WESTERN ALLIANCE BANCORPORATION
Form 10-Q
October 31, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the Quarterly Period Ended September 30, 2013**

**or**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from _________ to _________**

**Commission File Number: 001-32550**

# WESTERN ALLIANCE BANCORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Nevada** | **88-0365922** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification No.)** |
| **One E. Washington Street, Phoenix, AZ** | **85004** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(602) 389-3500**

**(Registrant s telephone number, including area code)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

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

Common stock issued and outstanding: 87,198,769 shares as of October 25, 2013.

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**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | September 30, 2013 (unaudited) | December 31, 2012 |
|---|---|---|
| | (in thousands, except per share amounts) | |
| **Assets:** | | |
| Cash and due from banks | $ 142,625 | $ 141,789 |
| Securities purchased under agreement to resell | 128,102 | |
| Interest-bearing deposits in other financial institutions | 238,306 | 62,836 |
| Cash and cash equivalents | 509,033 | 204,625 |
| Money market investments | 4,176 | 664 |
| Investment securities measured at fair value | 3,621 | 5,061 |
| Investment securities available-for-sale, at fair value; amortized cost of $1,095,942 at September 30, 2013 and $926,050 at December 31, 2012 | 1,073,886 | 939,590 |
| Investment securities held-to-maturity, at amortized cost; fair value of $287,543 at September 30, 2013 and $292,819 at December 31, 2012 | 289,108 | 291,333 |
| Investments in restricted stock, at cost | 30,186 | 30,936 |
| Loans held for sale | 25,413 | 31,124 |
| Loans held for investment, net of deferred fees | 6,490,870 | 5,678,194 |
| Less: allowance for credit losses | (97,851) | (95,427) |
| Total loans held for investment | 6,393,019 | 5,582,767 |
| Premises and equipment, net | 105,925 | 107,910 |
| Other assets acquired through foreclosure, net | 76,475 | 77,247 |
| Bank owned life insurance | 139,658 | 138,336 |
| Goodwill | 23,224 | 23,224 |
| Other intangible assets, net | 4,747 | 6,539 |
| Deferred tax assets, net | 79,570 | 51,757 |
| Prepaid expenses | 5,236 | 12,029 |
| Other assets | 158,152 | 119,495 |
| Total assets | $ 8,921,429 | $ 7,622,637 |
| **Liabilities:** | | |
| Deposits: | | |
| Non-interest-bearing demand | $ 1,972,474 | $ 1,933,169 |
| Interest-bearing | 5,302,837 | 4,522,008 |
| Total deposits | 7,275,311 | 6,455,177 |
| Customer repurchase agreements | 55,524 | 79,034 |
| Securities sold short | 126,664 | |
| Other borrowings | 394,105 | 193,717 |
| Junior subordinated debt, at fair value | 39,447 | 36,218 |
| Other liabilities | 204,090 | 98,875 |
| Total liabilities | 8,095,141 | 6,863,021 |

| | | |
|---|---|---|
| **Commitments and contingencies (Note 7)** | | |
| **Stockholders equity:** | | |
| Preferred stock par value $0.0001 and liquidation value per share of $1,000; 20,000,000 authorized; 141,000 shares issued and outstanding at September 30, 2013 and December 31, 2012 | **141,000** | 141,000 |
| Common stock par value $0.0001; 200,000,000 authorized; 87,098,782 shares issued and outstanding at September 30, 2013 and 86,465,050 at December 31, 2012 | **9** | 9 |
| Additional paid in capital | **792,140** | 784,852 |
| Accumulated deficit | **(92,357)** | (174,471) |
| Accumulated other comprehensive (loss) income | **(14,504)** | 8,226 |
| Total stockholders equity | **826,288** | 759,616 |
| Total liabilities and stockholders equity | **$ 8,921,429** | $ 7,622,637 |

See accompanying Notes to unaudited Consolidated Financial Statements.

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**WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES**

**CONSOLIDATED INCOME STATEMENTS (unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | (in thousands, except per share amounts) | | | |
| **Interest income:** | | | | |
| Loans, including fees | **$ 83,994** | $ 69,580 | **$ 239,812** | $ 205,682 |
| Investment securities taxable | **3,977** | 5,295 | **11,523** | 17,522 |
| Investment securities tax exempt | **3,356** | 2,723 | **9,712** | 7,491 |
| Dividends taxable | **286** | 305 | **909** | 899 |
| Dividends tax exempt | **667** | 711 | **2,122** | 2,096 |
| Other | **400** | 55 | **995** | 262 |
| Total interest income | **92,680** | 78,669 | **265,073** | 233,952 |
| **Interest expense:** | | | | |
| Deposits | **4,232** | 3,974 | **11,893** | 12,904 |
| Other borrowings | **3,409** | 2,225 | **8,808** | 6,624 |
| Junior subordinated debt | **460** | 487 | **1,381** | 1,458 |
| Customer repurchase agreements | **20** | 37 | **77** | 158 |
| Total interest expense | **8,121** | 6,723 | **22,159** | 21,144 |
| **Net interest income** | **84,559** | 71,946 | **242,914** | 212,808 |
| Provision for credit losses | | 8,932 | **8,920** | 35,343 |
| Net interest income after provision for credit losses | **84,559** | 63,014 | **233,994** | 177,465 |
| **Non-interest income:** | | | | |
| Service charges and fees | **2,425** | 2,412 | **7,408** | 7,014 |
| Income from bank owned life insurance | **1,832** | 1,116 | **3,904** | 3,359 |
| Amortization of affordable housing investments | **(1,504)** | (651) | **(3,304)** | (710) |
| (Loss) gain on sales of securities, net | **(1,679)** | 1,031 | **(1,537)** | 2,502 |
| Mark to market (losses) gains, net | **(7)** | 470 | **(3,865)** | 701 |
| Bargain purchase gain from acquisition | | | **10,044** | |
| Other income | **1,558** | 2,604 | **4,736** | 7,397 |
| Total noninterest income | **2,625** | 6,982 | **17,386** | 20,263 |
| **Non-interest expense:** | | | | |
| Salaries and employee benefits | **28,689** | 25,500 | **83,363** | 78,159 |
| Occupancy | **4,901** | 4,655 | **14,500** | 14,046 |
| Legal, professional and directors fees | **3,006** | 2,291 | **8,017** | 6,380 |
| Data processing | **1,872** | 1,390 | **5,912** | 3,678 |
| Insurance | **1,884** | 2,121 | **6,350** | 6,323 |
| Marketing | **1,599** | 1,231 | **4,970** | 4,061 |
| Loan and repossessed asset expenses | **1,136** | 1,236 | **3,453** | 4,573 |
| Customer service | **677** | 653 | **2,037** | 1,926 |
| Net loss (gain) on sales / valuations of repossesed assets and bank premises, net | **371** | 126 | **(234)** | 3,678 |
| Intangible amortization | **597** | 880 | **1,791** | 2,660 |
| Goodwill and intangible impairment | | 3,435 | | 3,435 |

| | | | | |
|---|---|---|---|---|
| Merger / restructure expenses | **1,018** | 113 | **3,833** | 113 |
| Other expense | **3,925** | 3,912 | **11,143** | 10,839 |
| Total non-interest expense | **49,675** | 47,543 | **145,135** | 139,871 |
| Income from continuing operations before provision for income taxes | **37,509** | 22,453 | **106,245** | 57,857 |
| Income tax expense | **9,288** | 6,752 | **22,913** | 16,452 |
| **Income from continuing operations** | **28,221** | 15,701 | **83,332** | 41,405 |
| Loss from discontinued operations, net of tax benefit | **(29)** | (243) | **(160)** | (686) |
| **Net income** | **28,192** | 15,458 | **83,172** | 40,719 |
| Dividends on preferred stock | **352** | 352 | **1,058** | 3,440 |
| **Net income available to common shareholders** | **$ 27,840** | $ 15,106 | **$ 82,114** | $ 37,279 |

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS (unaudited)

(continued)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | *(in thousands, except per share amounts)* | | | |
| **Earnings per share from continuing operations:** | | | | |
| Basic | **$ 0.32** | $ 0.19 | **$ 0.96** | $ 0.47 |
| Diluted | **$ 0.32** | $ 0.19 | **$ 0.95** | $ 0.46 |
| **Loss per share from discontinued operations:** | | | | |
| Basic | **$** | $ (0.00) | **$** | $ (0.01) |
| Diluted | **$** | $ (0.00) | **$** | $ (0.01) |
| **Earnings per share applicable to common shareholders:** | | | | |
| Basic | **$ 0.32** | $ 0.18 | **$ 0.96** | $ 0.46 |
| Diluted | **$ 0.32** | $ 0.18 | **$ 0.95** | $ 0.45 |
| **Weighted average number of common shares outstanding:** | | | | |
| Basic | **85,799** | 81,758 | **85,596** | 81,570 |
| Diluted | **86,769** | 82,294 | **86,428** | 82,159 |
| **Dividends declared per common share** | **$** | $ | **$** | $ |

See accompanying Notes to unaudited Consolidated Financial Statements.

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**WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | (in thousands) | | | |
| Net income | **$ 28,192** | $ 15,458 | **$ 83,172** | $ 40,719 |
| Other comprehensive (loss) income, net: | | | | |
| Unrealized (loss) gain on securities available-for-sale (AFS), net (tax effect of $2,887, $(4,607), $14,327, $(10,637) for each respective period presented) | **(4,770)** | 8,478 | **(23,670)** | 18,803 |
| Unrealized (loss) gain on cash flow hedge, net (tax effect of $18, $(5), $10, $(10) for each respective period presented) | **(30)** | 9 | **(17)** | 17 |
| Realized gain on cash flow hedge, net (tax effect of $294 for the respective period presented) | | | | (519) |
| Realized loss (gain) on sale of securities AFS included in income, net (tax effect of $(633), $363, $(580), $904 for each respective period presented) | **1,046** | (668) | **957** | (1,598) |
| Net other comprehensive (loss) income | **(3,754)** | 7,819 | **(22,730)** | 16,703 |
| Comprehensive income | **$ 24,438** | $ 23,277 | **$ 60,442** | $ 57,422 |

See accompanying Notes to unaudited Consolidated Financial Statements.

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**WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (unaudited)**

| | *Preferred Stock* | | *Common Stock* | | *Additional Paid In* | *Accumulated Other Comprehensive (Loss)* | *Accumulated* | *Total Stockholders* |
|---|---|---|---|---|---|---|---|---|
| | *Shares* | *Amount* | *Shares* | *Amount* | *Capital* | *Income* | *Deficit* | *Equity* |
| | | | | | *(in thousands)* | | | |
| Balance, December 31, 2012: | 141 | $ 141,000 | 86,465 | $ 9 | $ 784,852 | $ 8,226 | $ (174,471) | $ 759,616 |
| Net income | | | | | | | 83,172 | 83,172 |
| Exercise of stock options | | | 332 | | 2,924 | | | 2,924 |
| Stock-based compensation | | | 111 | | 1,608 | | | 1,608 |
| Restricted stock grants, net | | | 191 | | 2,756 | | | 2,756 |
| Dividends on preferred stock | | | | | | | (1,058) | (1,058) |
| Other comprehensive loss, net | | | | | | (22,730) | | (22,730) |
| **Balance, September 30, 2013** | **141** | **$ 141,000** | **87,099** | **$ 9** | **$ 792,140** | **$ (14,504)** | **$ (92,357)** | **$ 826,288** |

See accompanying Notes to unaudited Consolidated Financial Statements.

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**WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

| | Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Cash flows from operating activities:** | | |
| **Net income** | **$ 83,172** | $ 40,719 |
| **Adjustments to reconcile net income to cash provided by operating activities:** | | |
| Provision for credit losses | **8,920** | 35,343 |
| Depreciation and amortization | **6,655** | 7,319 |
| Stock-based compensation | **4,364** | 4,725 |
| Deferred income taxes and income taxes receivable | **1,761** | 16,125 |
| Net amortization of discounts and premiums for investment securities | **7,658** | 8,027 |
| Goodwill and intangible impairment | | 3,435 |
| Accretion and amortization of fair market value adjustments due to acquisitions | **(10,285)** | |
| (Gains) / Losses on: | | |
| Sales of securities, AFS | **1,537** | (2,502) |
| Acquisition of Centennial Bank | **(10,044)** | |
| Other assets acquired through foreclosure, net | **(2,388)** | (317) |
| Valuation adjustments of other repossessed assets, net | **2,279** | 4,060 |
| Sale of premises and equipment, net | **(125)** | (65) |
| Sale of minority interest in Miller / Russell & Associates, Inc. | | (776) |
| Changes in, net of acquisitions: | | |
| Other assets/liabilities, net | **26,437** | 9,554 |
| Fair value of assets and liabilities measured at fair value | **3,865** | (701) |
| **Net cash provided by operating activities** | **123,806** | 124,946 |
| **Cash flows from investing activities:** | | |
| Investment securities measured at fair value Principal pay downs and maturities | **1,358** | 954 |
| Investment securities available-for-sale | | |
| Proceeds from sales | **63,153** | 143,553 |
| Principal pay downs and maturities | **161,394** | 304,428 |
| Purchases | **(373,485)** | (277,619) |
| Investment securities held-to-maturity Principal pay downs and maturities | | 735 |
| Purchase of investment tax credits | **(28,172)** | (17,901) |
| (Purchase) / sale of money market investments, net | **(3,512)** | 1,577 |
| Liquidation of restricted stock | **750** | 676 |
| Loan fundings and principal collections, net | **(388,259)** | (612,929) |
| Proceeds from loan sales | | 3,435 |
| Sale and purchase of premises and equipment, net | **(2,472)** | (5,951) |
| Proceeds from sale of other real estate owned and repossessed assets, net | **20,513** | 26,650 |
| Cash and cash equivalents acquired in acquisition, net | **21,204** | |
| **Net cash used in investing activities** | **(527,528)** | (432,392) |

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**WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

**(continued)**

| | Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Cash flows from financing activities:** | | |
| Net increase in deposits | **481,989** | 503,464 |
| Net decrease in customer repurchases | **(23,510)** | |
| Proceeds from securities sold short | **126,664** | |
| Net increase (decrease) in borrowings | **121,121** | (42,276) |
| Proceeds from exercise of common stock options | **2,924** | 2,620 |
| Cash dividends paid on preferred stock | **(1,058)** | (3,440) |
| **Net cash provided by financing activities** | **708,130** | 460,368 |
| **Net increase in cash and cash equivalents** | **304,408** | 152,922 |
| **Cash and cash equivalents at beginning of year** | **204,625** | 154,995 |
| **Cash and cash equivalents at end of period** | **$ 509,033** | $ 307,917 |
| **Supplemental disclosure:** | | |
| Cash paid during the period for: | | |
| Interest | **$ 22,648** | $ 22,263 |
| Income taxes | **20,245** | 1,290 |
| Non-cash investing and financing activity: | | |
| Transfers to other assets acquired through foreclosure, net | **14,010** | 19,522 |
| Unfunded commitments to purchase investment tax credits | **21,828** | 34,599 |
| Assets acquired in Centennial merger transaction | **410,827** | |
| Liabilities assumed in Centennial merger transaction | **421,987** | |
| Change in unrealized (loss) gain on AFS securities, net of tax | **(23,670)** | 18,803 |
| Change in unrealized gain on cash flow hedge, net of tax | **(17)** | 17 |

See accompanying Notes to unaudited Consolidated Financial Statements.

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of operations**

Western Alliance Bancorporation ( WAL or the Company ), incorporated under the laws of the state of Nevada, is a bank holding company providing full service banking and related services to locally owned businesses, professional firms, real estate developers and investors, local non-profit organizations, high net worth individuals and other consumers through its three wholly owned subsidiary banks: Bank of Nevada ( BON ), operating in Southern Nevada; Western Alliance Bank ( WAB ), operating in Arizona and Northern Nevada; and Torrey Pines Bank ( TPB ), operating in California. In addition, there are two non-bank subsidiaries, Western Alliance Equipment Finance ( WAEF ), which offers equipment finance services nationwide, and Las Vegas Sunset Properties ( LVSP ), which holds certain non-performing assets. These entities are collectively referred to herein as the Company.

**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 intercompany balances and transactions have been eliminated.

**Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; fair value determinations related to acquisitions, including loans acquired with deteriorated credit quality; fair value of other assets acquired through foreclosure; determination of the valuation allowance related to deferred tax assets; impairment of goodwill and other intangible assets and other than temporary impairment of securities. Although the Company s management ( Management ) believes these estimates to be reasonably accurate, actual amounts may differ. In the opinion of Management, all adjustments considered necessary have been reflected in the Consolidated Financial Statements.

**Principles of consolidation**

WAL has eleven wholly owned subsidiaries: BON, WAB, TPB, which are all banking subsidiaries; WAEF, which provides equipment finance services; LVSP, which holds certain non-performing assets; and six unconsolidated subsidiaries used as business trusts in connection with the issuance of trust-preferred securities. In addition, until October 31, 2012, WAL maintained an 80% interest in Shine Investment Advisory Services Inc. ( Shine ), a registered investment advisor. WAL divested its 80% interest in Shine as of October 31, 2012. On April 30, 2013, the Company completed its acquisition of Centennial Bank ( Centennial ) and merged Centennial into WAB effective as of the acquisition date. The assets and liabilities of Centennial are included in the Company s Consolidated Financial Statements as of April 30, 2013. See Note 2, Acquisitions and Dispositions for further discussion.

BON has three wholly owned subsidiaries: BW Real Estate, Inc., which operates as a real estate investment trust and holds certain of BON s real estate loans and related securities; BON Investments, Inc., which holds certain investment securities, municipal loans and leases; and BW Nevada Holdings, LLC, which owns the Company s 2700 West Sahara Avenue, Las Vegas, Nevada office building.

WAB has one wholly owned subsidiary, WAB Investments, Inc., which holds certain investment securities, municipal loans and leases, and TPB has one wholly owned subsidiary, TPB Investments, Inc., which holds certain investment securities and leases.

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

**Reclassifications**

Certain amounts in the Consolidated Financial Statements as of December 31, 2012 and for the three and nine months ended September 30, 2013 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders equity as previously reported.

**Interim financial information**

The accompanying unaudited Consolidated Financial Statements as of September 30, 2013 and 2012 have been prepared in condensed format and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to the Company s Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

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

**Business combinations**

Acquisitions are accounted for in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 805, *Business Combinations* ( ASC 805 ), which requires that all identified assets acquired and liabilities assumed are recorded at their estimated fair value as of the acquisition date. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed, is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

Fair values are determined in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ). In many cases, the determination of these fair values required Management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are subjective in nature and subject to change. Determining the fair value of the assets and liabilities, especially the loan portfolio and other real estate owned ( OREO ), is a complex process involving significant judgment regarding the methods and assumptions used to calculate estimated fair values. The fair value of loans acquired is estimated based on discounted cash flows, which take into consideration current portfolio interest rates and repricing characteristics as well as assumptions related to prepayment speeds and credit losses. Loans acquired with credit deterioration are considered to be impaired and are accounted for in accordance with GAAP (see the policy note, Loans Acquired with Deteriorated Credit Quality, for further discussion).

**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 HTM are those debt securities that the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions. These securities are carried at amortized cost. The sale of a security within three months of its maturity date or after the majority of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities classified as AFS or trading are reported 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. Changes in the fair values of trading securities are reported in non-interest income. Securities classified as AFS are securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company s assets and liabilities, liquidity needs, decline in credit quality, and regulatory capital considerations.

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

In estimating whether there are any other than temporary impairment ( OTTI ) 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 and whether it is not more likely than not the Company would be required to sell the security prior to recovery.

Declines in the fair value of individual debt securities classified as AFS that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the 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 losses are recorded if the present value of cash flows is less than amortized cost.

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

**Allowance for credit losses**

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

The Company s allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include the Company s 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 the Company s operating markets and the state of certain industries. Specific changes in the risk factors are based on actual loss experience, as well as perceived risk of similar groups of loans classified by collateral type and loan grade. An internal one-year and five-year loss history are also incorporated into the allowance calculation model. Due to the credit concentration of the Company s loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona and California. While Management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, the Federal Deposit Insurance Corporation ( FDIC ) and state bank regulatory agencies, as an integral part of their examination processes, periodically review the Company s subsidiary banks allowances for credit losses, and may require the subsidiary banks to make additions to the allowance based on their judgment about information available to them at the time of their examinations. Management regularly reviews the assumptions and formulas 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 non-accrual loans, loans 90 days past due and still accruing, and other criticized and classified loans. 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 original contractual interest rate. The amount to which the present value falls short of the current loan obligation is recorded as a reserve or charge-off.

The Company uses an appraised value method to determine the need for a reserve or charge-off on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. The Company obtains an independent collateral valuation analysis for each impaired loan, at least annually.

**Loans acquired with deteriorated credit quality**

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

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

**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 estimated selling costs. Subsequent 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 to ensure the recorded amount is supported by its current fair value and valuation allowances.

**Derivative financial instruments**

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

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

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

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

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

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

**Commitments and letters of credit**

In the ordinary course of business, the Company enters into commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the Consolidated Financial Statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for credit losses.

**Income taxes**

The Company and its subsidiaries, other than BW Real Estate, Inc., file a consolidated federal tax return. Due to tax regulations, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent temporary differences. Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and tax credit 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.

**Fair values of financial instruments**

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

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

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

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

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

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

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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 limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at September 30, 2013 or December 31, 2012. The estimated fair value amounts for September 30, 2013 and December 31, 2012 have been measured as of period-end, and have not been reevaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end.

The information in Note 11, Fair Value Accounting, should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company s assets and liabilities.

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

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

*Cash and cash equivalents*

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

*Money market and certificates of deposit investments*

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

*Investment securities*

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

The fair 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 ) for which quoted prices are not available. Quoted prices for similar assets are also not available for these investment securities. In order to determine the fair value of these securities, the Company has estimated the future cash flows and discount rate using 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. 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 its FHLB stock to determine if any impairment exists. The fair values have been categorized as Level 2 in the fair value hierarchy.

*Loans*

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

*Derivative financial instruments*

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

*Deposits*

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

*Federal Home Loan Bank advances and other borrowings*

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

*Junior subordinated debt*

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

*Off-balance sheet instruments*

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

**Recent accounting pronouncements**

In January 2013, the FASB issued guidance within Accounting Standards Update ( ASU ) 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments in ASU 2013-01 to Topic 210, *Balance Sheet,* clarify that the scope of ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, would apply to derivatives, including bifurcated embedded derivatives, repurchase and reverse agreements, and securities borrowing and lending transactions that are either offset or subject to a master netting arrangement. The amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance did not have a material impact on the Company s Consolidated Income Statement, Consolidated Balance Sheet, or Consolidated Cash Flows.

In February 2013, the FASB issued guidance within ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in ASU 2013-02 to Topic 220, *Comprehensive Income,* update, supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 and 2011-12. The amendments require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this guidance did not have a material impact on the Company s Consolidated Income Statement, Consolidated Balance Sheet, or Consolidated Cash Flows and only impacted the presentation of other comprehensive income in the Consolidated Financial Statements.

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

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

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**2. ACQUISITIONS AND DISPOSITIONS**

*Acquisitions*

On April 30, 2013, the Company completed its acquisition of Centennial Bank ( Centennial ). Under the terms of the merger, the Company paid $57.5 million in cash for all equity interests in Centennial. The Company merged Centennial into WAB effective April 30, 2013, reporting combined assets for the resulting bank of $3.16 billion and deposits of $2.76 billion. The merger was undertaken, in part, because the purchase price of Centennial was at a discount to its tangible book value and was accretive to capital at close of the transaction.

Centennial s results of operations are included in the Company s results beginning April 30, 2013. Merger / restructure expenses related to the Centennial acquisition of $0.2 million and $2.7 million for the three and nine months ended September 30, 2013, respectively, have been included in non-interest expense, of which, $1.0 million are acquisition related costs as defined by ASC 805. The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805. Assets purchased and liabilities assumed were all recorded at their respective acquisition date fair values. A bargain purchase gain of $10.0 million resulted from the acquisition and is included as a component of non-interest income in the Consolidated Income Statement. The amount of gain is equal to the amount by which the estimated fair value of net assets purchased exceeded the consideration paid. Pursuant to the terms of the transaction, $12.7 million in loan receivables were not acquired by the Company.

The recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

| | (in thousands) |
|---|---|
| Assets: | |
| Cash and cash equivalents [1] | $ 70,349 |
| Federal funds sold [1] | 8,355 |
| Investment securities - avaialable-for-sale | 26,014 |
| Loans | 351,474 |
| Deferred tax assets, net | 21,666 |
| Premises and equipment | 44 |
| Other assets acquired through foreclosure, net | 5,622 |
| Other assets | 6,007 |
| Total assets acquired | 489,531 |
| Liabilities: | |
| Deposits | 338,811 |
| FHLB advances | 79,943 |
| Other liabilities | 3,233 |
| Total liabilities assumed | $ 421,987 |
| Net assets acquired | 67,544 |
| Consideration paid [1] | 57,500 |
| Bargain purchase gain from acquisition | $ 10,044 |

(1) Cash acquired, net of cash consideration paid of $57.5 million represents the net cash and cash equivalents acquired of $21.2 million as part of the acquisition.

The fair values of assets acquired and liabilities assumed are subject to adjustment during the first twelve months after the acquisition date if additional information becomes available to indicate a more accurate or appropriate value for an asset or liability. Accordingly, the estimated fair value of net assets are preliminary and subject to measurement period adjustments. Assets that are particularly susceptible to adjustment include certain loans and other assets acquired through foreclosure. However, these adjustments are not expected to be significant. The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to acquired loans which have shown evidence of credit deterioration since origination.

On October 17, 2012, the Company acquired Western Liberty Bancorp ( Western Liberty ), which included two wholly owned subsidiaries, Service 1$^{st}$ Bank of Nevada and LVSP. Service 1$^{st}$ Bank of Nevada was merged into the Company s wholly owned subsidiary, BON, effective October 19, 2012. LVSP remains a wholly owned subsidiary of WAL.

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The following table presents pro forma information as if the Centennial and Western Liberty acquisitions had occurred as of January 1, 2012. The pro forma information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed dates.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | (in thousands, except per share amounts) | | | |
| Net Interest income (1) | **$ 81,093** | $ 85,151 | **$ 238,430** | $ 254,535 |
| Non Interest income (2) | **2,625** | 8,138 | **7,468** | 22,147 |
| Net income (3) | **25,820** | 13,549 | **69,435** | 36,012 |
| Earnings per share basic | **$ 0.30** | $ 0.17 | **$ 0.81** | $ 0.44 |
| Earnings per share diluted | **$ 0.30** | $ 0.16 | **$ 0.80** | $ 0.44 |

(1) Excludes accretion (or amortization) of fair market value adjustments for loans, deposits and other borrowings advances of $3,466 for the three months ended September 30, 2013 and $10,285 for the nine months ended September 30, 2013.

(2) Excludes bargain purchase gain of $10,044 related to the Centennial acquisition.

(3) Excludes merger / restructure related costs incurred by the Company($181 for the three months ended September 30, 2013 and $2,660 for the nine months ended September 30, 2013) and Centennial ($0 for the three months ended September 30, 2013 and $1,000 for the nine months ended September 30, 2013) and footnotes 1 and 2 noted above as well as the related tax effects.

*Discontinued Operations*

The Company has discontinued its affinity credit card business, PartnersFirst, and has presented these activities as discontinued operations. At September 30, 2013 and December 31, 2012, the outstanding credit card loans held for sale were $25.4 million and $31.1 million, respectively. As discussed in Note 14, Subsequent Events, certain receivables in this portfolio were sold on October 1, 2013.

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, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | (in thousands) | | | |
| Operating revenue | **$ 1,105** | $ 315 | **$ 3,376** | $ 947 |
| Non-interest expenses | **(1,155)** | (734) | **(3,653)** | (2,130) |
| Loss before income taxes | **(50)** | (419) | **(277)** | (1,183) |
| Income tax benefit | **(21)** | (176) | **(117)** | (497) |
| Net loss | **$ (29)** | $ (243) | **$ (160)** | $ (686) |

**3. INVESTMENT SECURITIES**

Carrying amounts and fair values of investment securities at September 30, 2013 and December 31, 2012 are summarized as follows:

| | September 30, 2013 | | | |
|---|---|---|---|---|
| | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized (Losses)** | **Fair Value** |
| | (in thousands) | | | |

| | | | | |
|---|---|---|---|---|
| ***Held-to-maturity*** | | | | |
| Collateralized debt obligations | **$ 50** | **$ 578** | **$** | **$ 628** |
| Corporate bonds | **97,778** | **647** | **(4,586)** | **93,839** |
| Municipal obligations | **189,680** | **3,531** | **(1,735)** | **191,476** |
| Other | **1,600** | | | **1,600** |
| | **$ 289,108** | **$ 4,756** | **$ (6,321)** | **$ 287,543** |

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| | Amortized Cost | OTTI Recognized in Other Comprehensive Income | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| ***Available-for-sale*** | | | | | |
| U.S. government sponsored agency securities | **$ 28,694** | **$** | **$** | **$ (1,317)** | **$ 27,377** |
| Municipal obligations | **110,081** | | **302** | **(4,838)** | **105,545** |
| Adjustable-rate preferred stock | **66,093** | | **864** | **(5,568)** | **61,389** |
| Mutual funds | **32,422** | | **123** | **(222)** | **32,323** |
| Direct U.S. obligations and GSE residential mortgage-backed securities | **769,983** | | **5,748** | **(7,253)** | **768,478** |
| Private label residential mortgage-backed securities | **27,683** | | **8** | **(1,544)** | **26,147** |
| Trust preferred securities | **32,000** | | | **(8,166)** | **23,834** |
| CRA investments | **23,703** | | | **(403)** | **23,300** |
| Collateralized mortgage-backed securities | **5,283** | | **210** | | **5,493** |
| | **$ 1,095,942** | **$** | **$ 7,255** | **$ (29,311)** | **$ 1,073,886** |
| ***Measured at fair value*** | | | | | |
| Direct U.S. obligations and GSE residential mortgage-backed securities | | | | | **$ 3,621** |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| | | (in thousands) | | |
| ***Held-to-maturity*** | | | | |
| Collateralized debt obligations | $ 50 | $ 1,401 | $ | $ 1,451 |
| Corporate bonds | 97,781 | 984 | (6,684) | 92,081 |
| Municipal obligations | 191,902 | 5,887 | (102) | 197,687 |
| CRA investments | 1,600 | | | 1,600 |
| | $ 291,333 | $ 8,272 | $ (6,786) | $ 292,819 |

| | Amortized Cost | OTTI Recognized in Other Comprehensive Income | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| ***Available-for-sale*** | | | | | |
| Municipal obligations | $ 71,777 | $ | $ 1,578 | $ (184) | $ 73,171 |
| Adjustable-rate preferred stock | 72,717 | | 3,591 | (753) | 75,555 |
| Mutual funds | 36,314 | | 1,647 | | 37,961 |
| Direct U.S. obligations and GSE residential mortgage-backed securities | 648,641 | | 14,573 | (10) | 663,204 |
| Private label residential mortgage-backed securities | 35,868 | (1,811) | 2,067 | (517) | 35,607 |
| Private label commercial mortgage-backed securities | 5,365 | | 376 | | 5,741 |
| Trust preferred securities | 32,000 | | | (7,865) | 24,135 |
| CRA investments | 23,368 | | 848 | | 24,216 |
| | $ 926,050 | $ (1,811) | $ 24,680 | $ (9,329) | $ 939,590 |

| | | |
|---|---|---|
| ***Measured at fair value*** | | |
| Direct U.S. obligations and GSE residential mortgage-backed securities (3) | $ | 5,061 |

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During the second quarter 2013, a private label mortgage-backed security with a $1.8 million balance of OTTI recognized in other comprehensive income was sold. Accordingly, there is no OTTI balance recognized in other comprehensive income as of September 30, 2013. For additional information on the fair value changes of the securities measured at fair value, see the trading securities table in Note 11, Fair Value Accounting.

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

For debt securities and adjustable-rate preferred stock ( ARPS ) that are treated as debt securities for the purpose of OTTI analysis, the Company also considers the cause of the price decline (general level of interest rates and industry- and issuer-specific factors), the issuer s financial condition, near-term prospects and current ability to make future payments in a timely manner, the issuer s ability to service debt, and any change in agencies ratings at evaluation date from acquisition date and any likely imminent action. For ARPS with a fair value below cost that is not attributable to the credit deterioration of the issuer, such as a decline in cash flows from the security or a downgrade in the security s rating below investment grade, the Company does not recognize an OTTI charge where determines 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, 2013 and December 31, 2012 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 determined there were no securities impairment charges needed for the three and nine months ended September 30, 2013 and 2012.

The Company does not consider any other securities to be other-than-temporarily impaired as of September 30, 2013 and December 31, 2012. No assurance can be made that additional OTTI will not occur in future periods.

Information pertaining to securities with gross unrealized losses at September 30, 2013 and December 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than Twelve Months | | More Than Twelve Months | | Total | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| | (in thousands) | | | | | |
| ***Held-to-maturity*** | | | | | | |
| Corporate bonds | $ | $ | $ 4,586 | $ 80,414 | $ 4,586 | $ 80,414 |
| Municipal obligations | 1,735 | 41,505 | | | 1,735 | 41,505 |
| | $ 1,735 | $ 41,505 | $ 4,586 | $ 80,414 | $ 6,321 | $ 121,919 |
| ***Available-for-sale*** | | | | | | |
| U.S. Government-sponsored agency securities | $ 1,317 | $ 17,377 | $ | $ | $ 1,317 | $ 17,377 |
| Adjustable-rate preferred stock | 5,568 | 43,599 | | | 5,568 | 43,599 |
| Mutual funds | 222 | 25,862 | | | 222 | 25,862 |
| Direct U.S obligations and GSE residential mortgage-backed securities | 7,242 | 358,092 | 11 | 1,528 | 7,253 | 359,620 |
| Municipal obligations | 4,838 | 79,308 | | | 4,838 | 79,308 |
| Private label residential mortgage-backed securities | 1,500 | 20,322 | 44 | 3,460 | 1,544 | 23,782 |
| Trust preferred securities | | | 8,166 | 23,834 | 8,166 | 23,834 |
| Other | 403 | 23,299 | | | 403 | 23,299 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | **$ 21,090** | **$ 567,859** | **$ 8,221** | **$ 28,822** | **$ 29,311** | **$ 596,681** |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than Twelve Months | | More Than Twelve Months | | Total | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| | (in thousands) | | | | | |
| ***Held-to-maturity*** | | | | | | |
| Corporate bonds | $ 206 | $ 14,794 | $ 6,478 | $ 63,522 | $ 6,684 | $ 78,316 |
| Municipal obligations | 102 | 10,908 | | | 102 | 10,908 |
| | $ 308 | $ 25,702 | $ 6,478 | $ 63,522 | $ 6,786 | $ 89,224 |
| ***Available-for-sale*** | | | | | | |
| Adjustable-rate preferred stock | $ 110 | $ 7,811 | $ 643 | $ 8,723 | $ 753 | $ 16,534 |
| Mutual funds | | | | | | |
| Corporate bonds | | | | | | |
| Direct U.S obligations and GSE residential mortgage-backed securities | 2 | 557 | 8 | 1,938 | 10 | 2,495 |
| Municipal obligations | 184 | 15,713 | | | 184 | 15,713 |
| Private label residential mortgage-backed securities | 120 | 16,901 | 397 | 6,986 | 517 | 23,887 |
| Trust preferred securities | | | 7,865 | 24,135 | 7,865 | 24,135 |
| | $ 416 | $ 40,982 | $ 8,913 | $ 41,782 | $ 9,329 | $ 82,764 |

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The total number of securities in an unrealized loss position at September 30, 2013 was 202, compared to 66 at December 31, 2012. In analyzing an issuer s financial condition, Management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysis reports. Since material downgrades have not occurred and Management does not intend to sell the debt securities 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, 2013 and December 31, 2012, the gross unrealized loss on trust preferred securities classified as AFS was $8.2 million and $7.9 million, respectively. The Company actively monitors its debt and other structured securities portfolios classified as AFS for declines in fair value. At September 30, 2013, the gross unrealized loss on the corporate bond portfolio classified as HTM was $4.6 million, compared to $6.7 million at December 31, 2012. During the prior year, the Federal Reserve announced its intention to keep interest rates at historically low levels into 2015. The yields of most of the bonds in the portfolio are tied to LIBOR, thus, negatively affecting their anticipated returns. Additionally, Moody s had downgraded certain bonds held in the portfolio during 2012. However, all of the bonds remain investment grade.

The amortized cost and fair value of securities as of September 30, 2013 and December 31, 2012, 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 due to borrowers that have the right to call or prepay obligations with or without call or prepayment penalties. These securities are included in the after ten years category in the following table.

| | **September 30, 2013** | | **December 31, 2012** | |
|---|---|---|---|---|
| | **Amortized Cost** | **Estimated Fair Value** | **Amortized Cost** | **Estimated Fair Value** |
| | (in thousands) | | | |
| **Held-to-maturity** | | | | |
| Due in one year or less | **$ 2,517** | **$ 2,534** | $ 1,600 | $ 1,600 |
| After one year through five years | **15,400** | **15,760** | 13,596 | 13,934 |
| After five years through ten years | **147,897** | **144,898** | 121,238 | 116,020 |
| After ten years | **123,294** | **124,351** | 154,899 | 161,265 |
| | **$ 289,108** | **$ 287,543** | $ 291,333 | $ 292,819 |
| **Available-for-sale** | | | | |
| Due in one year or less | **$ 56,226** | **$ 55,725** | $ 65,190 | $ 67,794 |
| After one year through five years | **23,694** | **24,216** | 24,261 | 25,906 |
| After five years through ten years | **34,019** | **32,661** | 8,165 | 8,000 |
| After ten years (1) | **982,003** | **961,284** | 828,434 | 837,890 |
| | **$ 1,095,942** | **$ 1,073,886** | $ 926,050 | $ 939,590 |

(1) Includes mortgage-backed securities.

The following table summarizes the Company s investment ratings position as of September 30, 2013:

| | **As of September 30, 2013** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **AAA** | **Split-rated AAA/AA+** | **AA+ to AA-** | **A+ to A-** | **BBB+ to BBB-** | **BB+ and below** | **Totals** |
| | (in thousands) | | | | | | |
| Municipal obligations | **$ 8,006** | **$** | **$ 130,149** | **$ 149,477** | **$ 7,323** | **$ 270** | **$ 295,225** |
| Direct U.S. obligations & GSE residential mortgage-backed securities | | **772,098** | | | | | **772,098** |
| | **12,396** | | **151** | **5,563** | **4,145** | **3,892** | **26,147** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Private label residential mortgage-backed securities | | | | | | | |
| Mutual funds (3) | | | | | **32,323** | | **32,323** |
| U.S. Government-sponsored agency securities | | **27,377** | | | | | **27,377** |
| Adjustable-rate preferred stock | | | | | **45,970** | **13,371** | **59,341** |
| Trust preferred securities | | | | | **23,834** | | **23,834** |
| Collateralized debt obligations | | | | | | **50** | **50** |
| Corporate bonds | | | **2,697** | **40,105** | **54,976** | | **97,778** |
| Collarteralized mortgage-backed securities | **5,493** | | | | | | **5,493** |
| Total (1) (2) | **$ 25,895** | **$ 799,475** | **$ 132,997** | **$ 195,145** | **$ 168,571** | **$ 17,583** | **$ 1,339,666** |

(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, 2013. Unrated securities consist of CRA investments with a carrying value of $23.3 million, ARPS with a carrying value of $2.0 million and an other investment of $1.6 million.

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

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The following table summarizes the Company s investment ratings position as of December 31, 2012:

| | As of December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | Split-rated AAA/AA+ | AA+ to AA- | A+ to A- | BBB+ to BBB- | BB+ and below | Totals |
| | (in thousands) | | | | | | |
| Municipal obligations | $ 8,120 | $ | $ 149,352 | $ 92,401 | $ 14,922 | $ 278 | $ 265,073 |
| Direct U.S. obligations & GSE residential mortgage-backed securities | | 668,265 | | | | | 668,265 |
| Private label residential mortgage-backed securities | 15,219 | | 1,649 | 6,069 | 5,249 | 7,421 | 35,607 |
| Private label commercial mortgage-backed securities | 5,741 | | | | | | 5,741 |
| Mutual funds (3) | | | | | 37,961 | | 37,961 |
| U.S. Government-sponsored agency securities | | | | | | | |
| Adjustable-rate preferred stock | | | 826 | | 60,807 | 10,838 | 72,471 |
| Trust preferred securities | | | | | 24,135 | | 24,135 |
| Collateralized debt obligations | | | | | | 50 | 50 |
| Corporate bonds | | | 2,696 | 40,116 | 54,969 | | 97,781 |
| Total (1) (2) | $ 29,080 | $ 668,265 | $ 154,523 | $ 138,586 | $ 198,043 | $ 18,587 | $ 1,207,084 |

(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, 2012. Unrated securities consist of CRA investments with a carrying value of $24.2 million, one ARPS security with a carrying value of $3.1 million and an other investment of $1.6 million.
(3) At least 80% of mutual funds are investment grade corporate bonds.

Securities with carrying amounts of approximately $638.5 million and $711.7 million at September 30, 2013 and December 31, 2012, respectively, were pledged for various purposes as required or permitted by law.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | (in thousands) | | | |
| Gross gains | **$ 602** | $ 1,073 | **$ 870** | $ 2,786 |
| Gross (losses) | **(2,281)** | (42) | **(2,407)** | (284) |
| | **$ (1,679)** | $ 1,031 | **$ (1,537)** | $ 2,502 |

**4. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES**

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

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Commercial and industrial | **$ 1,990,568** | $ 1,659,003 |

| | | |
|---|---|---|
| Commercial real estate non-owner occupied | **1,864,333** | 1,505,600 |
| Commercial real estate owner occupied | **1,551,187** | 1,396,797 |
| Construction and land development | **459,764** | 394,319 |
| Residential real estate | **358,962** | 407,937 |
| Commercial leases | **244,312** | 288,747 |
| Consumer | **29,850** | 31,836 |
| Deferred fees and unearned income, net | **(8,106)** | (6,045) |
| | **6,490,870** | 5,678,194 |
| Allowance for credit losses | **(97,851)** | (95,427) |
| Total | **$ 6,393,019** | $ 5,582,767 |

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

| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Current | 30-59 Days Past Due | 60-89 Days Past Due | Over 90 days Past Due | Total Past Due | Total |
| | (in thousands) | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | **$ 1,538,589** | **$ 2,123** | **$** | **$ 10,475** | **$ 12,598** | **$ 1,551,187** |
| Non-owner occupied | **1,629,045** | **1,475** | **12,607** | **7,294** | **21,376** | **1,650,421** |
| Multi-family | **213,912** | | | | | **213,912** |
| Commercial and industrial | | | | | | |
| Commercial | **1,986,782** | **1,094** | **817** | **1,875** | **3,786** | **1,990,568** |
| Leases | **243,959** | | | **353** | **353** | **244,312** |
| Construction and land development | | | | | | |
| Construction | **264,145** | | | | | **264,145** |
| Land | **194,218** | **56** | | **1,345** | **1,401** | **195,619** |
| Residential real estate | **342,382** | **560** | **127** | **15,893** | **16,580** | **358,962** |
| Consumer | **54,195** | **309** | **248** | **511** | **1,068** | **55,263** |
| Total loans | **$ 6,467,227** | **$ 5,617** | **$ 13,799** | **$ 37,746** | **$ 57,162** | **$ 6,524,389** |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Current | 30-59 Days Past Due | 60-89 Days Past Due | Over 90 days Past Due | Total Past Due | Total |
| | (in thousands) | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $ 1,372,550 | $ 13,153 | $ 1,757 | $ 9,337 | $ 24,247 | $ 1,396,797 |
| Non-owner occupied | 1,327,481 | 917 | 4,416 | 8,573 | 13,906 | 1,341,387 |
| Multi-family | 164,213 | | | | | 164,213 |
| Commercial and industrial | | | | | | |
| Commercial | 1,654,787 | 3,109 | 121 | 986 | 4,216 | 1,659,003 |
| Leases | 287,768 | 515 | | 464 | 979 | 288,747 |
| Construction and land development | | | | | | |
| Construction | 215,597 | | | | | 215,597 |
| Land | 171,919 | 826 | 571 | 5,406 | 6,803 | 178,722 |
| Residential real estate | 387,641 | 3,525 | 1,837 | 14,934 | 20,296 | 407,937 |
| Consumer | 62,271 | 524 | | 165 | 689 | 62,960 |
| Total loans | $ 5,644,227 | $ 22,569 | $ 8,702 | $ 39,865 | $ 71,136 | $ 5,715,363 |

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

| | September 30, 2013 | | | | December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Non-accrual loans | | Loans past due 90 days or more and still accruing | | Non-accrual loans | | Loans past due 90 days or more and still accruing |
| | Current | Past Due/ Delinquent | Total Non-accrual | | Current | Past Due/ Delinquent | Total Non-accrual | |
| | (in thousands) | | | | | | | |
| Commercial real estate | | | | | | | | |
| Owner occupied | **$ 10,222** | **$ 10,391** | **$ 20,613** | **$ 388** | $ 14,392 | $ 18,394 | $ 32,786 | $ 1,272 |
| Non-owner occupied | **12,761** | **12,885** | **25,646** | **4,553** | 18,299 | 8,572 | 26,871 | |
| Multi-family | | | | | 318 | | 318 | |
| Commercial and industrial | | | | | | | | |
| Commercial | **1,909** | **2,092** | **4,001** | **4** | 2,549 | 3,194 | 5,743 | 15 |
| Leases | **114** | **353** | **467** | | | 979 | 979 | |
| Construction and land development | | | | | | | | |
| Construction | | | | | | | | |
| Land | **5,241** | **1,401** | **6,642** | | 4,375 | 6,718 | 11,093 | |
| Residential real estate | **3,350** | **15,894** | **19,244** | | 11,561 | 15,161 | 26,722 | 101 |
| Consumer | **28** | | **28** | **511** | 39 | 165 | 204 | |
| Total | **$ 33,625** | **$ 43,016** | **$ 76,641** | **$ 5,456** | $ 51,533 | $ 53,183 | $ 104,716 | $ 1,388 |

The reduction in interest income associated with loans on nonaccrual status was approximately $1.3 million and $3.8 million for the three and nine months ended September 30, 2013, respectively, and $1.3 million and $4.1 million for the three and nine months ended September 30, 2012, respectively.

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company s risk rating system, the Company classifies problem and potential problem loans as Special Mention, Substandard, Doubtful, and Loss. Substandard loans include those characterized by well-defined weaknesses and carry the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The final rating of Loss covers loans considered uncollectible and having such little recoverable value that it is not practical to defer writing off the asset. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve Management s close attention, are deemed to be Special Mention. Risk ratings are updated, at a minimum, quarterly. The following tables present the recorded investment and delinquency status by class of loans including loans held for sale and excluding deferred fees by risk rating:

| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| | (in thousands) | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | **$ 1,465,697** | **$ 35,217** | **$ 49,293** | **$ 980** | **$** | **$ 1,551,187** |
| Non-owner occupied | **1,490,250** | **64,405** | **95,766** | | | **1,650,421** |
| Multi-family | **206,586** | **5,618** | **1,708** | | | **213,912** |
| Commercial and industrial | | | | | | |
| Commercial | **1,964,491** | **9,661** | **14,904** | **1,512** | | **1,990,568** |
| Leases | **239,002** | **4,843** | **467** | | | **244,312** |
| Construction and land development | | | | | | |
| Construction | **256,037** | **8,108** | | | | **264,145** |
| Land | **167,523** | **4,676** | **23,420** | | | **195,619** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential real estate | **324,254** | **3,865** | **30,843** | | | **358,962** |
| Consumer | **53,518** | **853** | **892** | | | **55,263** |
| Total | **$ 6,167,358** | **$ 137,246** | **$ 217,293** | **$ 2,492** | **$** | **$ 6,524,389** |

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| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| | (in thousands) | | | | | |
| Current (up to 29 days past due) | **$ 6,164,416** | **$ 136,297** | **$ 165,836** | **$ 678** | **$** | **$ 6,467,227** |
| Past due 30 59 days | **2,622** | **378** | **2,617** | | | **5,617** |
| Past due 60 89 days | **320** | **571** | **12,908** | | | **13,799** |
| Past due 90 days or more | | | **35,932** | **1,814** | | **37,746** |
| Total | **$ 6,167,358** | **$ 137,246** | **$ 217,293** | **$ 2,492** | **$** | **$ 6,524,389** |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| | (in thousands) | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $ 1,280,337 | $ 50,552 | $ 65,908 | $ | $ | $ 1,396,797 |
| Non-owner occupied | 1,257,011 | 21,065 | 63,311 | | | 1,341,387 |
| Multi-family | 163,895 | | 318 | | | 164,213 |
| Commercial and industrial | | | | | | |
| Commercial | 1,630,166 | 12,370 | 15,499 | 968 | | 1,659,003 |
| Leases | 282,075 | 5,693 | 979 | | | 288,747 |
| Construction and land development | | | | | | |
| Construction | 215,395 | 202 | | | | 215,597 |
| Land | 141,436 | 5,641 | 31,645 | | | 178,722 |
| Residential real estate | 365,042 | 7,559 | 32,446 | 2,890 | | 407,937 |
| Consumer | 61,469 | 469 | 1,022 | | | 62,960 |
| Total | $ 5,396,826 | $ 103,551 | $ 211,128 | $ 3,858 | $ | $ 5,715,363 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| | (in thousands) | | | | | |
| Current (up to 29 days past due) | $ 5,387,543 | $ 100,549 | $ 152,827 | $ 3,308 | $ | $ 5,644,227 |
| Past due 30 59 days | 4,410 | 1,310 | 16,849 | | | 22,569 |
| Past due 60 89 days | 4,450 | 1,692 | 2,560 | | | 8,702 |
| Past due 90 days or more | 423 | | 38,892 | 550 | | 39,865 |
| Total | $ 5,396,826 | $ 103,551 | $ 211,128 | $ 3,858 | $ | $ 5,715,363 |

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

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Impaired loans with a specific valuation allowance under ASC 310 | **$ 20,717** | $ 51,538 |
| Impaired loans without a specific valuation allowance under ASC 310 | **153,514** | 146,617 |
| Total impaired loans | **$ 174,231** | $ 198,155 |
| Valuation allowance related to impaired loans | **$ (5,909)** | $ (12,866) |

The following table presents the impaired loans by class:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Commercial real estate | | |
| Owner occupied | **$ 45,516** | $ 58,074 |
| Non-owner occupied | **54,052** | 52,146 |
| Multi-family | | 318 |
| Commercial and industrial | | |
| Commercial | **14,106** | 15,531 |
| Leases | **467** | 979 |
| Construction and land development | | |
| Construction | | |
| Land | **26,748** | 32,492 |
| Residential real estate | **32,811** | 37,851 |
| Consumer | **531** | 764 |
| Total | **$ 174,231** | $ 198,155 |

An allowance for credit loss 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 are 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, 2013 and December 31, 2012.

The following table presents average investment in impaired loans by loan class:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | (in thousands) | | | |
| Commercial real estate | | | | |
| Owner occupied | **$ 46,108** | $ 61,223 | **$ 52,030** | $ 55,881 |
| Non-owner occupied | **54,211** | 60,207 | **54,553** | 57,433 |
| Multi-family | | 882 | **118** | 983 |
| Commercial and industrial | | | | |
| Commercial | **13,786** | 25,616 | **14,558** | 26,097 |
| Leases | **565** | 1,030 | **817** | 839 |
| Construction and land development | | | | |
| Construction | | | | 1,315 |
| Land | **27,418** | 35,215 | **28,268** | 37,440 |
| Residential real estate | **34,616** | 37,814 | **34,972** | 34,567 |
| Consumer | **564** | 794 | **629** | 1,256 |
| Total | **$ 177,268** | $ 222,781 | **$ 185,945** | $ 215,811 |

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The following table presents interest income on impaired loans by class:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | (in thousands) | | | |
| Commercial real estate | | | | |
| Owner occupied | **$ 426** | $ 841 | **$ 1,182** | $ 1,696 |
| Non-owner occupied | **458** | 649 | **1,283** | 1,661 |
| Multi-family | | | | |
| Commercial and industrial | | | | |
| Commercial | **185** | 406 | **454** | 920 |
| Leases | | | | |
| Construction and land development | | | | |
| Construction | | | | |
| Land | **328** | 171 | **874** | 867 |
| Residential real estate | **21** | 78 | **45** | 199 |
| Consumer | **7** | 13 | **22** | 31 |
| Total | **$ 1,425** | $ 2,158 | **$ 3,860** | $ 5,374 |

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

The following table summarizes nonperforming assets:

| | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Nonaccrual loans | **$ 76,641** | $ 104,716 |
| Loans past due 90 days or more on accrual status | **5,456** | 1,388 |
| Troubled debt restructured loans | **87,387** | 84,609 |
| Total nonperforming loans | **169,484** | 190,713 |
| Other assets acquired through foreclosure, net | **76,475** | 77,247 |
| Total nonperforming assets | **$ 245,959** | $ 267,960 |

*Loans Acquired with Deteriorated Credit Quality*

The following table presents information regarding the contractually required payments receivable, cash flows expected to be collected and the estimated fair value of loans acquired in the Centennial acquisition, as of April 30, 2013, the closing date of the transaction:

| | April 30, 2013 | | |
|---|---|---|---|
| | **Commercial Real Estate** | **Residential Real Estate** | **Total** |
| | (in thousands) | | |
| **Contractually required payments:** | | | |
| Loans with credit deterioration since origination | $ 253,419 | $ | $ 253,419 |
| Purchased non-credit impaired loans | 368,040 | 2,136 | 370,176 |

| | | | |
|---|---|---|---|
| Total loans acquired | $ 621,459 | $ 2,136 | $ 623,595 |
| **Cash flows expected to be collected:** | | | |
| Loans with credit deterioration since origination | $ 145,346 | $ | $ 145,346 |
| Purchased non-credit impaired loans | 304,818 | 1,352 | 306,170 |
| Total loans acquired | $ 450,164 | $ 1,352 | $ 451,516 |
| **Fair value of loans acquired:** | | | |
| Loans with credit deterioration since origination | $ 108,863 | $ | $ 108,863 |
| Purchased non-credit impaired loans | 241,541 | 1,070 | 242,611 |
| Total loans acquired | $ 350,404 | $ 1,070 | $ 351,474 |

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Changes in the accretable yield for loans acquired with deteriorated credit quality are as follows:

| | September 30, 2013 | |
|---|---|---|
| | Three Months Ended | Nine Months Ended |
| | (in thousands) | |
| Balance, at beginning of period | **$ 26,073** | $ 7,072 |
| Addition due to acquisition | | 22,318 |
| Reclassification from nonaccretable difference | **4,804** | 5,851 |
| Accretion to interest income | **(2,044)** | (6,408) |
| Balance, at end of period | **$ 28,833** | $ 28,833 |

The addition during the nine months ended September 30, 2013 reflected in the above table relate to the acquisition of Centennial. The primary drivers of reclassification from nonaccretable to accretable yield resulted from changes in estimated cash flows.

*Allowance for Credit Losses*

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

| | For the Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | Construction and Land Development | Commercial Real Estate | Residential Real Estate | Commercial and Industrial | Consumer | Total |
| | (in thousands) | | | | | |
| **2013** | | | | | | |
| Beginning Balance | **$ 9,614** | **$ 34,583** | **$ 13,847** | **$ 37,383** | **$ 896** | **$ 96,323** |
| Charge-offs | | **(864)** | **(1,138)** | **(544)** | **(712)** | **(3,258)** |
| Recoveries | **966** | **422** | **430** | **2,242** | **726** | **4,786** |
| Provision | **(533)** | **(278)** | **(247)** | **354** | **704** | |
| Ending balance | **$ 10,047** | **$ 33,863** | **$ 12,892** | **$ 39,435** | **$ 1,614** | **$ 97,851** |
| **2012** | | | | | | |
| Beginning Balance | $ 13,378 | $ 36,733 | $ 16,957 | $ 26,132 | $ 4,312 | $ 97,512 |
| Charge-offs | (2,315) | (1,470) | (2,242) | (4,100) | (799) | (10,926) |
| Recoveries | 567 | 633 | 153 | 501 | 38 | 1,892 |
| Provision | 18 | 2,324 | (82) | 5,611 | 1,061 | 8,932 |
| Ending balance | $ 11,648 | $ 38,220 | $ 14,786 | $ 28,144 | $ 4,612 | $ 97,410 |

| | For the Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | Construction and Land Development | Commercial Real Estate | Residential Real Estate | Commercial and Industrial | Consumer | Total |
| | (in thousands) | | | | | |
| **2013** | | | | | | |
| Beginning Balance | **$ 10,554** | **$ 34,982** | **$ 15,237** | **$ 32,860** | **$ 1,794** | **$ 95,427** |
| Charge-offs | **(852)** | **(6,142)** | **(5,641)** | **(3,379)** | **(1,005)** | **(17,019)** |
| Recoveries | **1,787** | **1,997** | **1,548** | **4,440** | **751** | **10,523** |
| Provision | **(1,442)** | **3,026** | **1,748** | **5,514** | **74** | **8,920** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ending balance | **$ 10,047** | **$ 33,863** | **$ 12,892** | **$ 39,435** | **$ 1,614** | **$ 97,851** |
| **2012** | | | | | | |
| Beginning Balance | $ 14,195 | $ 35,031 | $ 19,134 | $ 25,535 | $ 5,275 | $ 99,170 |
| Charge-offs | (10,587) | (12,023) | (5,756) | (12,687) | (3,571) | (44,624) |
| Recoveries | 870 | 2,897 | 765 | 2,695 | 294 | 7,521 |
| Provision | 7,170 | 12,315 | 643 | 12,601 | 2,614 | 35,343 |
| Ending balance | $ 11,648 | $ 38,220 | $ 14,786 | $ 28,144 | $ 4,612 | $ 97,410 |

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The following table presents impairment method information related to loans and allowance for credit losses by loan portfolio segment:

| | Commercial Real Estate-Owner Occupied | Commercial Real Estate-Non-Owner Occupied | Commercial and Industrial | Residential Real Estate | Construction and Land Development | Commercial Leases | Consumer | Total Loans |
|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | |
| **Loans Held for Investment as of September 30, 2013:** | | | | | | | | |
| **Recorded Investment:** | | | | | | | | |
| Impaired loans with an allowance recorded | **$ 2,440** | **$ 7,654** | **$ 2,285** | **$ 6,018** | **$ 2,178** | **$ 114** | **$ 28** | **$ 20,717** |
| Impaired loans with no allowance recorded | **43,076** | **46,398** | **11,821** | **26,793** | **24,570** | **353** | **503** | **153,514** |
| Total loans individually evaluated for impairment | **45,516** | **54,052** | **14,106** | **32,811** | **26,748** | **467** | **531** | **174,231** |
| Loans collectively evaluated for impairment | **1,482,207** | **1,709,255** | **1,976,080** | **323,942** | **432,521** | **243,845** | **29,319** | **6,197,169** |
| Loans acquired with deteriorated credit quality | **23,464** | **101,026** | **382** | **2,209** | **495** | | | **127,576** |
| Total loans held for investment | **$ 1,551,187** | **$ 1,864,333** | **$ 1,990,568** | **$ 358,962** | **$ 459,764** | **$ 244,312** | **$ 29,850** | **$ 6,498,976** |
| **Unpaid Principal Balance** | | | | | | | | |
| Impaired loans with an allowance recorded | **$ 2,933** | **$ 8,169** | **$ 2,498** | **$ 6,082** | **$ 2,178** | **$ 114** | **$ 28** | **22,002** |
| Impaired loans with no allowance recorded | **49,720** | **48,656** | **12,325** | **33,706** | **25,223** | **505** | **515** | **170,650** |
| Total loans individually evaluated for impairment | **52,653** | **56,825** | **14,823** | **39,788** | **27,401** | **619** | **543** | **192,652** |
| Loans collectively evaluated for impairment | **1,482,207** | **1,709,255** | **1,976,080** | **323,942** | **432,521** | **243,845** | **29,319** | **6,197,169** |
| Loans acquired with deteriorated credit quality | **33,112** | **145,235** | **1,513** | **3,750** | **827** | | | **184,437** |
| Total loans held for investment | **$ 1,567,972** | **$ 1,911,315** | **$ 1,992,416** | **$ 367,480** | **$ 460,749** | **$ 244,464** | **$ 29,862** | **$ 6,574,258** |
| **Related Allowance for Credit Losses** | | | | | | | | |
| Impaired loans with an allowance recorded | **$ 580** | **$ 810** | **$ 1,004** | **$ 2,594** | **$ 831** | **$ 86** | **$ 4** | **5,909** |
| Impaired loans with no allowance recorded | | | | | | | | |
| Total loans individually evaluated for impairment | **580** | **810** | **1,004** | **2,594** | **831** | **86** | **4** | **5,909** |
| Loans collectively evaluated for impairment | **14,255** | **16,845** | **35,482** | **10,298** | **9,216** | **2,863** | **1,610** | **90,569** |
| Loans acquired with deteriorated credit quality | | **1,373** | | | | | | **1,373** |
| Total loans held for investment | **$ 14,835** | **$ 19,028** | **$ 36,486** | **$ 12,892** | **$ 10,047** | **$ 2,949** | **$ 1,614** | **$ 97,851** |

| | Commercial Real Estate-Owner Occupied | Commercial Real Estate-Non-Owner Occupied | Commercial and Industrial | Residential Real Estate | Construction and Land Development | Commercial Leases | Consumer | Total Loans |
|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | |
| **Loans Held for Investment as of December 31, 2012:** | | | | | | | | |
| **Recorded Investment:** | | | | | | | | |
| Impaired loans with an allowance recorded | $ 13,615 | $ 15,217 | $ 4,700 | $ 16,482 | $ 844 | $ 515 | $ 165 | $ 51,538 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Impaired loans with no allowance recorded | 44,459 | 37,247 | 10,831 | 21,369 | 31,648 | 464 | 599 | 146,617 |
| Total loans individually evaluated for impairment | 58,074 | 52,464 | 15,531 | 37,851 | 32,492 | 979 | 764 | 198,155 |
| Loans collectively evaluated for impairment | 1,332,185 | 1,440,214 | 1,642,313 | 368,034 | 361,074 | 287,768 | 31,072 | 5,462,660 |
| Loans acquired with deteriorated credit quality | 6,538 | 12,922 | 1,159 | 2,052 | 753 | | | 23,424 |
| Total loans held for investment | $ 1,396,797 | $ 1,505,600 | $ 1,659,003 | $ 407,937 | $ 394,319 | $ 288,747 | $ 31,836 | $ 5,684,239 |
| **Unpaid Principal Balance** | | | | | | | | |
| Impaired loans with an allowance recorded | $ 13,634 | $ 18,746 | $ 9,877 | $ 17,837 | $ 848 | $ 515 | $ 540 | $ 61,997 |
| Impaired loans with no allowance recorded | 54,947 | 43,208 | 11,248 | 27,098 | 35,669 | 464 | 612 | 173,246 |
| Total loans individually evaluated for impairment | 68,581 | 61,954 | 21,125 | 44,935 | 36,517 | 979 | 1,152 | 235,243 |
| Loans collectively evaluated for impairment | 1,332,185 | 1,440,214 | 1,642,313 | 368,034 | 361,074 | 287,768 | 31,072 | 5,462,660 |
| Loans acquired with deteriorated credit quality | 11,893 | 18,397 | 3,730 | 3,811 | 1,170 | | | 39,001 |
| Total loans held for investment | $ 1,412,659 | $ 1,520,565 | $ 1,667,168 | $ 416,780 | $ 398,761 | $ 288,747 | $ 32,224 | $ 5,736,904 |
| **Related Allowance for Credit Losses** | | | | | | | | |
| Impaired loans with an allowance recorded | $ 2,815 | $ 1,602 | $ 2,314 | $ 5,448 | $ 284 | $ 238 | $ 165 | $ 12,866 |
| Impaired loans with no allowance recorded | | | | | | | | |
| Total loans individually evaluated for impairment | 2,815 | 1,602 | 2,314 | 5,448 | 284 | 238 | 165 | 12,866 |
| Loans collectively evaluated for impairment | 15,118 | 15,447 | 27,546 | 9,789 | 10,270 | 2,762 | 1,629 | 82,561 |
| Loans acquired with deteriorated credit quality | | | | | | | | |
| Total loans held for investment | $ 17,933 | $ 17,049 | $ 29,860 | $ 15,237 | $ 10,554 | $ 3,000 | $ 1,794 | $ 95,427 |

As of September 30, 2013, there was $1.4 million of allowance for credit losses on loans acquired with credit deterioration. At December 31, 2012, there was no allowance for credit losses on loans acquired with credit deterioration.

In the first quarter of 2012, the Company modified its allowance for credit losses calculation to exclude cash secured loans. Additionally, for internally participated loans, historical loss factors have been revised as follows. Previously the loss factors utilized were based on those of the bank which held the participation. Under the revised methodology, loss characteristics of the originating bank are utilized by the participating bank for the first four quarters after origination, during which time the loan becomes seasoned. The net effect of these changes compared to the calculation method used at December 31, 2011 was to decrease the provision and allowance for credit losses by approximately $2.6 million. The net effect by portfolio segment was to the decrease provision for credit losses for the commercial real estate, commercial and industrial, consumer and residential real estate portfolios by $1.5 million, $0.8 million, $0.2 million and $41,000, respectively.

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During the second quarter of 2013, the Company further revised its methodology for calculating the allowance for credit losses. Previously, the Company calculated historical loss factors based on net charge-offs. During the second quarter of 2013, the Company recognized elevated recoveries primarily related to earlier charge-offs stemming from the economic downturn. The Company believes that gross charge-offs is a better representation of the loss characteristics for the current economic environment. This change in methodology resulted in an increase of the allowance for credit losses of $7.2 million for the quarter ended June 30, 2013.

*Troubled Debt Restructurings (TDR)*

A troubled debt restructured loan is a loan on which the Company, for reasons related to a borrower s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms that have been modified or restructured due to a borrower s financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, extensions, deferrals, renewals and rewrites. The majority of the Company s modifications are extensions in terms or deferral of payments which result in no lost principal or interest followed by reductions in interest rates or accrued interest. A troubled debt restructured loan is also considered impaired. Generally, a loan that is modified at an effective market rate of interest may no longer be disclosed as a troubled debt restructuring in years subsequent to the restructuring if it is not impaired based on the terms specified by the restructuring agreement.

The following table presents information on the financial effects of troubled debt restructured loans by class for the periods presented:

| | Three Months Ended September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Forgiven Principal Balance | Lost Interest Income (1) | Post-Modification Outstanding Recorded Investment | Waived Fees and Other Expenses |
| | (dollars in thousands) | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | | $ | $ | $ | $ | $ |
| Non-owner occupied | | | | | | |
| Multi-family | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial | **3** | **1,253** | | **10** | **1,243** | |
| Leases | | | | | | |
| Construction and land development | | | | | | |
| Construction | | | | | | |
| Land | | | | | | |
| Residential real estate | **3** | **2,304** | **267** | **613** | **1,424** | **9** |
| Consumer | | | | | | |
| Total | **6** | **$ 3,557** | **$ 267** | **$ 623** | **$ 2,667** | **$ 9** |

(1) Lost interest income is processed as a charge-off to loan principal in the Company s Consolidated Financial Statements.

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| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Forgiven Principal Balance | Lost Interest Income (1) | Post-Modification Outstanding Recorded Investment | Waived Fees and Other Expenses |
|---|---|---|---|---|---|---|
| | | | Nine Months Ended September 30, 2013 (dollars in thousands) | | | |
| Commercial real estate | | | | | | |
| Owner occupied | **7** | **$ 3,506** | **$** | **$ 54** | **$ 3,452** | **$ 28** |
| Non-owner occupied | **5** | **10,735** | **1,030** | **63** | **9,642** | **14** |
| Multi-family | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial | **11** | **3,611** | | **19** | **3,592** | **11** |
| Leases | | | | | | |
| Construction and land development | | | | | | |
| Construction | | | | | | |
| Land | **2** | **286** | | | **286** | **1** |
| Residential real estate | **12** | **5,308** | **267** | **887** | **4,154** | **24** |
| Consumer | **2** | **74** | | **5** | **69** | **3** |
| Total | **39** | **$ 23,520** | **$ 1,297** | **$ 1,028** | **$ 21,195** | **$ 81** |

(1) Lost interest income is processed as a charge-off to loan principal in the Company s Consolidated Financial Statements.

| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Forgiven Principal Balance | Lost Interest Income (1) | Post-Modification Outstanding Recorded Investment | Waived Fees and Other Expenses |
|---|---|---|---|---|---|---|
| | | | Three Months Ended September 30, 2012 (dollars in thousands) | | | |
| Commercial real estate | | | | | | |
| Owner occupied | 2 | $ 3,111 | $ | $ 28 | $ 3,083 | $ 11 |
| Non-owner occupied | 10 | 19,773 | 10 | 194 | 19,569 | 5 |
| Multi-family | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial | | | | | | |
| Leases | | | | | | |
| Construction and land development | | | | | | |
| Construction | | | | | | |
| Land | 1 | 2,581 | | 26 | 2,555 | |
| Residential real estate | 4 | 4,113 | | 163 | 3,950 | 1 |
| Consumer | 1 | 46 | | 3 | 43 | 2 |
| Total | 18 | $ 29,624 | $ 10 | $ 414 | $ 29,200 | $ 19 |

(1) Lost interest income is processed as a charge-off to loan principal in the Company s Consolidated Financial Statements.

| | Number | Pre-Modification Outstanding | Forgiven Principal | Lost Interest | Post-Modification Outstanding | Waived Fees and Other |
|---|---|---|---|---|---|---|
| | | | Nine Months Ended September 30, 2012 | | | |

| | of Loans | Recorded Investment | Balance | Income (1) | Recorded Investment | Expenses |
|---|---|---|---|---|---|---|
| | | | (dollars in thousands) | | | |
| Commercial real estate | | | | | | |
| Owner occupied | 14 | $ 21,740 | $ 750 | $ 493 | $ 20,497 | $ 71 |
| Non-owner occupied | 15 | 33,629 | 440 | 321 | 32,868 | 16 |
| Multi-family | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial | 14 | 7,707 | | 26 | 7,681 | 37 |
| Leases | | | | | | |
| Construction and land development | | | | | | |
| Construction | | | | | | |
| Land | 6 | 6,460 | | 259 | 6,201 | 12 |
| Residential real estate | 19 | 10,306 | 40 | 1,148 | 9,118 | 8 |
| Consumer | 3 | 114 | | 3 | 111 | 2 |
| Total | 71 | $ 79,956 | $ 1,230 | $ 2,250 | $ 76,476 | $ 146 |

(1) Lost interest income is processed as a charge-off to loan principal in the Company s Consolidated Financial Statements.

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The following table presents TDR loans by class for which there was a payment default during the period:

| | **Three Months Ended September 30,** | | | | **Nine Months Ended September 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | | 2012 | | **2013** | | 2012 | |
| | **Number of Loans** | **Recorded Investment** | Number of Loans | Recorded Investment | **Number of Loans** | **Recorded Investment** | Number of Loans | Recorded Investment |
| | (dollars in thousands) | | | | | | | |
| Commercial real estate | | | | | | | | |
| Owner occupied | | **$** | 5 | $ 4,263 | **3** | **$ 2,506** | 10 | $ 10,611 |
| Non-owner occupied | **2** | **1,330** | 1 | 1,049 | **3** | **1,490** | 3 | 4,442 |
| Multi-family | | | | | | | 1 | 193 |
| Commercial and industrial | | | | | | | | |
| Commercial | **1** | **307** | 3 | 1,794 | **3** | **1,089** | 7 | 6,700 |
| Leases | | | | | | | | |
| Construction and land development | | | | | | | | |
| Construction | | | | | | | | |
| Land | | | 1 | 347 | **2** | **330** | 5 | 4,013 |
| Residential real estate | | | 3 | 3,823 | **2** | **655** | 5 | 4,143 |
| Consumer | | | | | | | 1 | 375 |
| Total | **3** | **$ 1,637** | 13 | $ 11,276 | **13** | **$ 6,070** | 32 | $ 30,477 |

A TDR loan is deemed to have a payment default when it becomes past due 90 days, goes on nonaccrual, or is re-structured again.

At September 30, 2013 and December 31, 2012, loan commitments outstanding on TDR loans were $0 and $0.2 million, respectively.

*Loan Purchases and Sales*

In the third quarter of 2013, the Company had secondary market loan purchases of $87.3 million, consisting of commercial and industrial loans. In the first nine months of 2013, the Company had secondary market loan purchases of $217.8 million, consisting of $213.4 million of commercial and industrial loans and $4.5 million of commercial real estate loans. In the first nine months of 2012, the Company had secondary market loan purchases of $132.3 million, consisting of $66.1 million of commercial leases, $65.2 million of commercial and industrial loans and $1.0 million of commercial real estate loans. In addition, the Company periodically acquires newly originated loans at closing through participations or loan syndications.

The Company had no significant loan sales in the first nine months of 2013 or 2012. The Company held $25.4 million and $31.1 million of credit card loans classified as held for sale at September 30, 2013 and December 31, 2012, respectively.

**5. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE**

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

| | **For the Three Months Ended September 30,** | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | | 2012 | | |
| | **Gross Balance** | **Valuation Allowance** | **Net Balance** | Gross Balance | Valuation Allowance | Net Balance |
| | (in thousands) | | | | | |
| Balance, beginning of the period | **$ 102,923** | **$ (26,424)** | **$ 76,499** | $ 120,391 | $ (43,397) | $ 76,994 |
| Transfers to other assets acquired through foreclosure, net | **2,737** | | **2,737** | 10,807 | | 10,807 |
| Proceeds from sale of other real estate owned and repossessed assets, net | **(3,411)** | **1,055** | **(2,356)** | (13,733) | 4,335 | (9,398) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Valuation adjustments, net | | **(697)** | **(697)** | | (781) | (781) |
| Gains (losses), net [1] | **292** | | **292** | 611 | | 611 |
| Balance, end of period | **$ 102,541** | **$ (26,066)** | **$ 76,475** | $ 118,076 | $ (39,843) | $ 78,233 |

(1) Included in gains (losses), net are gains related to transfers to other assets of $62 thousand during the quarter ended September 30, 2013 and $249 thousand during the quarter ended September 30, 2012 pursuant to accounting guidance.

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| | For the Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Gross Balance | Valuation Allowance | Net Balance | Gross Balance | Valuation Allowance | Net Balance |
| | (in thousands) | | | | | |
| Balance, beginning of the period | **$ 113,474** | **$ (36,227)** | **$ 77,247** | $ 135,148 | $ (46,044) | $ 89,104 |
| Transfers to other assets acquired through foreclosure, net | **14,010** | | **14,010** | 19,522 | | 19,522 |
| Additions from acquisition of Centennial | **5,622** | | **5,622** | | | |
| Proceeds from sale of other real estate owned and repossessed assets, net | **(32,953)** | **12,440** | **(20,513)** | (36,911) | 10,261 | (26,650) |
| Valuation adjustments, net | | **(2,279)** | **(2,279)** | | (4,060) | (4,060) |
| Gains (losses), net [1] | **2,388** | | **2,388** | 317 | | 317 |
| Balance, end of period | **$ 102,541** | **$ (26,066)** | **$ 76,475** | $ 118,076 | $ (39,843) | $ 78,233 |

(1) Included in gains (losses), net are gains related to transfers to other assets of $407 thousand during the nine month period ended September 30, 2013 and $291 thousand during the nine month period ended September 30, 2012 pursuant to accounting guidance.

At September 30, 2013 and 2012, the majority of the Company s repossessed assets were properties located in Nevada.

**6. OTHER BORROWINGS AND OTHER LIABILITIES**

The following table summarizes the Company s borrowings as of September 30, 2013 and December 31, 2012:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| **Short Term:** | | |
| Federal funds purchased | **$ 13,285** | $ |
| Revolving line of credit | **32,500** | |
| FHLB advances | | 120,000 |
| Total short term debt | **$ 45,785** | $ 120,000 |
| **Long Term:** | | |
| FHLB advances | **$ 274,277** | $ |
| Other long term debt | **74,043** | 73,717 |
| | **$ 348,320** | $ 73,717 |

Federal funds purchased consist of unsecured advances of excess balances in reserve accounts held at the Federal Reserve Bank ( FRB ) provided by third parties. During the third quarter of 2013, the Company purchased federal funds to enhance efficiency. As of September 30, 2013, federal funds purchased totaled $13.3 million.

At September 30, 2013, the Company had revolving lines of credit with other institutions, with outstanding advances totaling $32.5 million. The interest rates on these advances range from 1.75% to 4.70% and have a weighted average interest rate of 2.43%.

The Company maintains lines of credit with the FHLB and FRB. The Company s borrowing capacity is determined based on collateral pledged, generally consisting of investment securities and loans, at the time of the borrowing. The Company also maintains credit lines with other sources secured by pledged securities. As of September 30, 2013, the Company had no short-term FHLB or FRB advances.

In 2010, the Company completed a public offering of $75.0 million, at a discount, in principal Senior Notes due in 2015, bearing interest of 10%. In the first quarter of 2013, the Company executed a long-term FHLB advance for $200.0 million, bearing interest of 1.04%, due January 2, 2018. As part of the Centennial acquisition, the Company acquired long-term FHLB advances of $77.2 million, of which, $5.0 million was repaid during the second quarter 2013. These advances were purchased at a premium of $2.5 million, with interest rates ranging from 1.56% to 3.05% and a weighted average interest rate of 2.67%. The weighted average cost on all long-term debt was 3.30% for the three and nine months ended September 30, 2013, and 10.80% and 10.81% for the three and nine months ended September 30, 2012, respectively.

As of September 30, 2013 and December 31, 2012, the Company had additional available credit with the FHLB of approximately $1.05 billion and $952.8 million, respectively, and with the FRB of approximately $598.3 million and $600.6 million, respectively.

During the first three quarters of 2013, the Company entered into a Treasury short transaction to mitigate the Company s modest liability sensitive interest rate risk profile. The Company sold short fixed-rate Treasury securities and invested the proceeds in a short-term repurchase agreement with a balance of $126.7 million as of September 30, 2013.

**7. 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 borrower s 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 and 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 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 2013** | December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Commitments to extend credit, including unsecured loan commitments of $266,189 at September 30, 2013 and $172,002 at December 31, 2012 | **$ 1,692,150** | $ 1,096,264 |
| Credit card commitments and financial guarantees | **287,186** | 295,506 |
| Standby letters of credit, including unsecured letters of credit of $4,032 at September 30, 2013 and $3,915 at December 31, 2012 | **28,105** | 32,757 |
| Total | **$ 2,007,441** | $ 1,424,527 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on Management s credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral. The unfunded commitments on the credit cards loans held for sale at September 30, 2013 and December 31, 2012 was $2.8 million and $262.6 million, respectively.

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 4, 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 $2.0 million and $1.3 million as of September 30, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, commercial real estate related loans accounted for approximately 59% and 58% of total loans, respectively, and approximately 1% and 3% of these loans are secured by undeveloped land, respectively. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 40% and 48% of these commercial real estate loans, excluding construction and land loans, were owner occupied at September 30, 2013 and December 31, 2012, respectively. In addition, approximately 3% and 4% of total loans were unsecured as of September 30, 2013 and December 31, 2012, 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 and associated defense costs 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 $1.8 million and $1.5 million was included in occupancy expenses for the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, total rent expense included in occupancy expenses was $5.5 million and $4.4 million, respectively.

**8. STOCKHOLDERS EQUITY**

*Stock-based Compensation*

For the three and nine months ended September 30, 2013, 17,600 and 537,125 shares of restricted stock were granted to Company employees, 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, 2013 was $0.3 million and $6.7 million, respectively. In addition, the Company granted 56,311 shares during the nine months ended September 30, 2013 to non-employee WAL and subsidiary directors that vested immediately. There were no grants to non-employee WAL and subsidiary directors during the three months ended September 30, 2013.

There were 1,255,640 and 1,469,285 restricted shares outstanding at September 30, 2013 and December 31, 2012, respectively. For the three and nine months ended September 30, 2013, the Company recognized stock-based compensation related to restricted stock grants of $1.3 million and $2.8 million, respectively, compared to $1.1 million and $3.4 million, respectively, for the three and nine months ended September 30, 2012.

As of September 30, 2013 and 2012, there were 1.2 million and 1.7 million, respectively, of stock options outstanding.

**9. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table summarizes the changes in accumulated other comprehensive income by component, net of tax for the period indicated:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Unrealized holding gains (losses) on AFS | Unrealized gain on cash flow hedge | Total | Unrealized holding gains (losses) on AFS | Unrealized gain on cash flow hedge | Total |
| | (in thousands) | | | | | |
| Beginning balance | **$ (10,780)** | **$ 30** | **$ (10,750)** | $ 4,283 | $ 8 | $ 4,291 |
| Other comprehensive income before reclassifications | **(4,770)** | **(30)** | **(4,800)** | 8,478 | 9 | 8,487 |
| Amounts reclassified from accumulated other comprehensive income | **1,046** | | **1,046** | (668) | | (668) |
| Net current-period other comprehensive income | **(3,724)** | **(30)** | **(3,754)** | 7,810 | 9 | 7,819 |
| Ending balance | **$ (14,504)** | **$** | **$ (14,504)** | $ 12,093 | $ 17 | $ 12,110 |

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| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | **Unrealized holding gains (losses) on AFS** | **Unrealized gain on cash flow hedge** | **Total** | **Unrealized holding gains (losses) on AFS** | **Unrealized gain on cash flow hedge** | **Total** |
| | (in thousands) | | | | | |
| Beginning balance | **$ 8,209** | **$ 17** | **$ 8,226** | $ (5,112) | $ 519 | $ (4,593) |
| Other comprehensive income before reclassifications | **(23,670)** | **(17)** | **(23,687)** | 18,803 | 17 | 18,820 |
| Amounts reclassified from accumulated other comprehensive income | **957** | | **957** | (1,598) | (519) | (2,117) |
| Net current-period other comprehensive income | **(22,713)** | **(17)** | **(22,730)** | 17,205 | (502) | 16,703 |
| Ending balance | **$ (14,504)** | **$** | **$ (14,504)** | $ 12,093 | $ 17 | $ 12,110 |

The following table presents reclassifications out of accumulated other comprehensive income:

| **Details about accumulated other comprehensive income components** | **Amount reclassified from accumulated other comprehensive income Three Months Ended September 30,** | | **Affected line item in the statement where net income is presented** |
|---|---|---|---|
| | **2013** | 2012 | |
| | (in thousands) | | |
| Unrealized gains and losses on AFS | | | |
| | **$ (1,679)** | $ 1,031 | Realized gain on sale of Investment securities |
| | **633** | (363) | Income tax expense |
| | **$ (1,046)** | $ 668 | Net of tax |

| **Details about accumulated other comprehensive income components** | **Amount reclassified from accumulated other comprehensive income Nine Months Ended September 30,** | | **Affected line item in the statement where net income is presented** |
|---|---|---|---|
| | **2013** | 2012 | |
| | (in thousands) | | |
| Unrealized gains and losses on AFS | | | |
| | **$ (1,537)** | $ 2,502 | Realized gain on sale of Investment securities |
| | **580** | (904) | Income tax expense |
| | **$ (957)** | $ 1,598 | Net of tax |

**10. 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 per share is based on the weighted average outstanding common shares during the period.

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

| | **Three Months Ended** | **Nine Months Ended** |
|---|---|---|

| | September 30, | | September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | (in thousands,except per share amounts) | | | |
| Weighted average shares basic | **85,799** | 81,758 | **85,596** | 81,570 |
| Dilutive effect of stock awards | **970** | 536 | **832** | 589 |
| Weighted average shares diluted | **86,769** | 82,294 | **86,428** | 82,159 |
| Net income available to common shareholders | **$ 27,840** | $ 15,106 | **$ 82,114** | $ 37,279 |
| Earnings per share basic | **0.32** | 0.18 | **0.96** | 0.46 |
| Earnings per share diluted | **0.32** | 0.18 | **0.95** | 0.45 |

The Company had 216,310 and 1,053,045 stock options outstanding as of September 30, 2013 and December 31, 2012, respectively, that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive.

**11. FAIR VALUE ACCOUNTING**

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC 820 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 in Note 1, Summary of Significant Accounting Policies.

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. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

Under ASC 825, the Company elected the fair value option ( FVO ) treatment for the junior subordinated debt and certain investment securities. This election is generally irrevocable and unrealized gains and losses on these items must be reported in earnings at each reporting date. The Company continues to account for these items under the FVO. Since adoption, there were no financial instruments purchased by the Company which met the ASC 825 fair value election criteria, and therefore, no additional instruments have been added under the FVO election.

All securities for which the fair value measurement option had been elected are included in a separate line item in the Consolidated Balance Sheet titled Investment securities measured at fair value.

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For the three and nine months ended September 30, 2013 and 2012, gains and losses from fair value changes included in the Consolidated Income Statements were as follows:

| | Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the FVO | | | |
|---|---|---|---|---|
| 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, 2013** | | | | |
| Securities measured at fair value | **$ (142)** | **$ 1** | **$** | **$ (141)** |
| Junior subordinated debt | **478** | | **329** | **149** |
| | **$ 336** | **$ 1** | **$ 329** | **$ 8** |
| **Nine Months Ended September 30, 2013** | | | | |
| Securities measured at fair value | **$ (196)** | **$ 7** | **$** | **$ (189)** |
| Junior subordinated debt | **(3,229)** | | **1,012** | **(4,241)** |
| | **$ (3,425)** | **$ 7** | **$ 1,012** | **$ (4,430)** |

| | Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the FVO | | | |
|---|---|---|---|---|
| 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, 2012** | | | | |
| Securities measured at fair value | $ | $ 3 | $ | $ 3 |
| Junior subordinated debt | 469 | | 329 | 140 |
| | $ 469 | $ 3 | $ 329 | $ 143 |
| **Nine Months Ended September 30, 2012** | | | | |
| Securities measured at fair value | $ (66) | $ 10 | $ | $ (56) |
| Junior subordinated debt | 767 | | 981 | (214) |
| | $ 701 | $ 10 | $ 981 | $ (270) |

The following table presents gains and losses from fair value changes on securities measured at fair value:

| | Three Months Ended September 30, 2013 | 2012 | Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Net losses for the period on trading securities included in earnings | **$ (142)** | $ | **$ (196)** | $ (66) |
| Less: net gains and (losses) recognized during the period on trading securities sold during the period | | | | |
| Change in unrealized gains or (losses) for the period included in earnings for trading securities held at the end of the reporting period | **$ (142)** | $ | **$ (196)** | $ (66) |

The difference between the aggregate fair value of junior subordinated debt of $39.4 million and the aggregate unpaid principal balance of $66.5 million was $27.1 million at September 30, 2013. The difference between the aggregate fair value of junior subordinated debt of $36.2 million and the aggregate unpaid principal balance of $66.5 million was $30.3 million at December 31, 2012.

Interest income on securities measured at fair value is accounted for similarly to those classified as AFS and HTM. Any premiums or discounts are recognized in interest income over the term of the securities. 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, corporate debt securities and CRA mutual fund investments 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 are mortgage-backed securities, are reported at fair value utilizing Level 2 inputs in the same manner as described above for securities available-for-sale.

*Independent pricing service:* Management independently evaluates all of the fair value measurements received from its third party pricing service through multiple review steps. First, Management reviews what has transpired in the market- place with respect to interest rates, credit spreads, volatility, mortgage rates, etc., and makes an expectation on changes to the securities valuations from the previous quarter. Then, Management compares expected changes to the actual valuation changes provided to it by its pricing service. Next, Management compares a robust sampling of safekeeping marks on securities with the marks provided by the Company s third party pricing service and determines whether there are any notable differences. Then, Management compares the prices on Level 1 priced securities to publicly available prices to verify those prices are similar. Finally, Management discusses the assumptions used for Level 2 priced securities with its pricing service. The pricing service provides Management with observable market data including interest rate curves and mortgage prepayment speed grids, as well as dealer quote sheets, new bond offering sheets, and historical trade documentation. Management reviews the assumptions and decides whether they are reasonable. Management may compare interest rates, credit spreads and prepayments speeds used as part of the assumptions to those that Management believes are reasonable. Management may price securities using the provided assumptions to determine whether they can develop similar prices on like securities. Any discrepancies with Management s review and the prices provided by the vendor are discussed with the vendor and the Company s other valuation advisors. Management has formally challenged the prices on several securities, but has found that the vendor prices are reasonable.

Annually, the Company receives a SSAE 16 report from its independent pricing service attesting to the controls placed on the operations of the service from its auditor.

*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 as the Company anticipates that it will pay the debt according to its contractual terms. The Company s practice of determining the discount rate as of March 31, 2013 and prior was to use a Peer Index derived from market data available for similar non-investment grade trust preferred securities. As of June 30, 2013 the available market data contracted and the small population of similar non-investment grade trust preferred securities was no longer adequately diversified to ensure an accurate representation of change in the discount rate. As a result, the Company replaced the Peer Index with the BB 20 Year Index relative to the 10 Year Treasury (BB Corporate Bond over Treasury Index), which provides a broader base and correlates similarly with the credit and maturity characteristics of the junior subordinated debt. As of September 30, 2013, the discount rate was determined to be 6.280%, which is a 603 basis point spread over 3 month LIBOR (0.250% as of September 30, 2013). As of September 30, 2012, the Company estimated the discount rate at 6.530%, which was a 617 basis point spread over 3 month LIBOR (0.359%). As of December 31, 2012, the Company estimated the discount rate at 6.846%, which was a 654 basis point spread over 3 month LIBOR (0.306%).

*Securities sold short:* Securities sold short, comprised of entirely U.S. Treasury bonds, are reported at fair value utilizing Level 1 inputs.

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The fair value of these assets and liabilities were determined using the following inputs at the periods presented:

| | Fair Value Measurements at the End of the Reporting Period Using: | | | |
|---|---|---|---|---|
| September 30, 2013 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value |
| | | (in thousands) | | |
| <u>Assets:</u> | | | | |
| **Measured at fair value** | | | | |
| Direct U.S. obligations and GSE residential mortgage-backed securities | $ | $ 3,621 | $ | $ 3,621 |
| **Available-for-sale** | | | | |
| U.S. Government-sponsored agency securities | $ | $ 27,377 | $ | $ 27,377 |
| Municipal obligations | | 105,545 | | 105,545 |
| Direct U.S. obligations and GSE residential mortgage-backed securities | | 768,478 | | 768,478 |
| Mutual funds | 32,323 | | | 32,323 |
| Private label residential mortgage-backed securities | | 26,147 | | 26,147 |
| Adjustable-rate preferred stock | 61,389 | | | 61,389 |
| Trust preferred | | 23,834 | | 23,834 |
| Collateralized mortgage-backed securities | | 5,493 | | 5,493 |
| Other | 23,300 | | | 23,300 |
| | $ 117,012 | $ 956,874 | $ | $ 1,073,886 |
| **Interest rate swaps** | $ | $ 39 | $ | $ 39 |
| <u>**Liabilities:**</u> | | | | |
| **Securities sold short** | $ 126,664 | $ | $ | $ 126,664 |
| **Junior subordinated debt** | $ | $ | $ 39,447 | $ 39,447 |
| **Interest rate swaps** | $ | $ 2,188 | $ | $ 2,188 |

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| December 31, 2012 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value |
|---|---|---|---|---|
| | Fair Value Measurements at the End of the Reporting Period Using: (in thousands) | | | |
| **Assets:** | | | | |
| **Measured at fair value** | | | | |
| Direct U.S. obligations and GSE residential mortgage-backed securities | $ | $ 5,061 | $ | $ 5,061 |
| **Available-for-sale** | | | | |
| Municipal obligations | $ | $ 73,171 | $ | $ 73,171 |
| Direct U.S. obligations and GSE residential mortgage-backed securities | | 663,204 | | 663,204 |
| Mutual funds | 37,961 | | | 37,961 |
| Private label residential mortgage-backed securities | | 35,607 | | 35,607 |
| Private label commercial mortgage-backed securities | | 5,741 | | 5,741 |
| Adjustable-rate preferred stock | 75,555 | | | 75,555 |
| Trust preferred | 24,135 | | | 24,135 |
| Other | 24,216 | | | 24,216 |
| | $ 161,867 | $ 777,723 | $ | $ 939,590 |
| **Interest rate swaps** | $ | $ 777 | $ | $ 777 |
| **Liabilities:** | | | | |
| **Junior subordinated debt** | $ | $ | $ 36,218 | $ 36,218 |
| **Interest rate swaps** | $ | $ 751 | $ | $ 751 |

As of June 30, 2013, trust preferred securities transferred from Level 1 to Level 2 due to the unavailability of active trade information. Per the Company s policy, the transfer is deemed to have occurred at the end of the reporting period.

For the three and nine months ended September 30, 2013, the change in Level 3 liabilities measured at fair value on a recurring basis was as follows:

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| | Junior Subordinated Debt Three Months Ended September 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Opening balance | **$ (39,925)** | $ (36,687) |
| Transfers into Level 3 | | |
| Transfers out of Level 3 | | |
| Total gains or losses for the period | | |
| Included in earnings (or changes in net assets) (1) | **478** | 469 |
| Included in other comprehensive income | | |
| Purchases, sales, and settlements | | |
| Purchases | | |

| | | |
|---|---|---|
| Sales | | |
| Settlements | | |
| Closing balance | **$ (39,447)** | $ (36,218) |
| Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) held at the end of the reporting period. | **$ 478** | $ 469 |

(1) Total gains (losses) for the period are included in the non-interest income line, mark to market (losses) gains, net.

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| | Junior Subordinated Debt Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Opening balance | **$ (36,218)** | $ (36,985) |
| Transfers into Level 3 | | |
| Transfers out of Level 3 | | |
| Total gains or losses for the period | | |
| Included in earnings (or changes in net assets) (1) | **(3,229)** | 767 |
| Included in other comprehensive income | | |
| Purchases, sales, and settlements | | |
| Purchases | | |
| Sales | | |
| Settlements | | |
| Closing balance | **$ (39,447)** | $ (36,218) |
| Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) held at the end of the reporting period. | **$ (3,229)** | $ 767 |

(1) Total gains (losses) for the period are included in the non-interest income line, mark to market (losses) gains, net.

For Level 3 liabilities measured at fair value on a recurring basis, the significant unobservable inputs used in the fair value measurements as of the periods presented, were as follows:

| | Fair Value at September 30, 2013 | Valuation Technique | Significant Unobservable Inputs | Input Value |
|---|---|---|---|---|
| | | | (dollars in thousands) | |
| Junior subordinated debt | **$ 39,447** | **Discounted cash flow** | **BB Corporate Bond over Treasury Index with comparable credit spread** | **6.280%** |

| | Fair Value at December 31, 2012 | Valuation Technique | Significant Unobservable Inputs | Input Value |
|---|---|---|---|---|
| | | | (dollars in thousands) | |
| Junior subordinated debt | $ 36,218 | Discounted cash flow | Median market spreads on publicly issued trust preferreds with comparable credit risk | 6.846% |

The significant unobservable inputs used in the fair value measurement of the Company s junior subordinated debt as of September 30, 2013 are the BB Corporate Bond over Treasury Index with comparable credit risk and, as of December 31, 2012, are the calculated or estimated credit spreads on comparable publicly traded company trust preferred issuances which were non-investment grade and non-rated. Significant increases (decreases) in these inputs could result in a significantly higher (lower) fair value measurement.

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*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 Consolidated Balance Sheet by caption and by level within the ASC 825 hierarchy:

| | Fair Value Measurements at the End of the Reporting Period 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, 2013:** | | | | |
| Impaired loans with specific valuation allowance | **$ 14,808** | **$** | **$** | **$ 14,808** |
| Impaired loans without specific valuation allowance | **95,843** | | | **95,843** |
| Other assets acquired through foreclosure, net | **76,475** | | | **76,475** |
| **As of December 31, 2012:** | | | | |
| Impaired loans with specific valuation allowance | $ 38,672 | $ | $ | $ 38,672 |
| Impaired loans without specific valuation allowance | 67,207 | | | 67,207 |
| Other assets acquired through foreclosure, net | 77,247 | | | 77,247 |

*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. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2. However, certain assumptions and unobservable inputs are often used by the appraiser; therefore, qualifying the assets as Level 3 in the fair value hierarchy. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal (which are generally obtained every twelve 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 $20.7 million and $51.5 million and specific reserves in the allowance for credit losses of $5.9 million and $12.9 million at September 30, 2013 and December 31, 2012, respectively.

*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 classified as other assets acquired through foreclosure and other repossessed property are initially reported at the fair value determined by independent appraisals using appraised value, less cost to sell. Such properties are generally re-appraised every twelve 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 $76.5 million and $77.2 million of such assets at September 30, 2013 and December 31, 2012, respectively. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2. However, certain assumptions and unobservable inputs are often used by the appraiser; therefore, qualifying the assets as Level 3 in the fair value hierarchy. 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.

*Credit vs. non-credit losses*

The Company applies the provisions of ASC 320 to its AFS and HTM investment securities portfolios. The OTTI was separated into (1) the amount of total impairment related to the credit loss, and (2) the amount of the total impairment related to all other factors. The amount of the total OTTI related to the credit loss was recognized in earnings. The amount of the total impairment related to all other factors was recognized in OCI. The OTTI was presented in the Consolidated Income Statement with an offset for the amount of the total OTTI that was recognized in OCI.

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For the three and nine months ended September 30, 2013 and 2012, the Company determined that no securities contained credit losses.

| | Private Label Mortgage-Backed Securities Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Beginning balance of impairment losses held in other comprehensive income | **$ (1,811)** | $ (1,811) |
| Current period other-than temporary impairment credit losses recognized through earnings | | |
| Reductions for securities sold during the period | **1,811** | |
| 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) |

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

| | September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value Level 1 | Level 2 | Level 3 | Total |
| | | | (in thousands) | | |
| Financial assets: | | | | | |
| Investment securities | **$ 1,366,615** | **$ 176,570** | **$ 1,188,472** | **$ 8** | **$ 1,365,050** |
| Derivatives (1) | **39** | | **39** | | **39** |
| Loans, net | **6,418,432** | | **5,876,917** | **110,651** | **5,987,568** |
| Financial liabilities: | | | | | |
| Deposits | **7,275,311** | | **7,349,886** | | **7,349,886** |
| Customer repurchases | **55,524** | | **55,524** | | **55,524** |
| Securities sold short | **126,664** | **126,664** | | | **126,664** |
| Other borrowings | **394,105** | **45,785** | **274,277** | **82,500** | **402,562** |
| Junior subordinated debt | **39,447** | | | **39,447** | **39,447** |
| Derivatives (2) | **2,188** | | **2,188** | | **2,188** |

(1) Included in other assets.
(2) Included in other liabilities.

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value Level 1 | Level 2 | Level 3 | Total |
| | | | (in thousands) | | |
| Financial assets: | | | | | |
| Investment securities | $ 1,235,984 | $ 216,337 | $ 1,021,133 | $ | $ 1,237,470 |
| Derivatives (1) | 777 | | 777 | | 777 |
| Loans, net | 5,613,891 | | 5,156,776 | 105,879 | 5,262,655 |
| Financial liabilities: | | | | | |

| | | | | |
|---|---|---|---|---|
| Deposits | 6,455,177 | 6,458,100 | | 6,458,100 |
| Customer repurchases | 79,034 | 79,034 | | 79,034 |
| Other borrowings | 193,717 | 120,000 | 85,125 | 205,125 |
| Junior subordinated debt | 36,218 | | 36,218 | 36,218 |
| Derivatives (2) | 751 | 751 | | 751 |

(1) Included in other assets.
(2) Included in other liabilities.

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***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 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 the 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. As of September 30, 2013, the Company s interest rate risk profile was within Board-approved limits.

Each of the Company s subsidiary banks has an Asset and Liability Management Committee 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. There also exists an Asset and Liability Management Committee at the holding company level that reviews the interest rate risk of each subsidiary bank, as well as an aggregated position for the entire Company.

***Fair value of commitments***

The estimated fair value of standby letters of credit outstanding at September 30, 2013 and December 31, 2012 was insignificant. Loan commitments on which the committed interest rates were less than the current market rate are also insignificant at September 30, 2013 and December 31, 2012.

**12. INCOME TAXES**

Deferred tax assets and liabilities are included in the Consolidated 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.

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of $79.6 million at September 30, 2013 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.

Based on its internal analysis, the Company believes that it is more likely than not that the Company will fully utilize deferred federal 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.

The Company s effective tax rate was 24.8% and 30.1% for the three months ended September 30, 2013 and 2012, respectively, and 21.6% and 28.4% for the nine months ended September 30, 2013 and 2012, respectively. The reduction in the effective tax rate from the first three quarters of 2012, compared to the first three quarters of 2013 is primarily due to the bargain purchase gain related to the Centennial acquisition, low income housing tax credits, an increase in tax exempt income from revenue from municipal obligations, as well as a reduction in the deferred tax valuation allowance for capital loss carryovers arising from transactions that resulted in capital gains.

At September 30, 2013, the Company has a deferred tax valuation allowance of $5.2 million (compared to $8.0 million at December 31, 2012).

The deferred tax asset related to state net operating loss carryovers outstanding at September 30, 2013 is comprised of $1.9 million of tax benefits from Arizona net operating loss carryovers that began to expire in 2013. All of the Company s remaining California net operating loss carryforwards have been utilized in 2013.

*Uncertain Tax Position*

The Company files income tax returns in the U.S. federal jurisdiction and in various states. With few exceptions, the Company is no longer subject to U.S. federal, state or local tax examinations by tax authorities for years before 2008.

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the three and nine month periods ended September 30, 2013 and 2012.

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Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretation of tax law applied to the facts of each matter.

**13. SEGMENTS**

The Company provides a full range of banking and related financial services through its consolidated subsidiaries. Applicable guidance provides that the identification of reportable segments be on the basis of discrete business units and their financial information to the extent such units are reviewed by the entity s chief decision maker.

At September 30, 2013, the Company consists of the following segments: Western Alliance Bank, Bank of Nevada, Torrey Pines Bank and Other (Western Alliance Bancorporation holding company, WAEF, LVSP, Shine Investment Advisory Services, Inc. until October 31, 2012, and the discontinued operations).

Transactions between segments consist primarily of borrowed funds and loan participations. 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 three and nine month periods ended September 30, 2013 and 2012:

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**Western Alliance Bancorporation and Subsidiaries**

**Operating Segment Results**

**Unaudited**

| | Western Alliance Bank | Bank of Nevada | Torrey Pines Bank* | Other | Inter-segment elimi-nations | Consoli-dated Company |
|---|---|---|---|---|---|---|
| | | | (dollars in millions) | | | |
| **At September 30, 2013** | | | | | | |
| Assets | $ 3,346.7 | $ 3,288.1 | $ 2,076.2 | $ 1,127.8 | $ (917.4) | $ 8,921.4 |
| Held for sale loans | | | 25.4 | | | 25.4 |
| Gross loans and deferred fees, net | 2,589.2 | 2,387.1 | 1,498.7 | 58.9 | (43.0) | 6,490.9 |
| Less: Allowance for credit losses | (28.0) | (51.0) | (18.3) | (0.6) | | (97.9) |
| Loans, net | 2,561.2 | 2,336.1 | 1,480.4 | 58.3 | (43.0) | 6,393.0 |
| Goodwill and intangible assets | 2.8 | 25.1 | | | | 27.9 |
| Deposits | 2,832.0 | 2,613.5 | 1,844.7 | | (14.9) | 7,275.3 |
| Borrowings | 81.4 | 203.0 | 3.2 | 106.5 | | 394.1 |
| Stockholders equity | 291.5 | 373.7 | 171.8 | 844.7 | (855.4) | 826.3 |
| No. of branches | 18 | 12 | 12 | | | 42 |
| | | | (in thousands) | | | |
| **Three Months Ended September 30, 2013:** | | | | | | |
| Net interest income (expense) | $ 33,755 | $ 31,888 | $ 21,055 | $ (2,139) | $ | $ 84,559 |
| Provision for (recovery of) credit losses | 6,277 | (6,918) | 2,387 | (1,746) | | |
| Net interest income (expense) after provision for credit losses | 27,478 | 38,806 | 18,668 | (393) | | 84,559 |
| Non-interest income | 1,816 | 2,314 | 108 | 2,914 | (4,527) | 2,625 |
| Non-interest expense | (15,520) | (18,799) | (11,949) | (7,934) | 4,527 | (49,675) |
| Income (loss) from continuing operations before income taxes | 13,774 | 22,321 | 6,827 | (5,413) | | 37,509 |
| Income tax expense (benefit) | 3,977 | 6,027 | 2,230 | (2,946) | | 9,288 |
| Income (loss) from continuing operations | 9,797 | 16,294 | 4,597 | (2,467) | | 28,221 |
| Loss from discontinued operations, net | | | | (29) | | (29) |
| **Net income (loss)** | $ 9,797 | $ 16,294 | $ 4,597 | $ (2,496) | $ | $ 28,192 |
| | | | (in thousands) | | | |
| **Nine Months Ended September 30, 2013:** | | | | | | |
| Net interest income (expense) | $ 92,920 | $ 91,821 | $ 62,435 | $ (4,262) | $ | $ 242,914 |
| Provision for (recovery of) credit losses | 9,921 | (5,514) | 3,219 | 1,294 | | 8,920 |
| Net interest income (expense) after provision for credit losses | 82,999 | 97,335 | 59,216 | (5,556) | | 233,994 |
| Non-interest income | 14,520 | 9,383 | 1,312 | 4,325 | (12,154) | 17,386 |
| Non-interest expense | (45,688) | (52,724) | (35,876) | (23,001) | 12,154 | (145,135) |

| | | | | | |
|---|---|---|---|---|---|
| Income (loss) from continuing operations before income taxes | **51,831** | **53,994** | **24,652** | **(24,232)** | **106,245** |
| Income tax expense (benefit) | **13,066** | **14,292** | **7,898** | **(12,343)** | **22,913** |
| Income (loss) from continuing operations | **38,765** | **39,702** | **16,754** | **(11,889** | |