WESTERN ALLIANCE BANCORPORATION
Form 10-Q
May 03, 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 March 31, 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 **(State or Other Jurisdiction of** **Incorporation or Organization)**	**88-0365922** **(I.R.S. Employer** **I.D. Number)**
One E. Washington Street, **Phoenix, AZ** **(Address of Principal Executive Offices)**	**85004** **(Zip Code)**

(602) 389-3500

(Registrant s telephone number, including area code)

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

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

Common stock issued and outstanding: 86,946,543 shares as of April 30, 2013.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (unaudited)	December 31, 2012
	(in thousands, except share amounts)	
Assets:		
Cash and due from banks	$ 125,490	$ 141,789
Securities purchased under agreement to resell	134,010	
Interest-bearing deposits in other financial institutions	296,775	62,836
Cash and cash equivalents	556,275	204,625
Money market investments	796	664
Investment securities measured, at fair value	4,781	5,061
Investment securities available-for-sale, at fair value; amortized cost of $994,056 at March 31, 2013 and $926,050 at December 31, 2012	1,006,185	939,590
Investment securities held-to-maturity, at amortized cost; fair value of $296,018 at March 31, 2013 and $292,819 at December 31, 2012	290,591	291,333
Investments in restricted stock, at cost	29,767	30,936
Loans:		
Held for sale	27,942	31,124
Held for investment, net of deferred fees	5,827,414	5,678,194
Less: allowance for credit losses	95,494	95,427
Total loans	5,731,920	5,582,767
Premises and equipment, net	107,105	107,910
Goodwill	23,224	23,224
Other intangible assets, net	5,942	6,539
Other assets acquired through foreclosure, net	77,921	77,247
Bank owned life insurance	139,372	138,336
Deferred tax assets, net	54,060	51,757
Prepaid expenses	10,017	12,029
Other assets	108,206	119,495
Total assets	$ 8,174,104	$ 7,622,637
Liabilities:		
Deposits:		
Non-interest-bearing demand	$ 1,930,426	$ 1,933,169
Interest-bearing	4,804,488	4,522,008
Total deposits	6,734,914	6,455,177
Customer repurchase agreements	64,692	79,034
Securities sold short	132,614	
Other borrowings	293,822	193,717
Junior subordinated debt, at fair value	36,687	36,218
Other liabilities	130,080	98,875

Total liabilities	**7,392,809**	6,863,021
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock par value $.0001 and liquidation value per share of $1,000; 20,000,000 authorized; 141,000 issued and outstanding at March 31, 2013 and December 31, 2012	**141,000**	141,000
Common stock par value $.0001; 200,000,000 authorized; 87,079,016 shares issued and outstanding at March 31, 2013 and 86,465,050 at December 31, 2012	**9**	9
Additional paid in capital	**786,941**	784,852
Accumulated deficit	**(153,860)**	(174,471)
Accumulated other comprehensive income	**7,205**	8,226
Total stockholders equity	**781,295**	759,616
Total liabilities and stockholders equity	**$ 8,174,104**	$ 7,622,637

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS (unaudited)

	Three Months Ended March 31, 2013	2012
	(in thousands except per share amounts)	
Interest income:		
Loans, including fees	**$ 74,725**	$ 67,760
Investment securities taxable	**3,832**	6,412
Investment securities non-taxable	**3,129**	2,240
Dividends taxable	**359**	280
Dividends non-taxable	**838**	653
Other	**225**	92
Total interest income	**83,108**	77,437
Interest expense:		
Deposits	**3,732**	4,762
Customer repurchase agreements	**35**	63
Other borrowings	**2,672**	2,071
Junior subordinated debt	**466**	484
Total interest expense	**6,905**	7,380
Net interest income	**76,203**	70,057
Provision for credit losses	**5,439**	13,081
Net interest income after provision for credit losses	**70,764**	56,976
Non-interest income:		
Gain on sales of securities, net	**147**	361
Mark to market gains (losses), net	**(471)**	(333)
Service charges and fees	**2,534**	2,285
Investment advisory fees		619
Other fee revenue	**957**	1,000
Income from bank owned life insurance	**1,036**	1,123
Amortization of affordable housing investments	**(900)**	
Other	**596**	829
Total non-interest income	**3,899**	5,884
Non-interest expense:		
Salaries and employee benefits	**26,574**	26,664
Occupancy expense, net	**4,846**	4,722
Net loss on sales/valuations of repossessed assets and bank premises, net	**519**	2,651
Insurance	**2,370**	2,050
Loan and repossessed asset expense	**1,596**	1,684
Legal, professional and director fees	**2,784**	1,572
Marketing	**1,764**	1,371
Data processing	**1,865**	995
Intangible amortization	**597**	890
Customer service	**643**	591
Merger/restructure expenses	**195**	

Operating lease depreciation	**142**	208
Other	**3,034**	3,499
Total non-interest expense	**46,929**	46,897
Income from continuing operations before provision income taxes	**27,734**	15,963
Income tax provision	**6,808**	4,441
Income from continuing operations	**20,926**	11,522
Income (loss) from discontinued operations, net of tax benefit	**38**	(222)
Net income	**20,964**	11,300
Dividends and accretion on preferred stock	**353**	1,763
Net income available to common shareholders	**$ 20,611**	$ 9,537

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS (unaudited)

(continued)

	Three Months Ended March 31, 2013	2012
	(in thousands except per share amounts)	
Earnings per share from continuing operations:		
Basic	**$ 0.24**	$ 0.12
Diluted	**$ 0.24**	$ 0.12
Income (loss) per share from discontinued operations:		
Basic	**$ 0.00**	$ (0.00)
Diluted	**$ 0.00**	$ (0.00)
Earnings per share applicable to common shareholders:		
Basic	**85,324**	81,359
Diluted	**85,980**	82,227
Dividends declared per common share	**$**	$

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Net income	**$ 20,964**	$ 11,300
Other comprehensive income, net:		
Unrealized (loss) gain on securities available-for-sale (AFS), net	**(890)**	6,205
Unrealized (loss) on cash flow hedge, net	**(34)**	
Realized gain on cash flow hedge, net		(519)
Realized gain on sale of securities AFS included in income, net	**(97)**	(225)
Net other comprehensive (loss) income	**(1,021)**	5,461
Comprehensive income	**$ 19,943**	$ 16,761

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (unaudited)

	Preferred Stock		*Common Stock*		*Additional Paid In*	*Accumulated Other Comprehensive Income*	*Accumulated*	*Total Stockholders*
	Shares	*Amount*	*Shares*	*Amount*	*Capital*	*(Loss)*	*Deficit*	*Equity*
					(in thousands)			
Balance, December 31, 2012:	141	$ 141,000	86,465	$ 9	$ 784,852	$ 8,226	$ (174,471)	$ 759,616
Net income							20,964	20,964
Exercise of stock options			156		1,118			1,118
Stock-based compensation			59		803			803
Restricted stock grants, net			399		168			168
Dividends on preferred stock							(353)	(353)
Other comprehensive loss, net						(1,021)		(1,021)
Balance, March 31, 2013	**141**	**$ 141,000**	**87,079**	**$ 9**	**$ 786,941**	**$ 7,205**	**$ (153,860)**	**$ 781,295**

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Cash flows from operating activities:		
Net income	**$ 20,964**	$ 11,300
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	**5,439**	13,081
Depreciation and amortization	**2,153**	3,228
Stock-based compensation	**971**	1,811
Deferred income taxes and income taxes receivable	**(1,754)**	3,487
Net amortization of discounts and premiums for investment securities	**2,577**	2,656
Accretion of discounts on loans acquired	**(3,288)**	
(Gains)/Losses on:		
Sales of securities, AFS	**(147)**	(361)
Derivatives	**48**	49
Sale of repossessed assets, net	**562**	2,587
Sale of premises and equipment, net	**(43)**	64
Sale of loans, net	**6**	6
Changes in:		
Other assets	**7,138**	6,356
Other liabilities	**828**	(8,169)
Fair value of assets and liabilities measured at fair value	**471**	333
Net cash provided by operating activities	**35,925**	36,428
Cash flows from investing activities:		
Proceeds from loan sales		3,445
Principal pay downs and maturities of securities measured at fair value	**279**	303
Proceeds from sale of available-for-sale securities	**4,072**	15,224
Principal pay downs and maturities of available-for-sale securities	**51,196**	163,449
Purchase of available-for-sale securities	**(124,909)**	(106,995)
Purchases of securities held-to-maturity		(3)
Loan originations and principal collections, net	**(124,390)**	(168,648)
Investment in money market	**(132)**	2,489
Liquidation of restricted stock	**1,169**	934
Purchase of investment tax credits	**5,084**	
Sale and purchase of premises and equipment, net	**(761)**	(1,911)
Proceeds from sale of other real estate owned and repossessed assets, net	**5,343**	9,986
Net cash (used) in investing activities	**(183,049)**	(81,727)

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(continued)

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Cash flows from financing activities:		
Net increase in deposits	**279,737**	240,542
Net increase (decrease) in borrowings	**218,272**	(169,274)
Proceeds from exercise of stock options	**1,118**	552
Cash dividends paid on preferred stock	**(353)**	(1,763)
Net cash provided by financing activities	**498,774**	70,057
Net increase in cash and cash equivalents	**351,650**	24,758
Cash and cash equivalents at beginning of year	**204,625**	154,995
Cash and cash equivalents at end of period	**$ 556,275**	$ 179,753
Supplemental disclosure:		
Cash paid during the period for:		
Interest	**$ 7,132**	$ 9,256
Income taxes	**1,450**	1,040
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	**7,035**	4,914
Unfunded commitments to purchase investment tax credits	**46,582**	

See the accompanying notes.

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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, operating in Southern Nevada, Western Alliance Bank, operating in Arizona and Northern Nevada, and Torrey Pines Bank, operating in California. In addition, two non-bank subsidiaries, Western Alliance Equipment Finance, which offers equipment finance services nationwide, and Las Vegas Sunset Properties, 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 significant 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; fair value of other real estate owned; determination of the valuation allowance related to deferred tax assets; impairment of goodwill and other intangible assets and other than temporary impairment on securities. Although Management believes these estimates to be reasonably accurate, actual amounts may differ. In the opinion of Management, all adjustments considered necessary have been reflected in the financial statements during their preparation.

Principles of consolidation

WAL has 11 wholly-owned subsidiaries: Bank of Nevada (BON), Western Alliance Bank (WAB), Torrey Pines Bank (TPB), which are all banking subsidiaries; Western Alliance Equipment Finance, Inc. (WAEF), which provides equipment finance services; Las Vegas Sunset Properties (LVSP), which holds certain non-performing assets; and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities. In addition, until October 31, 2012, WAL maintained an 80 percent interest in Shine Investment Advisory Services Inc. (Shine), a registered investment advisor. WAL divested its formerly owned 80 percent interest in Shine Investment Advisory Services, Inc. as of October 31, 2012. On April 30, 2013, the Company completed its acquisition of Centennial Bank (Centennial). The Company paid $57.5 million for all equity interests in Centennial. The Company merged Centennial Bank into WAB effective April 30, 2013. None of the assets or liabilities of Centennial are included in the Company s financials at March 31, 2013. The merger was completed because the purchase price of Centennial was at a discount to tangible book value and is expected to be accretive to capital at close. The combined bank had approximately $3.27 billion of assets and $2.78 billion of deposits immediately following the merger and continues to operate as Western Alliance Bank. As of March 31, 2013, acquisition related expenses have been minimal. The Company has undertaken an additional review and valuation of Centennial s assets and liabilities, which will be reflected in the combined entities financial statements as of the acquisition date.

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 and commercial leases; and BW Nevada Holdings, LLC, which owns the Company s 2700 West Sahara Avenue, Las Vegas, Nevada location.

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

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

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2012 and for the three months ended March 31, 2012 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 March 31, 2013 and 2012 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 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 financial statements.

Investment securities

Investment securities may be classified as held-to-maturity (HTM), available-for-sale (AFS) or trading. The appropriate classification is initially decided at the time of purchase. Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions. These securities are carried at amortized cost. The sale of a security within three months of its maturity date or after 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 as an asset on the Consolidated Balance Sheets at their estimated fair value. As the fair value of AFS securities changes, the changes are reported net of income tax as an element of other comprehensive income (OCI), except for impaired securities. When AFS securities are sold, the unrealized gain or loss is reclassified from OCI to non-interest income. The changes in the fair values of trading securities are reported in non-interest income. Securities classified as AFS are both equity and debt securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company s assets and liabilities, liquidity needs, 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 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 it is not more likely than not the Company would be required to sell the security.

Declines in the fair value of individual debt securities available for sale that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other than temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) market or other factors is recognized in other comprehensive income or loss. Credit loss is recorded if the present value of cash flows is less than amortized cost.

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

Derivative financial instruments

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

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

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 our historical loss experience, delinquency and charge-off trends, collateral values, changes in the level of nonperforming loans and other factors. Qualitative factors include the economic condition of our operating markets and the state of certain industries. Specific changes in the risk factors are based on actual loss experience, as well as perceived risk of similar groups of loans classified by collateral type, purpose and term. An internal one-year and five-year loss history are also incorporated into the allowance calculation model. Due to the credit concentration of our loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona and California, which have declined substantially from their peak. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, the FDIC and state bank regulatory agencies, as an integral part of their examination processes, periodically review our subsidiary banks allowances for credit losses, and may require us to make additions to our allowance based on their judgment about information available to them at the time of their examinations. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

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

The Company uses an appraised value method to determine the need for a reserve on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. Generally, the Company obtains independent collateral valuation analysis for each loan every six to twelve months.

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

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

2. Not all impaired accounts require a specific reserve. The payment performance of the borrower may require an impaired classification, but the collateral evaluation may support adequate collateral coverage. For a number of impaired accounts in which borrower performance has ceased, the collateral coverage is now sufficient because a partial charge off of the account has been taken. However, in those instances, although the specific reserve calculation results in no allowance, the Company may record a reserve due to qualitative considerations.

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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.

Investments in low income housing credits

Starting in 2012, the Company invested in limited partnerships formed for the purpose of investing in low income housing projects, which qualify for federal low income housing tax credits. These investments are expected to generate tax credits over the next ten years. The investments are accounted for under the equity method of accounting. At March 31, 2013, other assets included $74.8 million related to these investments and other liabilities include $46.6 million related to future unconditional equity commitments.

Income taxes

Western Alliance Bancorporation and its subsidiaries, other than BW Real Estate, Inc., file a consolidated federal tax return. Due to tax regulations, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent temporary differences. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. The most significant source of these timing differences are the credit loss reserve and net operating loss carryforwards, which account for substantially all of the net deferred tax asset. Deferred tax assets are reduced by a valuation allowance when, in the opinion of Management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of $54.1 million at March 31, 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 and state tax assets pertaining to the existing net operating loss carryforwards and any net operating loss (NOL) that would be created by the reversal of the future net deductions that have not yet been taken on a tax return.

Fair values of financial instruments

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

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

Level 3 Model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of 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.

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

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

Management uses its best judgment in estimating the fair value of the Company s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at March 31, 2013 or December 31, 2012. The estimated fair value amounts for March 31, 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 beginning on page 32 in Note 10, 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 of the fair value hierarchy.

The fair value of other investment securities were determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings and prepayment speeds. Fair values determined using matrix pricing are generally categorized as Level 2 in the fair value hierarchy.

The Company owns certain collateralized debt obligations (CDOs) 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 our 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 10, 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 on the balance sheet at their fair value. The fair value for derivatives is determined based on market prices, broker-dealer quotations on similar product or other related input parameters. As a result, the fair values have been categorized as Level 2 in the fair value hierarchy.

Deposit liabilities

The fair value disclosed for demand and savings deposits is by definition equal to the amount payable on demand at their reporting date (that is, their carrying amount), which the Company believes a market participant would consider in determining fair value. The carrying amount for variable-rate deposit accounts approximates their fair value. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits. The fair value measurement of the deposit liabilities disclosed in Note 10, Fair Value Accounting, is categorized as Level 2 in the fair value hierarchy.

Federal Home Loan Bank and Federal Reserve advances and other borrowings

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

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 our own and discounting the contractual cash flows on our 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 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 agreements and reverse agreements, and securities borrowing and securities 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 statement of operations, its consolidated balance sheet, or its 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. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company s consolidated statement of operations, its consolidated balance sheet, or its consolidated cash flows and will 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 U.S. 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 statement of operations, its consolidated balance sheet, or its consolidated cash flows.

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2. DISCONTINUED OPERATIONS

The Company has discontinued its affinity credit card platform, PartnersFirst, and has presented these activities as discontinued operations. At March 31, 2013 and December 31, 2012, the outstanding credit card loans held for sale were $27.9 million and $31.1 million, respectively.

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

	Three Months Ended March 31,	
	2013	**2012**
	(in thousands)	
Affinity card revenue	**$ 1,139**	$ 295
Non-interest expenses	**(1,074)**	(678)
Income (loss) before income taxes	**65**	(383)
Income tax expense (benefit)	**27**	(161)
Net income (loss)	**$ 38**	$ (222)

3. EARNINGS PER SHARE

Diluted earnings per share is based on the weighted average outstanding common shares during each period, including common stock equivalents. Basic earnings 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 March 31,	
	2013	**2012**
	(in thousands, except per share amounts)	
Weighted average shares basic	85,324	81,359
Dilutive effect of stock awards	656	868
Weighted average shares diluted	85,980	82,227
Net income (loss) available to common shareholders	**$ 20,611**	$ 9,537
Earnings per share basic	**0.24**	0.12
Earnings per share diluted	**0.24**	0.12

The Company had 770,135 and 1,053,045 stock options outstanding as of March 31, 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.

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4. 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 March 31, 2013		
	Unrealized holding gains (losses) on AFS	Unrealized gain on cash flow hedge	Total
	(in thousands)		
Beginning balance	$ 8,209	$ 17	$ 8,226
Other comprehensive income before reclassifications	(890)	(34)	(924)
Amounts reclassified from accumulated other comprehensive income	(97)		(97)
Net current-period other comprehensive income	(987)	(34)	(1,021)
Ending Balance	$ 7,222	$ (17)	$ 7,205

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

Three Months Ended March 31, 2013		
Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
	(in thousands)	
Unrealized gains and losses on AFS		
	$ 147	Realized gain on sale of Investment securities
	(50)	Income tax expense
	$ 97	Net of tax

5. INVESTMENT SECURITIES

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

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Securities held-to-maturity				
Collateralized debt obligations	$ 50	$ 1,095	$	$ 1,145
Corporate bonds (2)	97,780	1,009	(4,724)	94,065
Municipal obligations (1)	191,161	8,225	(178)	199,208
CRA investments	1,600			1,600
	$ 290,591	$ 10,329	$ (4,902)	$ 296,018

	Amortized Cost	OTTI Recognized in Other Comprehensive Loss	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
			(in thousands)		
Securities available-for-sale					
U.S. government sponsored agency securities	$ 18,692	$	$	$ (124)	$ 18,568
Municipal obligations (1)	87,193		1,960	(759)	88,394
Adjustable-rate preferred stock	72,653		4,467	(19)	77,101
Mutual funds (2)	32,422		1,466		33,888
Direct U.S. obligations and GSE residential mortgage-backed securities (3)	688,206		12,396	(903)	699,699
Private label residential mortgage-backed securities	34,086	(1,811)	1,856	(631)	33,500
Private label commercial mortgage-backed securities	5,341		316		5,657
Trust preferred securities	32,000			(6,800)	25,200
CRA investments	23,463		715		24,178
	$ 994,056	$ (1,811)	$ 23,176	$ (9,236)	$ 1,006,185
Securities measured at fair value					
Direct U.S. obligations and GSE residential mortgage-backed securities (3)					$ 4,781

(1) These consist of revenue obligations.
(2) These are investment grade corporate bonds.
(3) These are primarily agency collateralized mortgage obligations.

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		(in thousands)		
Securities held-to-maturity				
Collateralized debt obligations	$ 50	$ 1,401	$	$ 1,451
Corporate bonds (2)	97,781	984	(6,684)	92,081
Municipal obligations (1)	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 Loss	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
			(in thousands)		
Securities available-for-sale					
Municipal obligations (1)	$ 71,777	$	$ 1,578	$ (184)	$ 73,171
Adjustable-rate preferred stock	72,717		3,591	(753)	75,555
Mutual funds (2)	36,314		1,647		37,961
Direct U.S. obligations and GSE residential mortgage-backed securities (3)	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
Securities measured at fair value					
Direct U.S. obligations and GSE residential mortgage-backed securities (3)					$ 5,061

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(1) These consist of revenue obligations.
(2) These are investment grade corporate bonds.
(3) These are primarily agency collateralized mortgage obligations.

For additional information on the fair value changes of the securities measured at fair value, see the trading securities table in Note 10 Fair Value Accounting .

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

For debt securities and for 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 it is able to assert that it has the intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Gross unrealized losses at March 31, 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 months ended March 31, 2013 and 2012.

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

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

	March 31, 2013					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Securities held-to-maturity						
Corporate bonds	$	$	$ 4,724	$ 80,276	$ 4,724	$ 80,276
Municipal obligations	178	9,264			178	9,264
	$ 178	$ 9,264	$ 4,724	$ 80,276	$ 4,902	$ 89,540
Securities available-for-sale						
U.S. Government-sponsored agency securities	$ 124	$ 18,569	$	$	$ 124	$ 18,569
Adjustable-rate preferred stock	19	5,787			19	5,787
Direct U.S obligations and GSE residential mortgage-backed securities	897	105,310	6	1,793	903	107,103
Municipal obligations	759	30,761			759	30,761
Private label residential mortgage-backed securities	538	23,433	93	6,534	631	29,967
Private label commercial mortgage-backed securities						
Trust preferred securities			6,800	25,200	6,800	25,200

	$ 2,337	$ 183,860	$ 6,899	$ 33,527	$ 9,236	$ 217,387

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	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)					
Securities 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
Securities available-for-sale						
Adjustable-rate preferred stock	$ 110	$ 7,811	$ 643	$ 8,723	$ 753	$ 16,534
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

The total number of securities in an unrealized loss position at March 31, 2013 was 68 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 March 31, 2013, the net unrealized loss on trust preferred securities classified as AFS was $6.8 million, compared with $7.9 million at December 31, 2012. The Company actively monitors its debt and other structured securities portfolios classified as AFS for declines in fair value. At March 31, 2013, the gross unrealized loss on the corporate bond portfolio classified as HTM was $4.7 million compared to $6.7 million at December 31, 2012. During last 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 last year. However, all of the bonds remain investment grade.

The amortized cost and fair value of securities as of March 31, 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. Therefore, these securities are listed separately in the maturity summary.

	March 31, 2013		December 31, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Securities held to maturity				
Due in one year or less	$ 1,600	$ 1,600	$ 1,600	$ 1,600
After one year through five years	13,594	14,034	13,596	13,934
After five years through ten years	121,075	118,175	121,238	116,020
After ten years	154,322	162,209	154,899	161,265
	$ 290,591	$ 296,018	$ 291,333	$ 292,819
Securities available for sale				
Due in one year or less	$ 57,745	$ 59,954	$ 65,190	$ 67,794

After one year through five years	27,820	29,817	24,261	25,906
After five years through ten years	26,313	26,092	8,165	8,000
After ten years	193,972	190,623	179,793	174,686
Mortgage backed securities	688,206	699,699	648,641	663,204
	$ 994,056	$ 1,006,185	$ 926,050	$ 939,590

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The following table summarizes the Company s investment ratings position as of March 31, 2013:

	As of March 31, 2013						
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A- (in thousands)	BBB+ to BBB-	BB+ and below	Totals
Municipal obligations	$ 8,081	$	$ 134,992	$ 121,336	$ 14,873	$ 273	$ 279,555
Direct U.S. obligations & GSE residential mortgage-backed securities		704,480					704,480
Private label residential mortgage-backed securities	14,720		396	6,719	5,038	6,627	33,500
Private label commercial mortgage-backed securities	5,657						5,657
Mutual funds (3)					33,888		33,888
U.S. Government-sponsored agency securities		18,568					18,568
Adjustable-rate preferred stock			825		57,157	15,896	73,878
Trust preferred securities					25,200		25,200
Collateralized debt obligations						50	50
Corporate bonds			2,697	40,112	54,971		97,780
Total (1) (2)	$ 28,458	$ 723,048	$ 138,910	$ 168,167	$ 191,127	$ 22,846	$ 1,272,556

(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 March 31, 2013. Unrated securities consist of CRA investments with a carrying value of $24.2 million, ARPS with a carrying value of $3.2 million and an other investment of $1.6 million.
(3) At least 80% of mutual funds are investment grade corporate bonds.

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- (in thousands)	BBB+ to BBB-	BB+ and below	Totals
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
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 $753.6 million and $711.7 million at March 31, 2013 and December 31, 2012, respectively, were pledged for various purposes as required or permitted by law.

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Gross gains	**$ 200**	$ 556
Gross (losses)	**(53)**	(195)
	$ 147	$ 361

6. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

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

	March 31, 2013	December 31, 2012
	(in thousands)	
Commercial real estate owner occupied	$ 1,414,257	$ 1,396,797
Commercial real estate non-owner occupied	1,538,477	1,505,600
Commercial and industrial	1,809,596	1,659,003
Residential real estate	388,663	407,937
Construction and land development	381,078	394,319
Commercial leases	275,308	288,747
Consumer	26,014	31,836
Deferred fees and unearned income, net	(5,979)	(6,045)
	5,827,414	5,678,194
Allowance for credit losses	(95,494)	(95,427)
Total	$ 5,731,920	$ 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:

	March 31, 2013					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,393,080	$ 4,853	$ 3,052	$ 13,272	$ 21,177	$ 1,414,257
Non-owner occupied	1,355,197	15,593		1,913	17,506	1,372,703
Multi-family	165,587		187		187	165,774
Commercial and industrial						
Commercial	1,804,566	2,624	120	2,286	5,030	1,809,596
Leases	274,176		156	976	1,132	275,308
Construction and land development						
Construction	205,085					205,085
Land	173,178	280		2,535	2,815	175,993
Residential real estate	370,265	4,147	631	13,620	18,398	388,663

Consumer	53,668	288			288	53,956
Total loans	$ 5,794,802	$ 27,785	$ 4,146	$ 34,602	$ 66,533	$ 5,861,335

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	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

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:

	March 31, 2013				December 31, 2012			
	Non-accrual loans			Loans past due 90 days	Non-accrual loans			Loans past due 90 days
	Current	Past Due/ Delinquent	Total Non-accrual	or more and still accruing	Current	Past Due/ Delinquent	Total Non-accrual	or more and still accruing
	(in thousands)							
Commercial real estate								
Owner occupied	**$ 14,265**	**$ 18,000**	**$ 32,265**	**$ 686**	$ 14,392	$ 18,394	$ 32,786	$ 1,272
Non-owner occupied	**15,933**	**10,958**	**26,891**	**917**	18,299	8,572	26,871	
Multi-family		**187**	**187**		318		318	
Commercial and industrial								
Commercial	**2,596**	**2,441**	**5,037**	**37**	2,549	3,194	5,743	15
Leases		**1,133**	**1,133**			979	979	
Construction and land development								
Construction								
Land	**3,510**	**2,815**	**6,325**		4,375	6,718	11,093	
Residential real estate	**7,345**	**14,565**	**21,910**		11,561	15,161	26,722	101
Consumer					39	165	204	
Total	**$ 43,649**	**$ 50,099**	**$ 93,748**	**$ 1,640**	$ 51,533	$ 53,183	$ 104,716	$ 1,388

The reduction in interest income associated with loans on nonaccrual status was approximately $1.2 million and $1.3 million for the three months ended March 31, 2013 and 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 Watch, Substandard, Doubtful , and Loss. Substandard loans include those characterized by well defined weaknesses and carry the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, or risk rated eight, have all the weaknesses inherent in those classified 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

Watch. Risk ratings are updated, at a minimum, quarterly. The following tables present gross loans by risk rating:

	March 31, 2013					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,303,225	$ 49,475	$ 61,248	$ 309	$	$ 1,414,257
Non-owner occupied	1,299,585	22,394	50,724			1,372,703
Multi-family	165,587		187			165,774
Commercial and industrial						
Commercial	1,782,067	10,248	17,136	145		1,809,596
Leases	268,603	5,572	1,133			275,308
Construction and land development						
Construction	186,983	18,102				205,085
Land	138,184	13,579	24,230			175,993
Residential real estate	349,275	5,871	33,517			388,663
Consumer	52,973	420	563			53,956
Total	$ 5,546,482	$ 125,661	$ 188,738	$ 454	$	$ 5,861,335

	March 31, 2013					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$ 5,540,730	$ 121,858	$ 132,179	$ 37	$	$ 5,794,804
Past due 30 59 days	4,687	3,763	19,334			27,784
Past due 60 89 days	79	40	4,026			4,145
Past due 90 days or more	986		33,199	417		34,602
Total	$ 5,546,482	$ 125,661	$ 188,738	$ 454	$	$ 5,861,335

	December 31, 2012					
	Pass	Watch	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	**Watch**	**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:

	March 31, 2013	December 31, 2012
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	**$ 42,284**	$ 51,538
Impaired loans without a specific valuation allowance under ASC 310	**154,857**	146,617
Total impaired loans	**$ 197,141**	$ 198,155
Valuation allowance related to impaired loans	**$ (11,004)**	$ (12,866)

The following table presents the impaired loans by class:

	March 31, 2013	December 31, 2012
	(in thousands)	
Commercial real estate		
Owner occupied	**$ 60,147**	$ 58,074
Non-owner occupied	**58,109**	52,146
Multi-family	**187**	318
Commercial and industrial		
Commercial	**16,049**	15,531
Leases	**1,133**	979
Construction and land development		
Construction		
Land	**27,532**	32,492
Residential real estate	**33,373**	37,851
Consumer	**611**	764
Total	**$ 197,141**	$ 198,155

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans 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 March 31, 2013 and December 31, 2012.

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

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Commercial real estate		
Owner occupied	$ 60,065	$ 48,385
Non-owner occupied	52,986	45,490
Multi-family	230	943
Commercial and industrial		
Commercial	15,088	26,957
Leases	1,028	595
Construction and land development		
Construction		14,339
Land	29,362	39,293
Residential real estate	37,040	31,067
Consumer	705	1,929
Total	$ 196,504	$ 208,998

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

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Commercial real estate		
Owner occupied	$ 420	$ 414
Non-owner occupied	404	459
Multi-family		
Commercial and industrial		
Commercial	150	255
Leases		
Construction and land development		
Construction		
Land	259	352
Residential real estate	5	58
Consumer	8	11
Total	$ 1,246	$ 1,549

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

The following table summarizes nonperforming assets:

	March 31, 2013	December 31, 2012
	(in thousands)	
Nonaccrual loans	**$ 93,748**	$ 104,716
Loans past due 90 days or more on accrual status	**1,640**	1,388
Troubled debt restructured loans	**94,531**	84,609
Total nonperforming loans	**189,919**	190,713
Foreclosed collateral	**77,921**	77,247

Total nonperforming assets	**$ 267,840**	$ 267,960

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Allowance for Credit Losses

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

	For the Three Months Ended March 31,					
	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	614	2,887	2,493	1,770	275	8,039
Recoveries	701	942	569	441	14	2,667
Provision	398	1,864	1,282	2,654	(759)	5,439
Ending balance	$ 11,039	$ 34,901	$ 14,595	$ 34,185	$ 774	$ 95,494
2012						
Beginning Balance	$ 14,195	$ 35,031	$ 19,134	$ 25,535	$ 5,275	$ 99,170
Charge-offs	5,087	4,912	1,420	3,654	2,002	17,075
Recoveries	86	1,703	338	777	42	2,946
Provision	3,559	3,296	680	4,243	1,303	13,081
Ending balance	$ 12,753	$ 35,118	$ 18,732	$ 26,901	$ 4,618	$ 98,122

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 March 31, 2013:								
Recorded Investment:								
Impaired loans with an allowance recorded	$ 11,700	$ 9,744	$ 3,617	$ 13,723	$ 2,831	$ 669	$	$ 42,284
Impaired loans with no allowance recorded	48,447	48,552	12,432	19,650	24,701	464	611	154,857
Total loans individually evaluated for impairment	60,147	58,296	16,049	33,373	27,532	1,133	611	197,141
Loans collectively evaluated for impairment	1,347,463	1,467,195	1,793,069	353,178	353,037	274,175	25,403	5,613,520
Loans acquired with deteriorated credit quality	6,647	12,986	478	2,112	509			22,732
Total loans held for investment	$ 1,414,257	$ 1,538,477	$ 1,809,596	$ 388,663	$ 381,078	$ 275,308	$ 26,014	$ 5,833,393
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$ 14,892	$ 9,744	$ 3,937	$ 14,998	$ 2,831	$ 669	$	47,071
Impaired loans with no allowance recorded	53,426	51,397	16,106	26,656	25,282	464	623	173,954

Total loans individually evaluated for impairment	68,318	61,141	20,043	41,654	28,113	1,133	623	221,025
Loans collectively evaluated for impairment	1,347,463	1,467,195	1,793,069	353,178	353,037	274,175	25,403	5,613,520
Loans acquired with deteriorated credit quality	11,815	17,778	1,620	3,794	865			35,872
Total loans held for investment	$ 1,427,596	$ 1,546,114	$ 1,814,732	$ 398,626	$ 382,015	$ 275,308	$ 26,026	$ 5,870,417
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$ 2,316	$ 1,381	$ 1,506	$ 4,217	$ 1,153	$ 431	$	11,004
Impaired loans with no allowance recorded								
Total loans individually evaluated for impairment	2,316	1,381	1,506	4,217	1,153	431		11,004
Loans collectively evaluated for impairment	15,252	15,267	29,613	10,378	9,886	2,635	774	83,805
Loans acquired with deteriorated credit quality		685						685
Total loans held for investment	$ 17,568	$ 17,333	$ 31,119	$ 14,595	$ 11,039	$ 3,066	$ 774	$ 95,494

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	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 March 31, 2013, there was $0.7 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.

Changes in the accretable discount for loans purchased with credit quality deterioration follows:

		Three Months Ended March 31, 2013
		(in thousands)
Balance at the beginning of the period	$	7,072
Additions		
Accretion to interest income		(2,079)
Transfers from non-accretable discount to accretable		
Balance at the end of the period	$	4,993

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 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.

Troubled Debt Restructurings (TDR)

A troubled debt restructured loan is a loan on which the bank, for reasons related to a borrower s financial difficulties, grants a concession to the borrower that the bank 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 bank 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.

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

	March 31, 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	5	$ 2,686	$	$ 54	$ 2,632	$
Non-owner occupied	4	10,318	1,030	63	9,225	7
Multi-family						
Commercial and industrial						
Commercial	5	1,846		10	1,836	8
Leases						
Construction and land development						
Construction						
Land	2	286			286	1
Residential real estate	1	40		6	34	3
Consumer	1	39			39	3
Total	18	$ 15,215	$ 1,030	$ 133	$ 14,052	$ 22

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

	Three Months Ended March 31, 2012					
	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
	(in thousands)					
Commercial real estate						
Owner occupied	6	$ 12,402	$	$ 102	$ 12,300	$ 36
Non-owner occupied	3	9,809	430	127	9,252	5
Multi-family						
Commercial and industrial						
Commercial	9	2,096		26	2,070	21
Leases						
Construction and land development						
Construction						
Land	2	517		55	462	5
Residential real estate	8	1,809	40	241	1,528	3
Consumer	2	68			68	
Total	30	$ 26,701	$ 470	$ 551	$ 25,680	$ 70

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

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

	Three Months Ended March 31,			
	2013		2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Commercial real estate				
Owner occupied	3	$ 2,506	4	$ 5,257
Non-owner occupied	1	160	2	3,393
Multi-family			1	193
Commercial and industrial				
Commercial	2	782	1	3,950
Leases				
Construction and land development				
Construction				
Land	2	330	2	976
Residential real estate	2	655	1	280
Consumer			1	375
Total	10	$ 4,433	12	$ 14,424

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 March 31, 2013 and December 31, 2012, loan commitments outstanding on TDR loans were $1.6 million and $0.2 million, respectively.

Loan Purchases and Sales

In the first quarter of 2013, the Company had secondary market loan purchases of $43.0 million consisting of commercial and industrial 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 three months of 2013 or 2012. The Company held $27.9 million and $31.1 million of credit card loans for sale at March 31, 2013 and December 31, 2012, respectively. In the first quarter of 2012, the Company had secondary market loan purchases of $73.3 million consisting of $57.9 million of commercial leases and $15.4 million of commercial and industrial loans.

7. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

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

	Three Months Ended March 31,	
	2013	**2012**
	(in thousands)	
Balance, beginning of period	**$ 77,247**	$ 89,104
Additions	**6,930**	5,340
Dispositions	**(5,240)**	(10,745)
Valuation adjustments in the period, net	**(1,017)**	(2,254)
Balance, end of period	**$ 77,921**	$ 81,445

At March 31, 2013 and 2012, the majority of the Company s repossessed assets were properties located in Nevada.

8. INCOME TAXES

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

For the three months ended March 31, 2013, $11 million of the net deferred tax assets relate to federal Net Operating Losses (NOLs) or other built-in deductions or losses acquired from Western Liberty and which thus are subject to limitation by the application of section 382 of the Internal Revenue Code. In management s opinion, it is more likely that none of the $11 million in benefits will be limited by section 382 of the Code and will be realized. The reduction in the effective tax rate from the first quarter of 2012 compared to the first quarter of 2013 is primarily due to 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 generated capital gains.

At March 31, 2013, the company has a deferred tax valuation allowance of $5.5 million (compared to $8.0 million at December 31, 2012) relating to net capital losses on ARPS securities sales.

The deferred tax asset related to state net operating loss carryovers outstanding at March 31, 2013 is comprised of $0.9 million of tax benefits from California state net operating loss carry forwards that will begin to expire in 2029, and $1.9 million of tax benefits from Arizona state net operating loss carryovers that will begin to expire in 2013. In Management s opinion, it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred taxes related to these net operating loss carryovers.

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.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period in which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

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 periods ended March 31, 2013 and 2012, respectively.

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.

9. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments and Letters of Credit

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

Lines of credit are obligations to lend money to a borrower. Credit risk arises when the borrowers current financial condition may indicate less ability to pay than when the commitment was originally made. In the case of standby letters of credit, the risk arises from the possibility of the failure of the customer to perform according to the terms of a contract. In such a situation, the third party might draw on the standby letter of credit to pay for completion of the contract 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:

	March 31, 2013	December 31, 2012
	(in thousands)	
Commitments to extend credit, including unsecured loan commitments of $165,061 at March 31, 2013 and $172,002 at December 31, 2012	$ 1,253,000	$ 1,096,264
Credit card commitments and financial guarantees	293,861	295,506
Standby letters of credit, including unsecured letters of credit of $3,915 at March 31, 2013 and $3,915 at December 31, 2012	31,968	32,757
Total	$ 1,578,829	$ 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 March 31, 2013 and December 31, 2012 was $260.6 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 6, 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 $1.2 million and $1.3 million as of March 31, 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 March 31, 2013 and December 31, 2012, commercial real estate related loans accounted for approximately 57% and 58% of total loans, respectively, and approximately 3% of commercial real estate related loans are secured by undeveloped land. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 48% of these commercial real estate loans, excluding construction and land loans, were owner occupied at March 31, 2013 and December 31, 2012, respectively. In addition, approximately 4% of total loans were unsecured as of March 31, 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 $1.9 million and $1.5 million was included in occupancy expenses for the three month periods ended March 31, 2013 and 2012, respectively.

10. 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 825 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 825 are described below:

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

Level 2 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 all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect an entity 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.

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. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

Under ASC Topic 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 fair value option. 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 fair value option election.

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

For the three months ended March 31, 2013 and 2012, gains and losses from fair value changes included in the Consolidated Statement of Operations were as follows:

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Description	Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the Fair Value Option 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 March 31, 2013				
Securities measured at fair value	$ (2)	$ 2	$	$
Junior subordinated debt	(469)		348	(817)
	$ (471)	$ 2	$ 348	$ (817)
Three Months Ended March 31, 2012				
Securities measured at fair value	$ (43)	$ 4	$	$ (39)
Junior subordinated debt	(290)		325	(615)
	$ (333)	$ 4	$ 325	$ (654)

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

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Net gains and (losses) for the period on trading securities included in earnings	**$ (2)**	$ (43)
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	**$ (2)**	$ (43)

The difference between the aggregate fair value of junior subordinated debt ($36.7 million) and the aggregate unpaid principal balance thereof ($66.5 million) was $29.8 million at March 31, 2013.

Interest income on securities measured at fair value is accounted for similarly to those classified as available-for-sale and held-to-maturity. Any premiums or discounts are recognized in interest income over the term of the securities. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations. Interest expense on junior subordinated debt is also determined under a constant yield calculation.

Fair value on a recurring basis

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

AFS Securities: Adjustable-rate preferred securities, one trust preferred security, 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 our 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 our 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 our 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 evaluated priced offerings on individual issuances of trust preferred securities and estimated the discount rate based, in part, on that information. The Company estimated the discount rate at 6.430%, which is a 615 basis point spread over 3 month LIBOR (0.283% as of March 31, 2013). As of March 31, 2012, the Company estimated the discount rate at 6.79%, which was a 632 basis point spread over 3 month LIBOR (0.47%). 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.

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

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March 31, 2013	Fair Value Measurements at the End of the Reporting Period Using: 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)			
Assets:				
Securities measured at fair value				
Direct U.S. obligations and GSE residential mortgage-backed securities	$	$ 4,781	$	$ 4,781
Securities available for sale				
U.S. Government-sponsored agency securities	$	$ 18,568	$	$ 18,568
Municipal obligations		88,394		88,394
Direct U.S. obligations and GSE residential mortgage-backed securities		699,699		699,699
Mutual funds	33,888			33,888
Private label residential mortgage-backed securities		33,500		33,500
Private label commercial mortgage-backed securities		5,657		5,657
Adjustable-rate preferred stock	77,101			77,101
Trust preferred		25,200		25,200
Other	24,178			24,178
	$ 135,167	$ 871,018	$	$ 1,006,185
Interest rate swaps	$	$ 701	$	$ 701
Liabilities:				
Junior subordinated debt	$	$	$ 36,687	$ 36,687
Interest rate swaps	$	$ 727	$	$ 727
Securities sold short	$ 132,614	$	$	$ 132,614

December 31, 2012	Fair Value Measurements at the End of the Reporting Period Using: 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)			
Assets:				
Securities measured at fair value				
Direct U.S. obligations and GSE residential mortgage-backed securities	$	$ 5,061	$	$ 5,061
Securities available for sale				
U.S. Government-sponsored agency securities	$	$	$	$
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
<u>Liabilities:</u>				
Junior subordinated debt	$	$	$ 36,218	$ 36,218
Interest rate swaps	$	$ 751	$	$ 751

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As of March 31, 2013, two trust preferred securities with a net fair value of $25.2 million 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 months ended March 31, 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
	(in thousands)
Opening balance	$ (36,218)
Transfers into Level 3	
Transfers out of Level 3	
Total gains or losses for the period	
Included in earnings (or changes in net assets) (a)	(469)
Included in other comprehensive income	
Purchases, sales, and settlements	
Purchases	
Sales	
Settlements	
Closing balance	$ (36,687)
Change in unrealized gains (losses) for the three month period included in earnings (or changes in net assets) for the period ended March 31, 2013.	$ (469)
Change in unrealized gains (losses) for the three month period included in earnings (or changes in net assets) for the period ended March 31, 2012.	$ (290)

(a) Total gains (losses) for the period are included in the non-interest income line, mark to market gains (losses), 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 March 31, 2013	Valuation Technique	Significant Unobservable Inputs	Input Value
		(dollars in thousands)		
Junior subordinated debt	$ 36,687	Discounted cash flow	Median market spreads on publicly issued trust preferreds with comparable credit risk	6.430%

	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 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.

Fair value on a nonrecurring basis

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

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	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 March 31, 2013:				
Impaired loans with specific valuation allowance	$ 31,280	$	$	$ 31,280
Impaired loans without specific valuation allowance	122,540			122,540
Other assets acquired through foreclosure	77,921			77,921
As of December 31, 2012:				
Impaired loans with specific valuation allowance	$ 38,672	$	$	$ 38,672
Impaired loans without specific valuation allowance	90,632			90,632
Other assets acquired through foreclosure	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 six to 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 $42.3 million and specific reserves in the allowance for loan losses of $11.0 million at March 31, 2013.

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 and 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 six to 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 $77.9 million of such assets at March 31, 2013. 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 elected to apply provisions of ASC 320 as of January 1, 2009 to its AFS and HTM investment securities portfolios. The OTTI was separated into (a) the amount of total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the total OTTI related to the credit loss was recognized in earnings. The amount of the total impairment related to all other factors was recognized in other comprehensive income. The OTTI was presented in the statement of operations with an offset for the amount of the total OTTI that was recognized in other comprehensive income.

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

For the three months ended March 31, 2013 and 2012, the Company determined that no securities contained credit losses.

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Debt Security Credit Losses

Recognized in Other Comprehensive Income/Earnings

For the Three Months Ended March 31, 2013 and 2012

	Private Label Mortgage-Backed Securities (in thousands)
Beginning balance of impairment losses held in other comprehensive income	$ (1,811)
Current period other-than temporary impairment credit losses recognized through earnings	
Reductions for securities sold during the period	
Additions or reductions in credit losses due to change of intent to sell	
Reductions for increases in cash flows to be collected on impaired securities	
Ending balance of net unrealized gains and (losses) held in other comprehensive income	$ (1,811)

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2013				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
			(in thousands)		
Financial assets:					
Investment securities	**$ 1,301,557**	**$ 185,998**	**$ 1,120,986**	**$**	**$ 1,306,984**
Derivatives	**701**		**701**		**701**
Loans, net	**5,759,862**		**5,253,639**	**153,820**	**5,407,459**
Financial liabilities:					
Deposits	**6,734,914**		**6,737,580**		**6,737,580**
Customer repurchases	**64,692**		**64,692**		**64,692**
Securities sold short	**132,614**	**132,614**			**132,614**
FHLB and FRB advances	**200,000**		**200,000**		**200,000**
Other borrowed funds	**93,822**		**20,000**	**83,063**	**103,063**
Junior subordinated debt	**36,687**			**36,687**	**36,687**
Derivatives	**727**		**727**		**727**

	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	**777**		**777**		**777**
Loans, net	**5,613,891**		**5,133,351**	**129,304**	**5,262,655**
Financial liabilities:					
Deposits	**6,455,177**		**6,458,100**		**6,458,100**

Customer repurchases	**79,034**	**79,034**		**79,034**
FHLB and FRB advances	**120,000**	**120,000**		**120,000**
Other borrowed funds	**73,717**		**85,125**	**85,125**
Junior subordinated debt	**36,218**		**36,218**	**36,218**
Derivatives	**751**	**751**		**751**

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.

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Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value and net interest income resulting from hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board of Directors, the Board of Directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits. As of March 31, 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 March 31, 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 March 31, 2013 and December 31, 2012.

11. SEGMENTS

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

At March 31, 2013, the Company consists of the following segments: Bank of Nevada , Western Alliance Bank , Torrey Pines Bank and Other (Western Alliance Bancorporation holding company, Western Alliance Equipment Finance, Las Vegas Sunset Properties, Shine Investment Advisory Services, Inc.[until October 31, 2012], and the discontinued operations.)

The accounting policies of the reported segments are the same as those of the Company as described in Note 1, *Summary of Significant Accounting Policies.* 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.

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The following is a summary of selected operating segment information as of and for the three month periods ended March 31, 2013 and 2012:

Western Alliance Bancorporation and Subsidiaries

Operating Segment Results

Unaudited

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank*	Other	Inter-segment elimi-nations	Consoli-dated Company
			(dollars in millions)			
At March 31, 2013						
Assets	$ 3,277.5	$ 2,738.9	$ 1,956.4	$ 1,065.4	$ (864.1)	$ 8,174.1
Held for sale loans			27.9			27.9
Gross loans and deferred fees, net	2,301.3	2,116.0	1,402.0	50.9	(42.8)	5,827.4
Less: Allowance for credit losses	(55.7)	(22.4)	(14.8)	(2.6)		(95.5)
Net loans	2,245.6	2,093.6	1,387.2	48.3	(42.8)	5,731.9
Goodwill	23.2					23.2
Deposits	2,606.5	2,441.2	1,698.5		(11.3)	6,734.9
FHLB advances	200.0					200.0
Stockholders equity	387.8	228.8	172.4	799.0	(806.7)	781.3
No. of branches	12	16	12			40
No. of FTE	390	266	235	101		992
			(in thousands)			
Three Months Ended March 31, 2013:						
Net interest income	$ 29,254	$ 26,635	$ 20,777	$ (463)	$	$ 76,203
Provision for credit losses	405	2,635	92	2,307		5,439
Net interest income (loss) after provision for credit losses	28,849	24,000	20,685	(2,770)		70,764
Non-interest income	3,337	1,404	598	1,705	(3,145)	3,899
Non-interest expense	(17,891)	(13,068)	(11,969)	(7,146)	3,145	(46,929)
Income (loss) from continuing operations before income taxes	14,295	12,336	9,314	(8,211)		27,734
Income tax expense (benefit)	3,593	3,842	2,999	(3,626)		6,808
Income (loss) from continuing operations	10,702	8,494	6,315	(4,585)		20,926
Income (loss) from discontinued operations, net				38		38
Net income (loss)	$ 10,702	$ 8,494	$ 6,315	$ (4,547)	$	$ 20,964

* Excludes discontinued operations

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Western Alliance Bancorporation and Subsidiaries

Operating Segment Results

Unaudited

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank*	Other	Inter-segment elimi-nations	Consoli-dated Company
			(dollars in millions)			
At March 31, 2012						
Assets	$ 2,890.9	$ 2,271.1	$ 1,785.1	$ 779.3	$ (801.1)	$ 6,925.3
Gross loans and deferred fees, net	1,925.7	1,710.0	1,333.3		(42.8)	4,926.2
Less: Allowance for credit losses	(62.6)	(19.5)	(16.0)			(98.1)
Net loans	1,863.1	1,690.5	1,317.3		(42.8)	4,828.1
Goodwill	23.2			2.7		25.9
Deposits	2,435.2	1,953.7	1,530.6		(20.4)	5,899.1
FHLB advances and other	70.0	20.0	60.0		(30.0)	120.0
Stockholders equity	324.3	202.0	157.7	661.5	(691.4)	654.1
No. of branches	11	16	12			39
No. of FTE	394	237	223	97		951
			(in thousands)			
Three Months Ended March 31, 2012:						
Net interest income	$ 27,839	$ 23,055	$ 21,236	$ (2,073)	$	$ 70,057
Provision for credit losses	13,481	(1,997)	1,597			13,081
Net interest income (loss) after provision for credit losses	14,358	25,052	19,639	(2,073)		56,976
Non-interest income	3,583	1,853	1,178	1,991	(2,721)	5,884
Non-interest expense	(18,831)	(11,918)	(11,072)	(7,797)	2,721	(46,897)
Income (loss) from continuing operations before income taxes	(890)	14,987	9,745	(7,879)		15,963
Income tax expense (benefit)	(1,851)	5,172	3,958	(2,838)		4,441
Income (loss) from continuing operations	961	9,815	5,787	(5,041)		11,522
Loss from discontinued operations, net				(222)		(222)
Net income (loss)	$ 961	$ 9,815	$ 5,787	$ (5,263)	$	$ 11,300

* Excludes discontinued operations

12. STOCKHOLDERS EQUITY

Stock-based Compensation

For the three months ended March 31, 2013, 507,825 shares of restricted stock were granted to Company employees. 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 month period ended March 31, 2013 was $6.2

million. In addition, the Company granted 52,902 shares during the three months ended March 31, 2013 to non-employee WAL and subsidiary board of directors that immediately vested.

There were approximately 1,496,542 and 1,608,658 restricted shares outstanding at March 31, 2013 and 2012, respectively. For the three months ended March 31, 2013, the Company recognized stock-based compensation related to restricted stock grants of $1.0 million compared to $0.9 million for the three months ended March 31, 2012.

As of March 31, 2013 and 2012, there were 1.4 million and 2.0 million, respectively of stock options outstanding.

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13. OTHER BORROWINGS AND OTHER LIABILITIES

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

	March 31, 2013	December 31, 2012
	(in thousands)	
Short Term:		
Revolving line of credit	**$ 20,000**	$
Federal Home Loan Bank advances		120,000
Total short term debt	**$ 20,000**	$ 120,000
Long Term:		
Federal Home Loan Bank advance	**$ 200,000**	$
Other long term debt	**75,000**	75,000
	$ 275,000	$ 75,000

The Company maintains lines of credit with the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (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. The Company had no outstanding short-term FHLB or FRB advances at March 31, 2013.

At March 31, 2013, the Company had a revolving line of credit with another institution, with outstanding advances of $20.0 million. The interest rate is 30 day LIBOR plus 150 basis points, currently set at 1.7037%.

In 2010, the Company completed a public offering of $75 million 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. The weighted average cost on all long term debt was 3.65% and 10.81% for the three months ended March 31, 2013 and 2012, respectively.

As of March 31, 2013 and December 31, 2012, the Company had additional available credit with the FHLB of approximately $993.3 million and $952.8 million, respectively, and with the FRB of approximately $609.3 million and $600.6 million, respectively.

During the first quarter 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. This action reduced the Company s interest margin approximately five basis points during the quarter, primarily from the increase in earning assets at a very low yield. The balance was $132.6 million at March 31, 2013.

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

This discussion is designed to provide insight into Management s assessment of significant trends related to the Company s consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. This Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2012 and unaudited interim consolidated financial statements and notes hereto and financial information appearing elsewhere in this report. Unless the context requires otherwise, the terms Company, we, and our refer to Western Alliance Bancorporation and its wholly-owned subsidiaries on a consolidated basis.

Forward-Looking Information

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

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

- conditions in the financial markets and the economy may adversely impact financial performance;
- dependency on real estate and events that negatively impact real estate;
- high concentration of commercial real estate, construction and development and commercial and industrial loans;
- actual credit losses may exceed expected losses in the loan portfolio;
- the geographic concentrations of our assets increase risks related to economic conditions;
- the effects of interest rates and interest rate policy;
- exposure of financial instruments to certain market risks may cause volatility in earnings;
- dependence on low-cost deposits;
- ability to borrow from Federal Home Loan Bank (FHLB) or Federal Reserve Bank (FRB);

- events that further impair goodwill;
- increase in the cost of funding as the result of changes to our credit rating;
- expansion strategies may not be successful,
- our ability to control costs,
- risk associated with changes in internal controls and processes;
- our ability to compete in a highly competitive market;
- our ability to recruit and retain qualified employees, especially seasoned relationship bankers;
- the effects of terrorist attacks or threats of war;
- perpetration of internal fraud;
- risk of operating in a highly regulated industry and our ability to remain in compliance;
- possible need to revalue our deferred tax assets if stock transactions result in limitations on deductibility of net operating losses or loan losses;
- exposure to environmental liabilities related to the properties we acquire title;
- legislative and regulatory changes including Emergency Economic Stabilization Act of 2008, or EESA, the American Recovery and Reinvestment Act of 2009, or ARRA, and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations that might be promulgated thereunder;
- cyber security risks; and
- risks related to ownership and price of our common stock.

For additional information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 and in item 1A of Part II of this Quarterly Report.

Financial Overview and Highlights

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

Financial Result Highlights for the First Quarter of 2013

Net income for the Company of $21.0 million, or $0.24 per diluted share, for the first quarter of 2013 compared to net income of $11.3 million, or $0.12 per diluted share, for the first quarter of 2012.

The significant factors impacting earnings of the Company during the first quarter of 2013 were:

- Net income available to common shareholders of $20.6 million for the first quarter of 2013 compared to $9.5 million for the first quarter 2012.

- Net interest income increased by 8.7% to $76.2 million for the first quarter of 2013 compared to $70.1 million for the first quarter of 2012.

- Net interest margin for the first quarter of 2013 was 4.36% compared to 4.53% for the first quarter of 2012.

- Provision for credit losses decreased to $5.4 million for the first quarter of 2013 compared to $13.1 million for the first quarter of 2012.

- The Company experienced net loan growth in the first quarter of 2013 of $146 million to $5.86 billion. This increase was driven by growth in commercial and industrial loans and commercial real estate loans. Total loans increased $929 million over the last twelve months from $4.93 billion at March 31, 2012.

- Total deposits increased during the quarter by $280 million to $6.73 billion at March 31, 2013, with growth primarily in money market accounts and interest-bearing demand deposits partially offset by declines in non-interest bearing demand and certificates of deposits. Deposits increased $836 million over the last twelve months from $5.90 billion at March 31, 2012.

- Net charge-offs (annualized) to average loans outstanding declined to 0.38% in the first quarter of 2013 from 1.18% in the first quarter of 2012.

- Nonperforming assets (nonaccrual loans and assets acquired through foreclosure) decreased to 2.1% of total assets for 2.7% in the first quarter 2012.

- Other assets acquired through foreclosure declined to $77.9 million at March 31, 2013 from $81.4 million at March 31, 2012.

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company s overall comparative performance for the three months ended March 31, 2013 throughout the analysis sections of this report.

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands, except per share amounts)	
Net income available to common stockholders	**$ 20,611**	$ 9,537
Basic earnings per share	**0.24**	0.12
Diluted earnings per share	**0.24**	0.12
Total assets	**$ 8,174,104**	$ 6,925,292
Gross loans	**$ 5,855,356**	$ 4,926,223
Total deposits	**$ 6,734,914**	$ 5,899,054
Net interest margin	**4.36%**	4.53%
Return on average assets	**1.08%**	0.67%
Return on average stockholders equity	**10.92%**	6.97%

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

Asset Quality

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Non-accrual loans	**$ 93,748**	$ 103,486
Non-performing assets	**267,840**	289,951
Non-accrual loans to gross loans	**1.60%**	2.10%
Net charge-offs (annualized) to average loans	**0.38%**	1.18%

Asset and Deposit Growth

The ability to originate new loans and attract new deposits is fundamental to the Company s asset growth. The Company s assets and liabilities are comprised primarily of loans and deposits. Total assets increased to $8.17 billion at March 31, 2013 from $7.62 billion at December 31, 2012. Total gross loans including net deferred fees and unearned income, increased by $146 million, or 2.6%, to $5.86 billion as of March 31, 2013 compared to December 31, 2012. Total deposits increased $280 million, or 4.2%, to $6.73 billion as of March 31, 2013 from $6.46 billion as of December 31, 2012.

RESULTS OF OPERATIONS

The following table sets forth a summary financial overview for the comparable three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,		Increase
	2013	**2012**	**(Decrease)**
	(in thousands, except per share amounts)		
Consolidated Income Statement Data:			
Interest income	**$ 83,108**	$ 77,437	$ 5,671
Interest expense	**6,905**	7,380	(475)
Net interest income	**76,203**	70,057	6,146
Provision for credit losses	**5,439**	13,081	(7,642)
Net interest income after provision for credit losses	**70,764**	56,976	13,788
Other non-interest income	**3,899**	5,884	(1,985)
Non-interest expense	**46,929**	46,897	32
Net income from continuing operations before income taxes	**27,734**	15,963	11,771
Income tax provision	**6,808**	4,441	2,367
Income from continuing operations	**20,926**	11,522	9,404
Income (loss) from discontinued operations, net of tax benefit	**38**	(222)	260

Net income	**$ 20,964**	$ 11,300	$ 9,664
Net income available to common stockholders	**$ 20,611**	$ 9,537	$ 11,074
Income per share basic	**$ 0.24**	$ 0.12	$ 0.12
Income per share diluted	**$ 0.24**	$ 0.12	$ 0.12

Net Interest Margin

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

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	Three Months Ended March 31, 2013			2012		
	(dollars in thousands)					
	Average Balance	Interest	Average Yield/Cost (6)	Average Balance	Interest	Average Yield/Cost (6)
Interest-Earning Assets						
Securities:						
Taxable	**$ 935,842**	**$ 4,191**	**1.79%**	$ 1,174,901	$ 6,692	2.28%
Tax-exempt (1)	**347,536**	**3,967**	**7.02%**	248,377	2,893	7.17%
Total securities	**1,283,378**	**8,158**	**3.21%**	1,423,278	9,585	3.13%
Federal funds sold and other				153		0.00%
Loans (1) (2) (3)	**5,610,432**	**74,725**	**5.42%**	4,782,815	67,760	5.68%
Short term investments	**373,918**	**41**	**0.04%**	96,726	50	0.21%
Restricted stock	**30,858**	**184**	**2.39%**	33,355	42	0.50%
Total earnings assets	**7,298,586**	**83,108**	**4.74%**	6,336,327	77,437	5.00%
Nonearning Assets						
Cash and due from banks	**126,429**			114,835		
Allowance for credit losses	**(96,859)**			(100,747)		
Bank-owned life insurance	**138,694**			134,288		
Other assets	**421,873**			358,067		
Total assets	**$ 7,888,723**			$ 6,842,770		
Interest-Bearing Liabilities						
Sources of Funds						
Interest-bearing deposits:						
Interest checking	**$ 608,663**	**$ 301**	**0.20%**	$ 504,261	$ 315	0.25%
Savings and money market	**2,620,874**	**1,911**	**0.29%**	2,233,563	2,168	0.39%
Time deposits	**1,449,535**	**1,520**	**0.42%**	1,424,291	2,279	0.64%
Total interest-bearing deposits	**4,679,072**	**3,732**	**0.32%**	4,162,115	4,762	0.46%
Short-term borrowings	**176,445**	**214**	**0.49%**	221,483	151	0.27%
Long-term debt	**272,882**	**2,493**	**3.65%**	73,369	1,983	10.81%
Junior subordinated	**36,224**	**466**	**5.15%**	36,991		