors. The amount of the total OTTI related to the credit loss is recognized in earnings. The amount of the total impairment related to all other factors is recognized in other comprehensive income. The OTTI is presented in the statement of operations with an offset for the amount of the total OTTI that is recognized in other comprehensive income.

As part of this adoption, the Company applied the criteria of ASC 320 in the determination of the amount of credit and other losses applicable to debt instruments held in its available-for-sale and held-to-maturity investment portfolios. The Company utilized a valuation specialist to evaluate and assist the Company in the determination of the amount and class of losses in its collateralized mortgage and collateralized debt obligation portfolios. In connection with this valuation, the

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Company evaluated significant inputs such as default rates, delinquency rates, collateral value ratios, subordination levels, vintage, geographic concentration and credit ratings of the securities in question.

If the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the impaired securities before recovery of the amortized cost basis, the Company recognizes the cumulative effect of initially applying this FSP as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income, including related tax effects. The Company elected to early adopt ASC 320 on its impaired securities portfolio since it provides more transparency in the consolidated financial statements related to the bifurcation of the credit and non-credit losses.

The following table provides the impact of adoption of ASC 320 on the Company s balance sheet as of January 1, 2009:

	Unrealized Non-Credit Losses Prior to Adoption	Cumulative Effect Adjustment	Unrealized Non-Credit Losses After Adoption
		(in thousands)	
Unrealized non-credit impairment losses on held-to-maturity securities	$	$ 4,705	$ 4,705
Unrealized non-credit impairment losses on available-for-sale securities		2,831	2,831
Pre-tax cumulative effect adjustment		7,536	
Reversal of tax effect		(2,688)	
Cumulative effect adjustment, net		$ 4,848	

For the nine months ended September 30, 2010, the Company determined that certain collateralized mortgage debt securities contained credit losses. The impairment credit loss related to these debt securities for the nine months ended September 30, 2010 was $1.2 million.

The following table presents a rollforward of the amount related to impairment credit losses recognized in earnings for the nine months ended September 30, 2010 and 2009:

Debt Security Credit Loses
Recognized in Other Comprehensive Income/Earnings
For the Nine Months Ended September 30, 2010

	Debt Obligations and Structured Securities	Private Label Mortgage-Backed Securities
	(in thousands)	
Beginning balance of impairment losses held in other comprehensive income	$ (544)	$ (1,811)
Current period other-than temporary impairment credit recognized through earnings	544	
Reductions for securities sold during the period		
Additions or reductions in credit losses due to change of intent to sell		

Reductions for increases in cash flows to be collected on impaired securities			
Ending balance of net unrealized gains and (losses) held in other comprehensive income	$	$	(1,811)

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Debt Security Credit Loses
Recognized in Other Comprehensive Income/Earnings
For the Nine Months Ended September 30, 2010

	Debt Obligations and Structured Securities	Private Label Mortgage-Backed Securities
	(in thousands)	
Beginning balance of impairment losses held in other comprehensive income	$ (4,705)	$ (2,831)
Current period other-than temporary impairment credit losses recognized through earnings	2,643	988
Reductions for securities sold during the period		
Additions or reductions in credit losses due to change of intent to sell		
Reductions for increases in cash flows to be collected on impaired securities		(1,379)
Ending balance of net unrealized gains and (losses) held in other comprehensive income	$ (2,062)	$ (3,222)

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company s financial instruments is as follows:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and due from banks	**$ 108,395**	**$ 108,395**	$ 116,841	$ 116,841
Federal funds sold	**1,009**	**1,009**	3,473	3,473
Money market investments	**1,635**	**1,635**	54,029	54,029
Investment securities-measured at fair value	**32,428**	**32,428**	58,670	58,670
Investment securities-available-for-sale	**871,535**	**871,535**	744,598	744,598
Investment securities held-to-maturity	**24,104**	**24,629**	7,482	7,482
Derivatives	**1,860**	**1,860**	1,139	1,139
Restricted stock	**39,029**	**39,029**	41,378	41,378
Loans, net	**4,065,310**	**3,931,939**	3,971,016	3,654,227
Accrued interest receivable	**18,742**	**18,742**	18,742	18,742
Financial liabilities:				
Deposits	**5,328,528**	**5,332,528**	4,722,102	4,731,827
Accrued interest payable	**4,543**	**4,543**	4,179	4,179
Customer repurchases	**86,835**	**86,835**	223,269	223,269
Other borrowed funds	**72,888**	**72,888**	29,352	29,352
Junior subordinated debt	**36,323**	**36,323**	42,438	42,438
Subordinated debt			60,000	60,000
Derivatives	**1,860**	**1,860**	1,139	1,139

Interest rate risk

The Company assumes interest rate risk (the risk to the Company s earnings and capital from changes in interest rate levels) as a result of its normal operations. As a result, the fair values of the Company s financial instruments, as well as

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its future net interest income, will change when interest rate levels change and that change may be either favorable or unfavorable to the Company.

Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value and net interest income resulting from hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board of Directors, the Board of Directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits.

Each of the Company s subsidiary banks have an Asset Liability Management Committee (ALCO) charged with managing interest rate risk within Board approved limits. Such limits may vary by bank based on local strategy and other considerations, but in all cases, are structured to prohibit an interest rate risk profile that is significantly asset or liability sensitive.

Fair value of commitments

The estimated fair value of the standby letters of credit at September 30, 2010 and December 31, 2009 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at September 30, 2010 and December 31, 2009.

12. SEGMENTS

The Company is segmented as Nevada (Bank of Nevada and First Independent Bank of Nevada), Arizona (Alliance Bank of Arizona), California (Torrey Pines Bank and Alta Alliance Bank), Asset Management (Premier Trust, which was divested on September 1, 2010, and Shine), and Other (Western Alliance Bancorporation holding company, Western Alliance Equipment Finance and miscellaneous).

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 the Company s 2009 Annual Report on Form 10-K. Transactions between segments consist primarily of borrowed funds, loan participations and shared services expense. Federal funds purchased and sold and other borrowed funding transactions that resulted in inter-segment profits were eliminated for reporting consolidated results of operations. Loan participations were recorded at par value with no resulting gain or loss. The Company allocated centrally provided services to the operating segments based upon estimated usage of those services.

The following is a summary of selected operating segment information as of and for the periods ended September 30, 2010, and 2009:

Western Alliance Bancorporation and Subsidiaries
Operating Segment Results
Unaudited

	Nevada	California	Arizona	Asset Management	Other	Inter-segment Elimi-nations	Consoli-dated Company
				(in millions)			
At September 30, 2010							
Assets	$ 3,334.2	$ 1,404.1	$ 1,403.3	$ 3.9	$ 732.0	$ (698.4)	$ 6,179.1
Gross loans and deferred fees, net	2,315.1	1,009.9	891.2			(42.7)	4,173.5
Less: Allowance for credit losses	(75.9)	(16.6)	(15.7)				(108.2)
Net loans	2,239.2	993.3	875.5			(42.7)	4,065.3
Goodwill	23.2			2.7			25.9
Deposits	2,894.0	1,232.6	1,244.1			(42.2)	5,328.5
Stockholders equity	365.2	134.6	110.4	3.5	622.1	(616.0)	619.8
No. of branches	19	11	9				39
No. of FTE	506	201	143	7	50		907
				(in thousands)			
Three Months Ended September 30, 2010:							
Net interest income	$ 32,025	$ 15,830	$ 12,716	$ 2	$ (1,105)	$	$ 59,468
Provision for credit losses	19,349	2,166	1,450				22,965
Net interest income (loss) after provision for credit losses	12,676	13,664	11,266	2	(1,105)		36,503
Non-interest income	4,355	1,150	2,462	1,001	2,809	390	12,167
Non-interest expense	(26,386)	(7,882)	(8,475)	(807)	(3,655)	1,096	(46,109)
Income (loss)from continuing operations before income taxes	(9,355)	6,932	5,253	196	(1,951)	1,486	2,561
Income tax expense (benefit)	(3,568)	2,906	2,021	91	(1,529)		(79)
Income(loss) from continuing operations	(5,787)	4,026	3,232	105	(422)	1,486	2,640
Loss from discontinued					(631)		(631)

operations, net							
Net income (loss)	$ (5,787)	$ 4,026	$ 3,232	$ 105	$ (1,053)	$ 1,486	$ 2,009
				(in thousands)			
Nine Months Ended September 30, 2010:							
Net interest income	$ 94,373	$ 45,401	$ 33,533	$ 6	$ (1,670)	$	$ 171,643
Provision for credit losses	62,626	7,718	4,483		0		74,827
Net interest income (loss) after provision for credit losses	31,747	37,683	29,050	6	(1,670)		96,816
Non-interest income	19,078	3,449	6,079	3,399	14,342	1,209	47,556
Non-interest expense	(79,400)	(28,672)	(23,954)	(2,752)	(9,957)	4,522	(140,213)
Income (loss) from continuing operations before income taxes	(28,575)	12,460	11,175	653	2,715	5,731	4,159
Income tax expense (benefit)	(10,464)	5,377	4,444	300	(1,487)		(1,830)
Income(loss) from continuing operations	(18,111)	7,083	6,731	353	4,202	5,731	5,989
Loss from discontinued operations, net					(2,368)		(2,368)
Net income (loss)	$(18,111)	$ 7,083	$ 6,731	$ 353	$ 1,834	$ 5,731	$ 3,621

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Western Alliance Bancorporation and Subsidiaries
Operating Segment Results
Unaudited

	Nevada	California	Arizona	Asset Management	Other	Inter-segment Elimi-nations	Consoli-dated Company
				(in millions)			
At September 30, 2009							
Assets	$ 3,457.1	$ 1,264.9	$ 1,024.9	$ 19.4	$ 118.6	$ (53.6)	$ 5,831.3
Gross loans and deferred fees	2,488.8	814.6	707.6			(43.0)	3,968.0
Less: Allowance for credit losses	(74.9)	(12.7)	(16.6)				(104.2)
Net loans	2,413.9	801.9	691.0			(43.0)	3,863.8
Goodwill	23.2			10.7			33.9
Deposits	2,792.9	1,089.5	877.4			(7.6)	4,752.2
Stockholders equity	315.7	120.6	73.6	17.0	81.5	(5.4)	603.0
No. of branches	21	9	10				40
No. of FTE	583	211	145	43	41		1,023
				(in thousands)			
Three Months Ended September 30,2009							
Net interest income	$ 29,918	$ 10,895	$ 8,160	$ 12	$ (15)	$	$ 48,970
Provision for credit losses	41,931	3,953	4,866				50,750
Net interest income after provision for credit losses	(12,013)	6,942	3,294	12	(15)		(1,780)
Non-interest income	4,201	1,073	1,676	2,452	2,206	939	12,547
Non-interest expense	(29,790)	(9,203)	(6,944)	(2,640)	(3,072)	1,201	(50,448)
Loss from continuing operations before income taxes	(37,602)	(1,188)	(1,974)	(176)	(881)	2,140	(39,681)
Income tax expense (benefit)	(13,784)	(623)	(849)	217	(287)	(1,398)	(16,724)
Income(loss) from continuing operations	(23,818)	(565)	(1,125)	(393)	(594)	3,538	(22,957)
Loss from discontinued					(958)		(958)

operations, net							
Net income (loss)	$ (23,818)	$ (565)	$ (1,125)	$ (393)	$(1,552)	$ 3,538	$ (23,915)
				(in thousands)			
Nine Months Ended September 30,2009							
Net interest income	$ 94,186	$ 33,240	$ 24,525	$ 43	$(1,493)	$	$ 150,501
Provision for credit losses	86,580	8,646	13,081				108,307
Net interest income after provision for credit losses	7,606	24,594	11,444	43	(1,493)		42,194
Non-interest income	3,864	3,468	4,426	7,066	1,923	(20,581)	166
Goodwill impairment charge	(45,000)			(576)			(45,576)
Non-interest expense	(82,560)	(30,414)	(25,114)	(6,377)	(6,918)	5,302	(146,081)
Loss from continuing operations before income taxes	(116,090)	(2,352)	(9,244)	156	(6,488)	(15,279)	(149,297)
Income tax expense (benefit)	(25,165)	(687)	(3,577)	459	(2,426)	3,201	(28,195)
Income(loss) from continuing operations	(90,925)	(1,665)	(5,667)	(303)	(4,062)	(18,480)	(121,102)
Loss from discontinued operations, net					(3,392)		(3,392)
Net income (loss)	$ (90,925)	$ (1,665)	$ (5,667)	$ (303)	$(7,454)	$(18,480)	$(124,494)

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13. STOCKHOLDERS EQUITY

On August 24, 2010, the Company completed a public offering of 8,050,000 shares of common stock, including 1,050,000 shares pursuant to the underwriter s over-allotment option, at a public offering price of $6.25 per share, for an aggregate offering price of $50.3 million. The net proceeds of the offering were approximately $47.6 million.

Stock-based Compensation

For the nine months ended September 30, 2010, 111,000 stock options with a weighted average exercise price of $5.21 per share were granted to certain key employees and directors. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes valuation model. The weighted average grant date fair value of these options was $3.12 per share. These stock options generally have a vesting period of 4 years and a contractual life of 7 years.

As of September 30, 2010, there were 2.8 million options outstanding, compared with 2.9 million at September 30, 2009.

For the three and nine months ended September 30, 2010, the Company recognized stock-based compensation expense related to stock option grants of $0.4 million and $1.4 million, respectively compared to $0.6 million and $1.8 million for the three and nine months ended September 30, 2009, respectively.

For the three and nine months ended September 30, 2010, 62,800 and 622,963 shares of restricted stock were granted, respectively. The Company estimates the compensation cost for restricted stock grants based upon the grant date fair value. Generally, these restricted stock grants have a three year vesting period. The aggregate grant date fair value for the restricted stock issued in the three and nine month periods ended September 30, 2010 was $0.5 million and $3.4 million, respectively.

There were approximately 1,099,134 and 754,000 restricted shares outstanding at September 30, 2010 and 2009, respectively. For the three and nine months ended September 30, 2010, the Company recognized stock-based compensation related to restricted stock grants of $1.0 million and $3.2 million, respectively, compared to $1.4 million and $4.6 million, respectively, for the three and nine months ended September 30, 2009 related to the Company s restricted stock plan.

14. BORROWED FUNDS

On August 25, 2010, the Company completed a public offering of $75 million in principal Senior Notes due in 2015 bearing interest of 10%. The net proceeds of the offering were $72.8 million. The Company also has lines of credit available from the FHLB and FRB. The borrowing capacity is determined based on collateral pledged, generally consisting of securities and loans, at the time of borrowing. A summary of the Company s borrowings as of September 30, 2010 and December 31, 2009 follows:

	September 30, 2010	**December 31, 2009**
	(in thousands)	
Short Term		
Other short term debt (weighted average rate in 2010: 0.00% and 2009: 4.60%)		
Due in one year or less	**$**	$ 20,000
Long Term		
Other long term debt (weighted average rate in 2010: 9.89% and 2009: 8.79%)		
Due in over one year	**$ 75,000**	$ 9,352

15. SUBSEQUENT EVENTS

On October 20, 2010, the Company published notices of the filing of applications to merge its Alta Alliance Bank subsidiary into its Torrey Pines Bank subsidiary, and its First Independent Bank of Nevada subsidiary into its Alliance Bank of Arizona subsidiary. The Company believes that reducing the number of banking charters will mitigate its risk profile while improving its operating efficiency. Subject to regulatory approval, these mergers are expected to be completed by year end.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion is designed to provide insight into Management s assessment of significant trends related to the Company s consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. This Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2009 and unaudited interim consolidated financial statements and notes hereto and financial information appearing elsewhere in this report. Unless the context requires otherwise, the terms Company, us, we, and our refer to Western Alliance Bancorporation and its wholly-owned subsidiaries on a consolidated basis.

Forward-Looking Information

This report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. In addition, the words anticipates, expects, believes, estimates and intends or the negative of these terms or other comparable terminology constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Except as required by law, we disclaim any obligation to update any such forward-looking statements or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Forward-looking statements contained in this Quarterly Report on Form 10-Q involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company and may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission and the following factors that could cause actual results to differ materially from those presented:

- the decline in economic conditions and disruptions to the financial markets and economic conditions generally;
- recent legislative and regulatory initiatives and the rules and regulations that might be promulgated thereunder;
- the soundness of other financial institutions with which we do business;
- our ability to raise capital, attract deposits and our ability to borrow from the FHLB and the Federal Reserve;
- the effect of fair value accounting on the financial instruments that we hold;
- the possibility of asset, including goodwill, write-downs;
- defaults on our loan portfolio;
- changes in management s estimate of the adequacy of the allowance for credit losses;
- our ability to recruit and retain qualified employees, especially seasoned relationship bankers;
- inflation, interest rate, market and monetary fluctuations;
- changes in gaming or tourism in Las Vegas, Nevada, our primary market area;
- risks associated with the execution of our business strategy and related costs;

- increased lending risks associated with our concentration of commercial real estate, construction and land development and commercial and industrial loans;
- supervisory actions by regulatory agencies which limit our ability to pursue certain growth opportunities;
- competitive pressures among financial institutions and businesses offering similar products and services;
- the effects of interest rates and interest rate policy; and
- other factors affecting the financial services industry generally or the banking industry in particular.

For additional information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009 and Item 1A of Part II of this Quarterly Report on Form 10-Q.

Financial Overview and Highlights

Western Alliance Bancorporation is a multi-bank holding company headquartered in Phoenix, Arizona that provides full service banking, financial planning and investment advisory services and lending through its subsidiaries.

Net loss for the Company of $0.5 million or ($0.01) loss per diluted share for the quarter ended September 30, 2010 compared to a net loss of $26.4 million or ($0.37) loss per diluted share for the third quarter of 2009.

The significant factors impacting earnings of the Company during the third quarter of 2010 were:

Record net interest income of $59.5 million for the third quarter 2010, up 21.4% from $49.0 million for the third quarter 2009

Net interest margin increased to 4.32% for the third quarter 2010 compared to 3.69% for third quarter 2009

The provision for credit losses declined to $23.0 million for the third quarter 2010 compared to $50.8 million for the third quarter 2009

A $93.9 million increase in loans to $4.17 billion from $4.08 billion at December 31, 2009 and a $205.5 million increase from $3.97 billion at September 30, 2009

A continued decrease in nonaccrual loans to $130.9 million at September 30, 2010 from $153.7 million at December 31, 2009

Net increase in repossessed assets to $110.1 million at September 30, 2010 from $83.3 million at December 31, 2009

Net charge-offs decreased to $24.8 million for the third quarter 2010 compared to $30.7 million for the third quarter of 2009

Completion of debt offering contributing $72.8 million in liquidity to the Company

Completion of equity offering contributing $47.6 million to capital to the Company

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company s overall comparative performance for the three and nine months ended September 30, 2010 throughout the analysis sections of this report.

A summary of our results of operations and financial condition and select metrics is included in the following table:

	September 30, 2010	September 30, 2009	Change %
	(dollars in millions)		
Selected Balance Sheet Data:			
Total assets	$6,179.1	$5,831.3	6.0%
Loans, net of deferred fees	4,173.5	3,968.0	5.2
Securities and money market investments	929.7	727.8	27.7
Federal funds sold and other	1.0	5.0	(80.0)
Customer deposits	5,328.5	4,752.2	12.1
Borrowings	72.9	79.4	(8.2)
Junior subordinated and subordinated debt	36.3	101.9	(64.4)
Stockholders equity	619.8	603.0	2.8

	At or for the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2010	2009	Change %	2010	2009	Change %
	(in thousands, except per share data)					
Selected Income Statement Data:						
(dollars in thousands)						
Interest income	$ 70,705	$ 67,746	4.4%	$ 209,439	$ 208,210	0.6%
Interest expense	11,237	18,776	(40.2)	37,796	57,709	(34.5)
Net interest income	59,468	48,970	21.4	171,643	150,501	14.0
Provision for loan losses	22,965	50,750	(54.7)	74,827	108,307	(30.9)
Net interest income after provision for credit losses	36,503	(1,780)	(2,150.7)	96,816	42,194	129.5
Non-interest income	12,167	12,547	(3.0)	47,556	166	28,548.2
Non-interest expense	46,109	50,448	(8.6)	140,213	191,657	(26.8)
Income (loss) from continuing operations before income taxes	2,561	(39,681)	(106.5)	4,159	(149,297)	(102.8)
Income tax benefit	(79)	(16,724)	(99.5)	(1,830)	(28,195)	(93.5)
Income (loss) from continuing operations	2,640	(22,957)	(111.5)	5,989	(121,102)	(104.9)%
Loss on discontinued operations, net	(631)	(958)	(34.1)	(2,368)	(3,392)	
Net income (loss)	$ 2,009	$ (23,915)	(108.4)%	$ 3,621	$ (124,494)	
Intangible asset amortization, net of tax	$ 586	$ 614	(4.7)%	$ 1,764	$ 1,843	(4.3)%
Diluted net loss from continuing operations	$ 0.00	$ (0.35)		$ (0.02)	$ (2.36)	
Diluted net loss from discontinued operations, net	$ (0.01)	$ (0.01)		$ (0.03)	$ (0.06)	
Diluted net loss per common share	$ (0.01)	$ (0.37)	(97.3)%	$ (0.05)	$ (2.42)	(97.9)%

	At or For the Three Months Ended September 30,	For the Nine Months Ended September 30,

	2010	2009	Change %	2010	2009	Change %
Common Share Data:						
Basic net income (loss) per share	**$ (0.01)**	$ (0.37)	(97.3)%	**$ (0.05)**	$ (2.42)	(97.9)%
Diluted net income (loss) per share	**(0.01)**	(0.37)	(97.3)	**(0.05)**	(2.42)	(97.9)
Book value per common share	**6.01**	6.56	(8.4)			
Average shares outstanding (in thousands):						
Basic	**75,554**	71,697	5.4	**73,240**	54,471	34.5
Diluted	**75,554**	71,697	5.4	**73,240**	54,471	34.5
Common shares outstanding	**81,503**	72,489	12.4			
Selected Performance Ratios:						
Return on average assets	**0.13%**	(1.63)%	(108.0)%	**0.08%**	(3.03)%	(102.7)%
Return on average stockholders equity	**1.31**	(14.78)	(108.9)	**0.82**	(30.16)	(102.7)
Average equity to average assets	**10.11**	11.00	(8.1)	**10.05**	10.05	0.0
Net interest margin (1)	**4.32**	3.69	17.1	**4.22**	4.07	3.7
Net interest spread	**4.03**	3.26	23.6	**3.90**	3.63	7.4
Loan to deposit ratio	**78.32**	83.50	(6.2)			

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	At or For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2010	**2009**	**Change %**	**2010**	**2009**	**Change %**
Selected Capital Ratios:						
Tier 1 Leverage ratio	**10.0**	9.6	3.1			
Tier 1 Risk Based Capital	**12.4**	12.1	2.5			
Total Risk Based Capital	**13.7**	14.7	(7.5)			
Selected Asset Quality Ratios:						
Net charge-offs to average loans outstanding (annualized)	**2.41%**	3.05%	(21.0)%	**2.47%**	2.60%	(4.8)%
Nonaccrual loans to gross loans	**3.14**	4.19	(25.1)			
Nonaccrual loans and repossessed assets to total assets	**3.90**	4.10	(4.9)			
Loans past due 90 days and still accruing to total loans	**0.14**	0.06	133.3			
Allowance for credit losses to gross loans	**2.59**	2.63	(1.5)			
Allowance for credit losses to nonaccrual loans	**82.63**	62.65	31.9			

(1) Net interest margin represents net interest income as a percentage of average interest-earning assets.

As a bank holding company, the Company s Management focuses on key ratios in evaluating the Company s financial condition and results of operations. In the current economic environment, key ratios regarding asset quality and efficiency are more informative as to the financial condition of the Company than those utilized in a more normal economic period such as return on equity and return on assets.

Asset Quality

For 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 nonaccrual 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. As of September 30, 2010, impaired loans, including nonaccrual loans, were $245.8 million compared to $232.0 million at September 30, 2009. Nonaccrual loans as a percentage of gross loans as of September 30, 2010 were 3.14% compared to 4.19% as of September 30, 2009. At September 30, 2010 and 2009, nonperforming assets were $348.2 million and $285.8 million, respectively, and were comprised of nonaccrual loans, loans past due 90 days or more and still accruing interest, restructured and impaired loans and foreclosed collateral. For the three and nine months ended September 30, 2010, annualized net charge-offs as a percentage of average loans were 2.41% and 2.47%, respectively, compared to 3.05% and 2.60% for the three and nine months ended September 30, 2009, respectively.

Asset and Deposit Growth. The ability to originate loans and attract deposits is fundamental to our asset growth. Our assets and liabilities are comprised primarily of loans and deposits, respectively. Total assets at September 30, 2010 increased $347.8 million or 6.0%, to $6.18 billion from $5.83 billion at September 30, 2009. Gross loans increased by $205.5 million or 5.2% as of September 30, 2010 from September 30, 2009. Total deposits increased $576.3 million or 12.1%, to $5.33 billion at September 30, 2010 from $4.75 billion at September 30, 2009.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The critical accounting policies upon which our financial condition and results of operation depend, and which involve the most complex subjective decisions or assessments, are included in the discussion entitled Critical Accounting Policies in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and all amendments thereto, as filed with the Securities and Exchange Commission. There were no material changes to the critical accounting policies disclosed in the Annual Report on Form 10-K.

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Results of Operations

The following table sets forth a summary financial overview for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
	(in thousands, except per share amounts)					
Consolidated Statement of Operations Data:						
Interest income	**$ 70,705**	$ 67,746	$ 2,959	**$ 209,439**	$ 208,210	$ 1,229
Interest expense	**11,237**	18,776	(7,539)	**37,796**	57,709	(19,913)
Net interest income	**59,468**	48,970	10,498	**171,643**	150,501	21,142
Provision for credit losses	**22,965**	50,750	(27,785)	**74,827**	108,307	(33,480)
Net interest income after provision for credit losses	**36,503**	(1,780)	38,283	**96,816**	42,194	54,622
Non-interest income	**12,167**	12,547	(380)	**47,556**	166	47,390
Non-interest expense	**46,109**	50,448	(4,339)	**140,213**	191,657	(51,444)
Net loss from continuing operations before income taxes	**2,561**	(39,681)	(42,242)	**4,159**	(149,297)	153,456
Income tax benefit	**(79)**	(16,724)	16,645	**(1,830)**	(28,195)	26,365
Income (loss) from continuing operatons	**2,640**	(22,957)	25,597	**5,989**	(121,102)	127,091
Loss from discontinued operations	**(631)**	(958)	327	**(2,368)**	(3,392)	1,024
Net income (loss)	**$ 2,009**	$ (23,915)	$ 25,924	**$ 3,621**	$ (124,494)	$ 128,115
Net loss available to common stockholders	**$ (457)**	$ (26,354)	$ 25,897	**$ (3,778)**	$ (131,789)	$ 128,011
Earnings (loss) per share basic	**$ (0.01)**	$ (0.37)	$ 0.36	**$ (0.05)**	$ (2.42)	$ 2.37
Earnings (loss) per share diluted	**$ (0.01)**	$ (0.37)	$ 0.36	**$ (0.05)**	$ (2.42)	$ 2.37

The Company s primary source of income is net interest income. Net interest income for the three and nine months ended September 30, 2010 increased by 21.4% and 14.0%, respectively, compared to the three and nine months ended September 30, 2009. The increase in net interest income was mostly from declined funding costs primarily decreased interest expense on deposits of $6.5 million for the comparable third quarters and $15.5 million for the nine months ended September 30, 2010 compared to 2009.

Net Interest Margin

The net interest margin is reported on a fully tax equivalent (FTE) basis. 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 table sets forth the average balances and interest income on a fully tax equivalent basis and tax expense for the periods indicated:

	Three Months Ended September 30,					
	2010			2009		
	(in thousands)					
	Average Balance	Interest	Average Yield/Cost (6)	Average Balance	Interest	Average Yield/Cost (6)
Earning Assets						
Securities:						
Taxable	**$ 870,677**	**$ 5,665**	**2.58%**	$ 570,413	$ 5,652	3.93%
Tax-exempt (1)	**32,626**	**410**	**8.72%**	30,443	129	3.52%
Total securities	**903,303**	**6,075**	**2.80%**	600,856	5,781	3.91%
Federal funds sold & other	**11,164**	**29**	**1.03%**	35,573	141	1.57%
Loans (1) (2) (3)	**4,115,894**	**64,273**	**6.20%**	4,027,005	61,380	6.05%
Short term investments	**421,189**	**299**	**0.28%**	570,345	334	0.23%
Investment in restricted stock	**39,765**	**29**	**0.29%**	41,034	110	1.06%
Total earnings assets	**5,491,315**	**70,705**	**5.13%**	5,274,813	67,746	5.11%
Non-Earning Assets						
Cash and due from banks	**121,308**			219,952		
Allowance for loan losses	**(111,912)**			(89,457)		
Bank owned life insurance	**94,284**			91,447		
Other assets	**402,202**			336,857		
Total assets	**$ 5,997,197**			$ 5,833,612		
Interest-Bearing Liabilities						
Sources of Funds						
Interest-bearing deposits:						
Interest checking	**659,334**	**708**	**0.43%**	326,902	928	1.13%
Savings and money market	**1,890,032**	**4,032**	**0.85%**	1,777,410	6,700	1.50%
Time deposits	**1,341,579**	**4,791**	**1.42%**	1,382,890	8,439	2.42%
Total interest-bearing deposits	**3,890,945**	**9,531**	**0.97%**	3,487,202	16,067	1.83%
Short-term borrowings	**89,464**	**155**	**0.69%**	419,044	1,241	1.17%
Long-term debt	**29,299**	**815**	**11.04%**	9,396	211	8.91%
Junior sub. & subordinated debt	**36,323**	**736**	**8.04%**	102,343	1,257	4.87%
Total interest-bearing liabilities	**4,046,031**	**11,237**	**1.10%**	4,017,985	18,776	1.85%
Non interest-Bearing Liabilities						
Noninterest-bearing demand deposits	**1,317,216**			1,141,275		

Other liabilities	**27,571**			32,369		
Stockholders equity	**606,379**			641,983		
Total liabilities and stockholders equity	**$ 5,997,197**			$ 5,833,612		
Net interest income and margin (4)		**$ 59,468**	**4.32%**		$ 48,970	3.69%
Net interest spread (5)			**4.03%**			3.26%

(1) Yields on loans and securities have been adjusted to a tax equivalent basis. Interest income has not been adjusted to a tax equivalent basis. The tax-equivalent adjustments for the three months ended September 30, 2010 and 2009 were $307 and $141, respectively.

(2) Net loan fees of $0.9 million and $0.8 million are included in the yield computation for the three months ended September 30, 2010 and 2009, respectively.

(3) Includes nonaccrual 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.

(6) Annualized.

	Nine Months Ended September 30, 2010			2009		
			(in thousands)			
	Average Balance	Interest	Average Yield/Cost (6)	Average Balance	Interest	Average Yield/Cost (6)
Earning Assets						
Securities:						
Taxable	**$ 812,192**	**$ 16,886**	**2.78%**	$ 537,225	$ 18,148	4.52%
Tax-exempt (1)	**33,042**	**793**	**6.04%**	49,402	1,146	5.35%
Total securities	**845,234**	**17,679**	**2.91%**	586,627	19,294	4.59%
Federal funds sold & other	**22,167**	**151**	**0.91%**	22,843	370	2.17%
Loans (1) (2) (3)	**4,083,368**	**190,641**	**6.24%**	4,066,109	187,901	6.18%
Short term investments	**473,117**	**862**	**0.24%**	252,167	519	0.28%
Investment in restricted stock	**40,714**	**106**	**0.35%**	41,044	126	0.41%
Total earnings assets	**5,464,600**	**209,439**	**5.14%**	4,968,790	208,210	5.62%
Non-Earning Assets						
Cash and due from banks	**109,739**			174,997		
Allowance for loan losses	**(114,962)**			(81,468)		
Bank owned life insurance	**93,520**			91,067		
Other assets	**400,904**			339,823		
Total assets	**$ 5,953,801**			$ 5,493,209		
Interest-Bearing Liabilities						
Sources of Funds						
Interest-bearing deposits:						
Interest checking	**563,731**	**2,223**	**0.53%**	288,271	2,463	1.14%
Savings and money market	**1,837,727**	**12,894**	**0.94%**	1,622,265	20,961	1.73%
Time deposits	**1,446,976**	**17,560**	**1.62%**	1,238,372	24,706	2.67%
Total interest-bearing deposits	**3,848,434**	**32,677**	**1.14%**	3,148,908	48,130	2.04%
Short-term borrowings	**147,905**	**1,370**	**1.24%**	600,070	4,461	0.99%
Long-term debt	**9,874**	**815**	**11.04%**	22,092	1,399	8.47%
Junior sub. & subordinated debt	**71,085**	**2,934**	**5.52%**	104,122	3,719	4.78%
Total interest-bearing liabilities	**4,077,298**	**37,796**	**1.24%**	3,875,192	57,709	1.99%
Noninterest-Bearing Liabilities						
	1,249,398			1,037,218		

Noninterest-bearing demand deposits						
Other liabilities	**34,441**			28,874		
Stockholders equity	**592,664**			551,925		
Total liabilities and stockholders equity	**$ 5,953,801**			$ 5,493,209		
Net interest income and margin (4)		**$ 171,643**	**4.22%**		$ 150,501	4.07%
Net interest spread (5)			**3.90%**			3.63%

(1) Yields on loans and securities have been adjusted to a tax equivalent basis. Interest income has not been adjusted to a tax equivalent basis. The tax-equivalent adjustments for the nine months ended September 30, 2010 and 2009 were $700 and $830, respectively.

(2) Net loan fees of $3.2 million and $3.3 million are included in the yield computation for the nine months ended September 30, 2010 and 2009, respectively.

(3) Includes nonaccrual 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.

(6) Annualized

The table below sets forth the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities. For purposes of this table, nonaccrual loans have been included in the average loan balances.

	Three Months Ended September 30, 2010 compared to 2009 Increase (Decrease) Due to Changes in (1)(2)			Nine Months Ended September 30, 2010 compared to 2009 Increase (Decrease) Due to Changes in (1)(2)		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Interest on securities:						
Taxable	$ 1,953	$ (1,940)	$ 13	$ 5,717	$ (6,979)	$ (1,262)
Tax-exempt	27	254	281	(393)	40	(353)
Federal funds sold	(63)	(49)	(112)	(5)	(214)	(219)
Loans	1,389	1,504	2,893	806	1,934	2,740
Short term investments	(105)	70	(35)	403	(60)	343
Restricted stock	(1)	(80)	(81)	(1)	(19)	(20)
Total interest income	3,200	(241)	2,959	6,527	(5,298)	1,229
Interest expense:						
Interest checking	356	(576)	(220)	1,086	(1,326)	(240)
Savings and money market	239	(2,907)	(2,668)	1,512	(9,579)	(8,067)
Time deposits	(146)	(3,502)	(3,648)	2,532	(9,678)	(7,146)
Short-term borrowings	(567)	(519)	(1,086)	(4,188)	1,097	(3,091)
Long-term debt	548	56	604	(1,008)	424	(584)
Junior subordinated debt	(1,323)	802	(521)	(1,364)	579	(785)
Total interest expense	(893)	(6,646)	(7,539)	(1,430)	(18,483)	(19,913)
Net increase (decrease)	$ 4,093	$ 6,405	$ 10,498	$ 7,957	$ 13,185	$ 21,142

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

(2) Changes due to mark-to-market gains/losses under ASC 825 have been allocated to volume changes.

The increase in net interest income for the three and nine months ended September 30, 2010 compared to 2009, was primarily due to decreased interest expense driven by declines in rates paid on interest bearing deposits. The cost of our average interest-bearing liabilities decreased to 1.10% from 1.85% for the three months ended September 30, 2010 compared to the same period in 2009. For the nine months ended September 30, 2010 compared to 2009, average cost of interest-bearing liabilities decreased to 1.24% compared to 1.99%.

Provision for Credit Losses

The provision for credit losses in each period is reflected as a charge against 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 was $23.0 million and $74.8 million for the three and nine months ended September 30, 2010, respectively compared to $50.8 million and $108.3 million for the same periods in 2009. Factors that impact the provision for credit losses are net charge-offs or recoveries, changes in the size and mix of the loan portfolio, the recognition of changes in current risk factors and specific reserves on impaired loans.

Non-interest Income (Loss)

The Company earned non-interest income (loss) primarily though fees related to trust and advisory services, services provided to loan and deposit customers, bank owned life insurance, investment securities gains and impairment charges, mark to market gains and other.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
			(in thousands)			
Net gain on sale of investment securities	**$ 5,460**	$ 4,146	$ 1,314	**$ 19,757**	$ 15,933	$ 3,824
Securities impairment charges		(1,044)	1,044	**(1,174)**	(44,083)	42,909
Portion of impairment charges recognized in other comprehensive loss (before taxes)					2,047	(2,047)
Net securities impairment charges recognized in earnings		(1,044)	1,044	**(1,174)**	(42,036)	40,862
Unrealized gain (loss) on assets and liabilities measured at fair value, net	**(210)**	1,987	(2,197)	**6,341**	5,609	732
Gain on extinguishment of debt				**3,000**		3,000
Service charges	**2,276**	2,212	64	**6,791**	5,874	917
Trust and advisory fees	**1,001**	2,369	(1,368)	**3,395**	6,967	(3,572)
Operating lease income	**998**	1,079	(81)	**2,928**	2,976	(48)
Income from bank owned life insurance	**773**	574	199	**2,271**	1,523	748
Derivative gains (losses)	**(66)**	(70)	4	**(202)**	(200)	(2)
Other	**1,935**	1,294	641	**4,449**	3,520	929
Total non-interest income (loss)	**$ 12,167**	$ 12,547	$ (380)	**$ 47,556**	$ 166	$ 47,390

Total non-interest income declined slightly for the three month period ended September 30, 2010 compared to 2009. During the third quarter 2010, the Company sold its Premier Trust subsidiary and recorded a $0.6 million gain on sale which is included in other non-interest income. Total trust and advisory fees declined $1.4 million for the comparable quarters mostly due to the Miller/Russell divestiture at year end 2009. The Company recorded no securities impairment charges in the third quarter 2010 compared to $1.0 million in the third quarter 2009. Mark to market gains declined for the comparable periods by $2.2 million due to interest rate fluctuations. Net gain on sale of investment securities increased $1.3 million for the three months ended September 30, 2010 compared to 2009 mostly due to the sales of the remaining impaired ARPS securities for net gains of $3.6 million.

Total non-interest income for the nine months ended September 30, 2010 compared to 2009 increased by $47.4 million primarily the result of the $40.9 million decrease in securities impairment charges. All other non-interest income categories improved with the exception of trust and advisory fees which declined by $3.6 million for the comparable periods mostly due to the divestitures of the majority interest in Miller/Russell and Associates, Inc at the end of last year and Premier Trust as of September 1, 2010 which contributed $5.5 million in trust and advisory fees during this period in 2009.

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Non-interest Expense

The following table presents a summary of non-interest expenses for the periods indicated:

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
			(in thousands)			
Salaries and employee benefits	$ 21,860	$ 23,694	$ (1,834)	$ 65,461	$ 70,697	$ (5,236)
Occupancy	4,890	5,346	(456)	14,505	15,762	(1,257)
Losses on sales/valuations of repossessed assets and bank premises, net	4,855	7,283	(2,428)	15,836	16,193	(357)
Insurance	4,115	2,326	1,789	11,366	9,034	2,332
Legal, professional and director fees	1,546	1,810	(264)	5,553	4,995	558
Repossessed assets and loan expenses	1,918	1,430	488	5,847	4,585	1,262
Customer service	987	1,001	(14)	3,205	3,145	60
Marketing	878	543	335	3,079	3,122	(43)
Intangible amortization	901	945	(44)	2,714	2,835	(121)
Data processing	842	951	(109)	2,427	3,303	(876)
Operating lease depreciation	627	722	(95)	1,963	2,479	(516)
Telephone	455	484	(29)	1,356	1,410	(54)
Travel and automobile	459	464	(5)	1,025	1,122	(97)
Audits and exams	309	397	(88)	1,233	1,368	(135)
Correspondent banking and wire transfer costs	279	363	(84)	904	1,065	(161)
Supplies	293	320	(27)	880	1,187	(307)
Goodwill impairment charge		576	(576)		45,576	(45,576)
Other	895	1,793	(898)	2,859	3,779	(920)
Total	$ 46,109	$ 50,448	$ (4,339)	$ 140,213	$ 191,657	$ (51,444)

Non-interest expense decreased $4.3 million for the three months ended September 30, 2010 compared to the same period in 2009. The decrease is the result of the Company s cost reduction program which has reduced expenses in almost all categories with the exception of FDIC insurance which has increased $1.2 million which is mostly due to increased deposits. In addition, expenses from repossessed assets and loans increased by $0.5 million for the comparable quarters due to the increased volume of these assets. Marketing expenses also increased slightly by $0.3 million for the comparable quarters as the Company continues to pursue new customers and quality lending opportunities.

Total non-interest expense for the year to date 2010 compared to 2009 decreased $51.4 million mostly due to a non-cash goodwill impairment charges taken in the first and third quarters of 2009 of $45.6 million. In addition, the Company implemented a cost reduction program which has resulted in an additional $5.9 million net decline in expenses.

Income Taxes

The increase in the tax benefit recognized in the current quarter was primarily due to permanent differences related to bank-owned life insurance, tax-exempt income, dividends received deductions and state tax accruals. For the nine months ended September 30, 2010, the decrease in the effective tax rate was primarily due to the above mentioned items as well as the reversal of a portion of the deferred tax asset valuation allowance on ARPS impaired securities.

Discontinued Operations

In the first quarter of 2010, the Company decided to sell its credit card segment, PartnersFirst, and has presented certain activities as discontinued operations. During the first quarter of 2010, the Company transferred certain assets with balances at September 30, 2010 of $0.1 million to held-for-sale and reported a portion of its operations as discontinued. At September 30, 2010, the Company had $46.1 million of outstanding credit card loans which will have continuing cash flows related to the collection of these loans. These credit card loans are included in loans held for investment as of September 30, 2010 and December 31, 2009.

The following table summarizes the operating results of the discontinued operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Affinity card revenue	$ 444	$ 614	$ 1,394	$ 1,307
Non-interest expenses	(1,532)	(2,263)	(5,477)	(7,076)
Loss before income taxes	(1,088)	(1,649)	(4,083)	(5,769)
Income tax benefit	(457)	(691)	(1,715)	(2,377)
Net loss	$ (631)	$ (958)	$ (2,368)	$ (3,392)

Business Segment Results

Our Nevada banking segment, which is comprised of Bank of Nevada and First Independent Bank of Nevada, reported that loans declined $40 million during the third quarter of 2010 and declined $137.2 million since December 31, 2009 to $2.32 billion at September 30, 2010. Deposits increased $234.8 million to $2.89 billion since December 31, 2009. Net loss for the Nevada banks was $5.8 million during the third quarter 2010, compared with a net loss of $23.8 million during the third quarter 2009. For the year to date 2010, the Nevada banks had a net loss of $18.1 million compared to a net loss of $90.9 million for the same period in 2009 which included a $45.0 million goodwill impairment charge.

Our California banking segment, which is comprised of Torrey Pines Bank and Alta Alliance Bank, reported that loans increased $29 million during the second quarter 2010 and $135.3 million since December 31, 2009 to $1.01 billion at September 30, 2010. Deposits increased $140.2 million to $1.23 billion for the third quarter of 2010. Net income for the California banks was $4.0 million during the third quarter 2010 compared with net loss of $0.6 million for the third quarter 2009. For the nine months ended September 30, 2010, the California banking segment had net income of $7.1 compared to a net loss of $1.7 million for the comparable period of 2009.

Our Arizona banking segment includes Alliance Bank of Arizona, which reported loan growth of $54.1 million during the third quarter 2010 to $891.2 million. Total deposits increased to $1.24 billion from $0.98 billion at December 31, 2009. Net income for the Arizona segment was $3.2 million during the third quarter 2010 compared with a net loss of $1.1 million during the third quarter 2009. For the nine months ended September 30, 2010, Arizona had net income of $6.7 million compared to a net loss of $5.7 million for the comparable period of 2009.

Our Asset Management business line, which includes Shine Investments Advisory Services and Premier Trust (until divestiture on September 1, 2010), had assets under management of $341 million at September 30, 2010, compared to $865 million at December 31, 2009, excluding Miller/Russell and Associates, which was divested on December 31, 2009. Net income for the Asset Management segment for the third quarter and nine months ended September 30, 2010 was $0.1 million and $0.3 million, respectively compared with net loss of $0.4 million and $0.3 million during the third quarter and year to date 2009, respectively. The income for 2009 included Miller/Russell and Associates which was divested at the end of 2009. The net income from Premier Trust is not significant.

Balance Sheet Analysis

Total Assets

Total assets increased to $6.18 billion or 7.4% at September 30, 2010 from December 31, 2009. The majority of this increase was in cash and liquid assets of $166.7 million, investment securities of $117.3 million, net loans of $94.3 million and other repossessed assets of $26.7 million. The increased liquidity is mostly due to the completion of a debt offering during the third quarter contributing $72.8 million.

Loans

Total loans increased $93.8 million to $4.17 billion at September 30, 2010. The majority of the increase was in the commercial real estate portfolio of $184.5 million, commercial leases of $64.3, commercial and industrial of $10.3 million and other of $4.3 million which were partially offset by declined loan balances in construction and land of $134.9 million and residential real estate of $34.7 million. The Company is focused on pursuing quality lending opportunities and other loan portfolio strategies.

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The following table shows the amounts of loans outstanding by type of loan at the end of each of the periods indicated.

	September 30, 2010	December 31, 2009
	(in thousands)	
Construction and land development	**$ 488,343**	$ 623,198
Commercial real estate owner occupied	**1,227,704**	1,091,363
Commercial real estate non-owner occupied	**981,374**	933,261
Residential real estate	**533,598**	568,319
Commercial and industrial	**695,375**	685,089
Commercial leases	**181,437**	117,104
Consumer	**71,379**	80,300
Deferred fees and unearned income net	**(5,730)**	(18,995)
	4,173,480	4,079,639
Allowance for credit losses	**(108,170)**	(108,623)
Total loans, net	**$ 4,065,310**	$ 3,971,016

Concentrations of Lending Activities

The Company s lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the States of Nevada, California and Arizona. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company grants commercial, construction, real estate and consumer loans to customers through branch offices located in the Company s primary markets. The Company s business is concentrated in these areas and the loan portfolio includes significant credit exposure to the commercial real estate market of these areas. As of September 30, 2010 and December 31, 2009, commercial real estate related loans which include construction and land accounted for approximately 64% and 65% of total loans, and approximately 3% and 5% of commercial real estate loans, respectively, are secured by undeveloped land. 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% and 54% of total commercial real estate loans were owner occupied at September 30, 2010 and December 31, 2009, respectively. In addition, approximately 3% and 4% of total loans were unsecured as of September 30, 2010 and December 31, 2009, respectively.

Nonperforming Assets

Nonperforming assets include loans past due 90 days or more and still accruing interest, nonaccrual loans, restructured loans, and foreclosed collateral. Loans are generally placed on nonaccrual status when it is determined that recognition of interest is doubtful due to the borrower s financial condition and collection efforts. Restructured loans have modified terms to reduce either principal or interest due to deterioration in the borrower s financial condition. Foreclosed collateral or other repossessed assets result from loans where we have received physical possession of the borrower s assets.

The following table summarizes nonperforming assets:

	September 30, 2010	December 31, 2009
	(in thousands)	
Nonaccrual loans	**$ 130,905**	$ 153,702
Loans past due 90 days or more on accrual status	**5,667**	5,538

Troubled debt restructured loans (accruing)	**101,540**		46,480
Total nonperforming loans	**238,112**		205,719
Foreclosed collateral	**110,096**		83,347
Total nonperforming assets	**$ 348,208**	$	289,066

The following table summarizes the loans for which the accrual of interest has been discontinued, loans past due 90 days or more and still accruing interest, restructured loans, and other impaired loans:

	September 30, 2010	December 31, 2009
	(dollars in thousands)	
Total nonaccrual loans	**$ 130,905**	$ 153,702
Loans past due 90 days or more and still accruing	**5,667**	5,538
Total nonperforming loans	**136,572**	159,240
Restructured loans	**101,540**	46,480
Other impaired loans	**7,642**	27,752
Total impaired loans	**$ 245,754**	$ 233,472
Other repossessed assets	**$ 110,096**	$ 83,347
Nonaccrual loans to gross loans	**3.14%**	3.77%
Loans past due 90 days or more and still accruing to total loans	**0.14**	0.14

For the three and nine months ended September 30, 2010, interest income recognized on nonaccrual loans totaled $0.3 million and $1.7 million. Interest income that would have been recorded under the original terms of the nonaccrual loans during the period was $2.5 million and $5.2 million for the three and nine months ended September 30, 2010 and $0.8 million and $3.5 million for the three and nine months ended September 30, 2009.
The composite of nonaccrual loans were as follows as of the dates indicated:

	At September 30, 2010			At December 31, 2009		
	Nonaccrual Balance	%	Percent of Total Loans	Nonaccrual Balance	%	Percent of Total Loans
	(dollars in thousands)					
Construction and land development	$ 42,440	32.42%	1.02%	$ 64,079	41.69%	1.57%
Residential real estate	34,782	26.57%	0.83%	30,000	19.52%	0.73%
Commercial real estate	46,366	35.42%	1.11%	42,253	27.49%	1.04%
Commercial and industrial	6,723	5.14%	0.16%	17,134	11.15%	0.42%
Consumer	594	0.45%	0.02%	236	0.15%	0.01%
Total nonaccrual loans	$ 130,905	100.00%	3.14%	$ 153,702	100.00%	3.77%

At September 30, 2010 and December 31, 2009, nonaccrual loans totaled $130.9 million and $153.7 million, respectively. Nonaccrual loans at September 30, 2010 consisted of 218 loans with the highest single customer loan balance of $10.1 million. The decrease in total nonaccrual loans is primarily due to charge-offs.

Impaired Loans

A loan is identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. Most impaired loans are classified as nonaccrual. However, there are some loans that are termed impaired due to doubt regarding collectability according to contractual terms, but are both fully secured by collateral and are current in their interest and principal payments. These impaired loans are not classified as nonaccrual. A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. Impaired loans are measured in accordance with FASB ASC 310, *Receivables* (ASC 310), utilizing the fair value of the collateral for collateral dependent loans or an analysis of the discounted cash flows.

At September 30, 2010 and December 31, 2009 the aggregate total amount of loans classified as impaired was $245.8 million and $233.5 million, respectively. The total specific allowance for credit losses related to these loans was $9.9 million and $13.4 million as of September 30, 2010 and December 31, 2009, respectively. The increase in impaired loans was mostly attributed to increased impaired commercial real estate loans, residential real estate and consumer/credit card loans which were $124.4 million, $44.0 million and $1.0 million, respectively at September 30, 2010 compared to $85.4 million, $39.6 million and $0.2 million at December 31, 2009, respectively. This increase was partially offset by decreased impaired construction and land and commercial and industrial loans of $25.4 million and $6.3 million, respectively to $63.8 million and $12.5 million respectively at September 30, 2010 from December 31, 2009.

At September 30, 2010 and December 31, 2009, loans classified as restructured loans as defined by ASC 310 totaled $101.5 million and $46.5 million, respectively. At September 30, 2010, restructured loans consisted of 66.6% commercial real estate, 20.2% construction and land, 7.8% residential real estate, 4.9% commercial and industrial and 0.4% consumer.

The following table includes the breakdown of total impaired loans and the related specific reserves:

	At September 30, 2010					
	Impaired Balance	Percent	Percent of Total Loans	Reserve Balance	Percent	Percent of Total Allowance
Construction and land development	$ 63,839	25.98%	1.53%	$ 2,765	27.92%	2.56%
Residential real estate	43,987	17.90%	1.05%	2,267	22.89%	2.10%
Commercial real estate	124,404	50.62%	2.98%	3,305	33.37%	3.06%
Commercial and industrial	12,509	5.09%	0.30%	1,440	14.54%	1.33%
Consumer	1,015	0.41%	0.02%	127	1.28%	0.12%
Total impaired loans	$ 245,754	100.00%	5.88%	$ 9,904	100.00%	9.17%

Allowance for credit losses

Credit risk is inherent in the business of extending loans and leases to borrowers. Like other financial institutions, the Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when Management believes that 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 other factors. The Company formally re-evaluates and establishes the appropriate level of the allowance for credit losses on a quarterly basis.

Our allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in the level of nonperforming loans and other factors. Qualitative factors include the economic condition of our operating markets and the state of certain industries. Specific changes in the risk factors are based on perceived risk of similar groups of loans classified by collateral type, purpose and terms. An internal one-year and three-year loss history are 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 have declined significantly in recent periods. 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 banking regulatory agencies, as an integral part of their examination processes, periodically review our subsidiary banks 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 examinations. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

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

The Company uses an appraised value method to determine the need for a reserve on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. Due to the rapidly changing economic and market conditions of the regions within which we operate, the Company obtains independent collateral valuation analysis on a regular basis for each loan, typically every six months.

The general allowance covers all non-impaired loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above. The change in the allowance from one reporting period to the next may not directly correlate to the rate of change of the nonperforming loans for the following