WESTERN ALLIANCE BANCORPORATION
Form 10-Q
August 03, 2012
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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 June 30, 2012

or

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

Commission File Number: 001-32550

WESTERN ALLIANCE BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**88-0365922**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**I.D. Number)**
One E. Washington Street, Phoenix, AZ	**85004**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, 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: 83,156,957 shares as of July 31, 2012.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (unaudited)	December 31, 2011
	(in thousands, except share amounts)	
Assets:		
Cash and due from banks	**$ 137,933**	$ 116,866
Interest-bearing demand deposits in other financial institutions	**40,987**	38,129
Cash and cash equivalents	**178,920**	154,995
Money market investments	**3,630**	7,343
Investment securities - measured, at fair value	**5,898**	6,515
Investment securities - available-for-sale, at fair value; amortized cost of $1,099,963 at June 30, 2012 and $1,198,185 at December 31, 2011	**1,107,129**	1,190,385
Investment securities - held-to-maturity, at amortized cost; fair value of $284,389 at June 30, 2012 and $290,035 at December 31, 2011	**284,891**	286,258
Investments in restricted stock, at cost	**34,225**	33,520
Loans:		
Held for investment, net of deferred fees	**5,164,858**	4,780,069
Less: allowance for credit losses	**97,512**	99,170
Total loans	**5,067,346**	4,680,899
Premises and equipment, net	**106,895**	105,546
Goodwill	**25,925**	25,925
Other intangible assets, net	**8,028**	9,807
Other assets acquired through foreclosure, net	**76,994**	89,104
Bank owned life insurance	**136,141**	133,898
Deferred tax assets, net	**48,159**	61,724
Prepaid expenses	**13,464**	16,470
Other assets	**65,882**	42,093
Discontinued operations, assets held for sale	**45**	59
Total assets	**$ 7,163,572**	$ 6,844,541
Liabilities:		
Deposits:		
Non-interest-bearing demand	**$ 1,842,125**	$ 1,558,211
Interest-bearing	**4,159,323**	4,100,301
Total deposits	**6,001,448**	5,658,512
Customer repurchase agreements	**86,864**	123,626
Other borrowings	**303,514**	353,321
Junior subordinated debt, at fair value	**36,687**	36,985
Other liabilities	**62,939**	35,414
Total liabilities	**6,491,452**	6,207,858

Commitments and contingencies (Note 8)		
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 June 30, 2012 and December 31, 2011	**141,000**	141,000
Common stock - par value $.0001; 200,000,000 authorized; 83,157,198 shares issued and outstanding at June 30, 2012 and 82,361,655 at December 31, 2011	**8**	8
Additional paid in capital	**748,159**	743,780
Accumulated deficit	**(221,338)**	(243,512)
Accumulated other comprehensive income (loss)	**4,291**	(4,593)
Total stockholders equity	**672,120**	636,683
Total liabilities and stockholders equity	**$ 7,163,572**	$ 6,844,541

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENTS (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	**$ 68,342**	$ 64,919	**$ 136,102**	$ 128,801
Investment securities - taxable	**5,815**	7,633	**12,227**	14,530
Investment securities - non-taxable	**2,528**	13	**4,768**	33
Dividends - taxable	**314**	273	**594**	581
Dividends - non-taxable	**732**	623	**1,385**	1,328
Other	**115**	185	**207**	339
Total interest income	**77,846**	73,646	**155,283**	145,612
Interest expense:				
Deposits	**4,168**	7,548	**8,930**	15,446
Customer repurchase agreements	**58**	100	**122**	186
Other borrowings	**2,328**	2,023	**4,398**	4,204
Junior subordinated debt	**487**	689	**971**	1,391
Total interest expense	**7,041**	10,360	**14,421**	21,227
Net interest income	**70,805**	63,286	**140,862**	124,385
Provision for credit losses	**13,330**	11,891	**26,411**	21,932
Net interest income after provision for credit losses	**57,475**	51,395	**114,451**	102,453
Non-interest income:				
Securities impairment charges recognized in earnings		(226)		(226)
Gain on sales of securities, net	**1,110**	2,666	**1,471**	4,045
Mark to market (losses) gains, net	**564**	336	**232**	(173)
Service charges and fees	**2,317**	2,243	**4,602**	4,527
Other fee revenue	**870**	1,039	**1,870**	1,799
Income from bank owned life insurance	**1,120**	1,822	**2,243**	3,006
Other	**1,416**	1,717	**2,863**	3,449
Total non-interest income (loss)	**7,397**	9,597	**13,281**	16,427
Non-interest expense:				
Salaries and employee benefits	**25,995**	22,960	**52,659**	45,800
Occupancy expense, net	**4,669**	5,044	**9,391**	9,898
Net loss on sales/valuations of repossessed assets and bank premises, net	**901**	8,633	**3,552**	14,762
Insurance	**2,152**	2,352	**4,202**	6,214
Loan and repossessed asset expenses	**1,653**	2,284	**3,337**	4,406
Legal, professional and director fees	**2,517**	2,361	**4,089**	3,727
Marketing	**1,459**	1,135	**2,830**	2,292
Data processing	**1,293**	928	**2,288**	1,776
Intangible amortization	**890**	890	**1,779**	1,779

Customer service	**682**	828	**1,274**	1,720
Merger expenses		(109)		109
Other	**3,220**	3,702	**6,927**	6,672
Total non-interest expense	**45,431**	51,008	**92,328**	99,155
Income from continuing operations before provision for income taxes	**19,441**	9,984	**35,404**	19,725
Income tax expense	**5,259**	3,295	**9,700**	7,324
Income from continuing operations	**14,182**	6,689	**25,704**	12,401
Loss from discontinued operations, net of tax benefit	**(221)**	(460)	**(443)**	(1,019)
Net income	**13,961**	6,229	**25,261**	11,382
Dividends and accretion on preferred stock	**1,325**	2,503	**3,088**	5,006
Net income available to common shareholders	**$ 12,636**	$ 3,726	**$ 22,173**	$ 6,376

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS (unaudited)

(continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Income (loss) per share - basic and diluted				
Continuing operations	**$ 0.16**	$ 0.05	**$ 0.28**	$ 0.09
Discontinued	**(0.00)**	(0.01)	**(0.01)**	(0.01)
	$ 0.15	$ 0.05	**$ 0.27**	$ 0.08
Average number of common shares - basic	**81,590**	80,883	**81,475**	80,838
Average number of common shares - diluted	**81,955**	81,223	**82,091**	81,119
Dividends declared per common share	**$**	$	**$**	$

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(in thousands)			
Net income	**$ 13,961**	$ 6,229	**$ 25,261**	$ 11,382
Other comprehensive income, net:				
Unrealized gain on securities available-for-sale (AFS), net	**4,119**	10,505	**10,325**	6,019
Impairment loss on securities, net		144		144
Unrealized gain on cash flow hedge, net	**8**		**8**	
Realized gain on cash flow hedge, net			**(519)**	
Realized gain on sale of securities AFS included in income, net	**(705)**	(1,703)	**(930)**	(2,536)
Net other comprehensive income	**3,422**	8,946	**8,884**	3,627
Comprehensive income	**$ 17,383**	$ 15,175	**$ 34,145**	$ 15,009
Amount of impairment losses reclassified out of accumulated other comprehensive income into earnings	**$**	$ 226	**$**	$ 226
Income tax benefit related to impairment losses	**$**	$ 82	**$**	$ 82

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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, 2011:	141	$ 141,000	82,362	$ 8	$ 743,780	$ (4,593)	$ (243,512)	$ 636,683
Net income							25,261	25,261
Exercise of stock options			79		552			552
Stock-based compensation			122		1,184			1,184
Restricted stock grants, net			595		2,643			2,643
Dividends on preferred stock							(3,088)	(3,088)
Other comprehensive income (loss),						8,884		8,884
Balance, June 30, 2012	**141**	**$ 141,000**	**83,158**	**$ 8**	**$ 748,159**	**$ 4,291**	**$ (221,338)**	**$ 672,120**

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Six Months Ended June 30,	
	2012	2011
	(in thousands)	
Cash flows from operating activities:		
Net income	**$ 25,261**	$ 11,382
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	**26,411**	21,932
Depreciation and amortization	**4,936**	5,393
Stock-based compensation	**3,827**	1,658
Deferred income taxes and income taxes receivable	**8,781**	6,689
Net amortization of discounts and premiums for investment securities	**5,371**	4,172
Securities impairment		226
(Gains)/Losses on:		
Sales of securities, AFS	**(1,471)**	(4,045)
Derivatives	**99**	121
Sale of repossessed assets, net	**3,573**	14,795
Sale of premises and equipment, net	**(21)**	(33)
Sale of loans, net	**6**	
Changes in:		
Other assets	**8,082**	7,311
Other liabilities	**(898)**	11,745
Fair value of assets and liabilities measured at fair value	**(232)**	173
Servicing rights, net	**9**	164
Net cash provided by operating activities	**83,734**	81,683
Cash flows from investing activities:		
Proceeds from loan sales	**3,445**	
Proceeds from sale of securities measured at fair value		2,907
Principal pay downs and maturities of securities measured at fair value	**557**	4,177
Proceeds from sale of available-for-sale securities	**120,922**	286,819
Principal pay downs and maturities of available-for-sale securities	**225,833**	109,234
Purchase of available-for-sale securities	**(251,072)**	(242,658)
Purchases of securities held-to-maturity	**(3)**	(35,157)
Proceeds from maturities of securities held-to-maturity	**3**	640
Loan originations and principal collections, net	**(425,010)**	(219,857)
Investment in money market	**3,713**	13,988
Liquidation of restricted stock	**(705)**	991
Purchase of investment tax credits	**(3,883)**	
Sale and purchase of premises and equipment, net	**(4,485)**	1,549
Proceeds from sale of other real estate owned and repossessed assets, net	**17,238**	27,566
Net cash (used) in investing activities	**(313,447)**	(49,801)

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(continued)

	Six Months Ended June 30,	
	2012	2011
	(in thousands)	
Cash flows from financing activities:		
Net increase in deposits	**342,936**	249,879
Net increase (decrease) in borrowings	**(86,762)**	39,241
Exercise of stock options	**552**	312
Cash dividends paid on preferred stock	**(3,088)**	(3,500)
Net cash provided by financing activities	**253,638**	285,932
Net increase in cash and cash equivalents	**23,925**	317,814
Cash and cash equivalents at beginning of year	**154,995**	216,746
Cash and cash equivalents at end of period	**$ 178,920**	$ 534,560
Supplemental disclosure:		
Cash paid during the period for:		
Interest	**$ 14,801**	$ 21,297
Income taxes	**1,290**	
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	**8,701**	20,438
Unfunded commitments to purchase investment tax credits	**28,617**	

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, its non-bank subsidiaries, Shine Investment Advisory Services, Inc. and Western Alliance Equipment Finance, offer an array of financial products and services aimed at satisfying the needs of small to mid-sized businesses and their proprietors, including financial planning, investment advice, and equipment finance nationwide. 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 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 10 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; and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities. In addition, WAL maintains an 80 percent interest in Shine Investment Advisory Services Inc. (Shine), a registered investment advisor.

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

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

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2011 and for the three and six months ended June 30, 2011 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 June 30, 2012 and 2011 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, 2011.

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 perceived risk of similar groups of loans classified by collateral type, purpose and term. An internal one-year and three-year loss history are also incorporated into the allowance calculation model. Due to the credit concentration of our loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona and California, which have declined 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 months.

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

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

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

Other assets acquired through foreclosure

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily repossessed assets formerly leased) are classified as other real estate owned and other repossessed property and are initially reported at fair value of the asset less 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.

Income taxes

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

of enactment.

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of $48.2 million at June 30, 2012 is more likely than not based on expectations as to future taxable income and based on available tax planning strategies as defined in FASB ASC 740, *Income Taxes* (ASC 740) that could be implemented if necessary to prevent a carryforward from expiring.

The most significant source of these timing differences are the credit loss reserve and net operating loss carryforwards, which account for substantially all of the net deferred tax asset.

As a result of the losses incurred in 2009 and 2010, the Company is in a three-year cumulative pretax loss position at June 30, 2012. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. The Company has concluded that there is sufficient positive evidence to overcome this negative evidence. This positive evidence includes recent positive financial performance in 2011 and the first two quarters of 2012, and Company forecasts, exclusive of tax planning strategies, that show full utilization of the net operating losses by the end of 2013 based on current projections. In addition, the Company has evaluated tax planning strategies, including potential sales of businesses and assets in which it could realize the excess of appreciated value over the tax basis of its assets. The amount of deferred tax assets considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are significantly lower than forecasted due to deterioration in market conditions.

Based on the above discussion, 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.

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.

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Management uses its best judgment in estimating the fair value of the Company s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at June 30, 2012 or December 31, 2011. The estimated fair value amounts for June 30, 2012 and December 31, 2011 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 on page 40 in Note 9, 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 investments

The carrying amounts reported in the consolidated balance sheets for money market investments approximate their fair value.

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 9, 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 disclosed in Note 9 Fair Accounting, 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

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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 9, 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 April 2011, the FASB issued guidance within ASU 2011-03 Reconsideration of Effective Control for Repurchase Agreements. The amendments in ASU 2011-03 remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The adoption of this guidance did not have a material impact on the Company s consolidated statement of income, its consolidated balance sheet, or its consolidated statement of cash flows.

In May 2011, the FASB issued guidance within ASU 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in ASU 2011-04 generally represent clarifications of Topic 820, *Fair Value Measurement* but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). The adoption of this guidance did not have a material impact on the Company s consolidated statement of income, its consolidated balance sheet, or its consolidated statement of cash flows. See note 9 Fair Value Accounting for the enhanced disclosures required by ASU 2011-04.

In June 2011, the FASB issued guidance within ASU 2011-05 Presentation of Comprehensive Income. The amendments in ASU 2011-05 to Topic 220, *Comprehensive Income*, allow an entity the option to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The adoption of this guidance did not have a material impact on the Company s consolidated statement of income, its consolidated balance sheet, or its consolidated statement of cash flows.

2. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In the first quarter of 2010, the Company decided to discontinue its affinity credit card platform, PartnersFirst, and has presented certain activities as discontinued operations. The Company transferred certain assets to held-for-sale and reported a portion of its operations as discontinued. At June 30, 2012 and December 31, 2011, the Company had $34.6 million and $38.9 million, respectively, of outstanding credit card loans which will have continuing cash flows related to the collection of these loans. These credit card loans are included in loans held for investment as of June 30, 2012 and December 31, 2011.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(in thousands)			
Affinity card revenue	**$ 336**	$ 399	**$ 631**	$ 770
Non-interest expenses	**(717)**	(1,192)	**(1,395)**	(2,527)
Loss before income taxes	**(381)**	(793)	**(764)**	(1,757)
Income tax benefit	**(160)**	(333)	**(321)**	(738)
Net loss	**$ (221)**	$ (460)	**$ (443)**	$ (1,019)

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 June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(in thousands, except per share amounts)			
Weighted average shares - Basic	**81,590**	80,883	**81,475**	80,838
Dilutive effect of options	**365**	341	**616**	281
Weighted average shares - Diluted	**81,955**	81,224	**82,091**	81,119
Net income available to common stockholders	**$ 12,636**	$ 3,726	**$ 22,173**	$ 6,376
Earnings per share - Basic	**0.15**	0.05	**0.27**	0.08
Earnings per share - Diluted	**0.15**	0.05	**0.27**	0.08

The Company had 1,071,030 and 2,092,932 stock options outstanding as of June 30, 2012 and December 31, 2011, respectively, that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive.

4. INVESTMENT SECURITIES

Carrying amounts and fair values of investment securities at the end of the period indicated are summarized as follows:

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Securities held-to-maturity				
Collateralized debt obligations	$ 50	$ 972	$	$ 1,022
Corporate bonds	102,784	478	(5,221)	98,041
Municipal obligations (1)	180,557	3,344	(75)	183,826

CRA investments	1,500			1,500
	$ 284,891	$ 4,794	$ (5,296)	$ 284,389

	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	$ 30,012	$	$ 51	$	$ 30,063
Municipal obligations (1)	47,058		147	(562)	46,643
Adjustable-rate preferred stock	74,881		3,560	(1,884)	76,557
Mutual funds (2)	28,978		1,157		30,135
Corporate bonds	5,000			(37)	4,963
Direct U.S. obligations and GSE residential mortgage-backed securities (3)	830,591		14,378	(76)	844,893
Private label residential mortgage-backed securities	22,967	(1,811)	1,818	(934)	22,040
Private label commercial mortgage-backed securities	5,414		202		5,616
Trust preferred securities	32,001			(9,806)	22,195
CRA investments	23,061		963		24,024
	$ 1,099,963	$ (1,811)	$ 22,276	$ (13,299)	$ 1,107,129
Securities measured at fair value					
Direct U.S. obligations and GSE residential mortgage-backed securities (3)					$ 5,898

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

	December 31, 2011 (in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		(in thousands)		
Securities held-to-maturity				
Collateralized debt obligations	$ 50	$ 972	$	$ 1,022
Corporate bonds	102,785	171	(2,029)	100,927
Municipal obligations (1)	181,923	4,695	(32)	186,586
CRA investments	1,500			1,500
	$ 286,258	$ 5,838	$ (2,061)	$ 290,035

	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	$ 155,898	$	$ 368	$ (55)	$ 156,211
Municipal obligations (1)	5,555		47	(16)	5,586

Adjustable-rate preferred stock	59,661		1,157	(6,142)	54,676
Mutual funds (2)	28,978		65	(179)	28,864
Corporate bonds	5,000			(425)	4,575
Direct U.S. obligations and GSE residential mortgage-backed securities (3)	855,828		9,095	(339)	864,584
Private label residential mortgage-backed securities	26,953	(1,811)	1,815	(1,173)	25,784
Private label commercial mortgage-backed securities	5,461			(30)	5,431
Trust preferred securities	32,016			(10,857)	21,159
CRA investments	22,835		680		23,515
	$ 1,198,185	$ (1,811)	$ 13,227	$ (19,216)	$ 1,190,385
Securities measured at fair value					
Direct U.S. obligations and GSE residential mortgage-backed securities (3)					$ 6,515

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

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For additional information on the fair value changes of the securities measured at fair value, see the trading securities table in Note 9 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 June 30, 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 for the three and six months ended June 30, 2012 and $0.2 million for the three and six months ended June 30, 2011. The impairment charges are attributed to the unrealized losses in the Company s CDO portfolio.

The Company does not consider any other securities to be other-than-temporarily impaired as of June 30, 2012 and December 31, 2011. 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 June 30, 2012 and December 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	June 30, 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	$ 1,151	$ 28,813	$ 4,070	$ 60,930	$ 5,221	$ 89,743
Municipal obligations	75	23,255			75	23,255
	$ 1,226	$ 52,068	$ 4,070	$ 60,930	$ 5,296	$ 112,998
Securities available-for-sale						
Adjustable-rate preferred stock	$ 373	$ 8,340	$ 1,511	$ 7,610	$ 1,884	$ 15,950
Mutual funds						
Corporate bonds	37	4,963			37	4,963
Direct U.S obligations and GSE residential mortgage-backed securities	5	10,125	71	8,057	76	18,182
Municipal obligations	562	27,838			562	27,838
Private label residential mortgage-backed securities	812	14,091	122	7,279	934	21,370
Private label commercial mortgage-backed securities						

Trust preferred securities			9,806	22,195	9,806	22,195
	$ 1,789	$ 65,357	$ 11,510	$ 45,141	$ 13,299	$ 110,498

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	December 31, 2011					
	Less Than Twelve Months		Over 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	$ 2,029	$ 77,931	$	$	$ 2,029	$ 77,931
Municipal obligations	32	7,774			32	7,774
	$ 2,061	$ 85,705	$	$	$ 2,061	$ 85,705
Securities available-for-sale						
U.S. Government-sponsored agency securities	$ 55	$ 9,944	$	$	$ 55	$ 9,944
Adjustable-rate preferred stock	6,142	26,335			6,142	26,335
Mutual funds	179	15,879			179	15,879
Corporate bonds	425	4,575			425	4,575
Direct U.S obligations and GSE residential mortgage-backed securities	222	54,668	117	15,239	339	69,907
Municipal obligations	16	2,640			16	2,640
Private label residential mortgage-backed securities	465	20,045	708	5,034	1,173	25,079
Private label commercial mortgage-backed securities	30	5,431			30	5,431
Trust preferred securities			10,857	21,159	10,857	21,159
	$ 7,534	$ 139,517	$ 11,682	$ 41,432	$ 19,216	$ 180,949

At June 30, 2012 and December 31, 2011, the Company s unrealized losses relate primarily to interest rate fluctuations, credit spreads widening and reduced liquidity in applicable markets. The total number of securities in an unrealized loss position at June 30, 2012 was 91 compared to 106 at December 31, 2011. 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 June 30, 2012, the net unrealized loss on trust preferred securities classified as AFS was $9.8 million, compared with $10.9 million at December 31, 2011. The Company actively monitors its debt and other structured securities portfolios classified as AFS for declines in fair value.

The amortized cost and fair value of securities as of June 30, 2012 and December 31, 2011, 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.

	June 30, 2012		December 31, 2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Securities held-to-maturity				
Due in one year or less	$ 1,500	$ 1,500	$ 1,500	$ 1,500
After one year through five years	8,395	8,395	8,389	8,093
After five years through ten years	114,515	110,226	114,748	114,098
After ten years	160,481	164,268	161,621	166,344

	$ 284,891	$ 284,389	$ 286,258	$ 290,035
Securities available-for-sale				
Due in one year or less	$ 57,877	$ 60,249	$ 52,815	$ 53,399
After one year through five years	13,828	14,446	20,445	20,635
After five years through ten years	33,606	34,856	134,935	135,420
After ten years	164,061	152,685	134,162	116,347
Mortgage backed securities	830,591	844,893	855,828	864,584
	$ 1,099,963	$ 1,107,129	$ 1,198,185	$ 1,190,385

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The following table summarizes the Company s investment ratings position as of June 30, 2012:

	As of June 30, 2012						
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A- (in thousands)	BBB+ to BBB-	BB+ and below	Totals
Municipal obligations	$ 8,197	$	$ 128,645	$ 81,297	$ 8,783	$ 278	$ 227,200
Direct U.S. obligations & GSE residential mortgage-backed securities		850,791					850,791
Private label residential mortgage-backed securities	1,738		3,495	14,733		2,074	22,040
Private label commercial mortgage-backed securities	5,616						5,616
Mutual funds (3)					30,135		30,135
U.S. Government-sponsored agency securities		30,063					30,063
Adjustable-rate preferred stock					64,823	7,637	72,460
Trust preferred securities					22,195		22,195
Collateralized debt obligations						50	50
Corporate bonds			2,696	80,051	25,000		107,747
Total (1) (2)	$ 15,551	$ 880,854	$ 134,836	$ 176,081	$ 150,936	$ 10,039	$ 1,368,297

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

(2) Securities values are shown at carrying value as of June 30, 2012. Unrated securities consist of CRA investments with a carrying value of $24 million, ARPS with a carrying value of $4.1 million and an other investment of $1.5 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, 2011.

	As of December 31, 2011						
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A- (in thousands)	BBB+ to BBB-	BB+ and below	Totals
Municipal obligations	$ 8,273	$	$ 109,159	$ 60,949	$ 8,855	$ 273	$ 187,509
Direct U.S. obligations & GSE residential mortgage-backed securities		871,099					871,099
Private label residential mortgage-backed securities	13,349		4,104	6,438		1,893	25,784
Private label commercial mortgage-backed securities	5,431						5,431
Mutual funds (3)					28,864		28,864
U.S. Government-sponsored agency securities		156,211					156,211
Adjustable-rate preferred stock					46,530	7,126	53,656
Trust preferred securities					21,159		21,159
Collateralized debt obligations						50	50
Corporate bonds	2,695		15,130	64,535	15,000		97,360
Total (1) (2)	$ 29,748	$ 1,027,310	$ 128,393	$ 131,922	$ 120,408	$ 9,342	$ 1,447,123

(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, 2011. Unrated securities consist of CRA investments with a carrying value of $23.5 million, an HTM Corporate security with a carrying value of $10.0 million, one ARPS with a carrying value of $1.0 million and an other investment of $1.5 million.

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

Securities with carrying amounts of approximately $619.4 million and $675.0 million at June 30, 2012 and December 31, 2011, 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 June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(in thousands)			
Gross gains	**$ 1,157**	$ 2,686	**$ 1,713**	$ 4,066
Gross (losses)	**(47)**	(20)	**(242)**	(21)
	$ 1,110	$ 2,666	**$ 1,471**	$ 4,045

5. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

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

	June 30, 2012	December 31, 2011
	(in thousands)	
Commercial real estate - owner occupied	**$ 1,310,340**	$ 1,252,182
Commercial real estate - non-owner occupied	**1,440,353**	1,301,172
Commercial and industrial	**1,262,834**	1,120,107
Residential real estate	**430,414**	443,020
Construction and land development	**360,595**	381,676
Commercial leases	**310,801**	216,475
Consumer	**55,825**	72,504
Deferred fees and unearned income, net	**(6,304)**	(7,067)
	5,164,858	4,780,069
Allowance for credit losses	**(97,512)**	(99,170)
Total	**$ 5,067,346**	$ 4,680,899

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

	June 30, 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	$ 1,288,060	$ 8,028	$ 2,368	$ 11,884	$ 22,280	$ 1,310,340
Non-owner occupied	1,257,071	738		2,150	2,888	1,259,959
Multi-family	180,186			208	208	180,394
Commercial and industrial						
Commercial	1,252,707	6,255	1,505	2,367	10,127	1,262,834
Leases	310,298			503	503	310,801
Construction and land development						
Construction	199,786					199,786
Land	147,940	1,632	2,063	9,174	12,869	160,809
Residential real estate	415,478	1,123	1,358	12,455	14,936	430,414

Consumer	54,270	326	239	990	1,555	55,825
Total loans	$ 5,105,796	$ 18,102	$ 7,533	$ 39,731	$ 65,366	$ 5,171,162

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	December 31, 2011					
	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	$ 1,235,707	$ 3,150	$ 2,488	$ 10,837	$ 16,475	$ 1,252,182
Non-owner occupied	1,168,616		2,365	5,051	7,416	1,176,032
Multi-family	124,855			285	285	125,140
Commercial and industrial						
Commercial	1,114,881	683	1,146	3,397	5,226	1,120,107
Leases	216,475					216,475
Construction and land development						
Construction	210,843			3,434	3,434	214,277
Land	151,618	6,217	375	9,189	15,781	167,399
Residential real estate	424,086	2,349	4,030	12,555	18,934	443,020
Consumer	70,759	376	602	767	1,745	72,504
Total loans	$ 4,717,840	$ 12,775	$ 11,006	$ 45,515	$ 69,296	$ 4,787,136

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

	June 30, 2012				December 31, 2011			
	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	**$ 14,673**	**$ 17,811**	**$ 32,484**	**$**	$ 6,951	$ 14,202	$ 21,153	$ 439
Non-owner occupied	**19,441**	**2,150**	**21,591**		8,834	7,416	16,250	
Multi-family	**749**	**208**	**957**		331	285	616	
Commercial and industrial								
Commercial	**7,102**	**5,778**	**12,880**		3,789	3,029	6,818	523
Leases	**534**	**503**	**1,037**		592		592	
Construction and land development								
Construction					11,011	3,435	14,446	
Land	**3,574**	**11,566**	**15,140**		2,615	11,752	14,367	860
Residential real estate	**7,241**	**12,514**	**19,755**		2,891	12,856	15,747	
Consumer	**285**	**195**	**480**	**795**	403		403	767
Total	**$ 53,599**	**$ 50,725**	**$ 104,324**	**$ 795**	$ 37,417	$ 52,975	$ 90,392	$ 2,589

The reduction in interest income associated with loans on nonaccrual status was approximately $1.5 million and $2.9 million for the three and six months ended June 30, 2012, respectively, and $1.5 million and $2.3 million for the three and six months ended June 30, 2011, 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, which correspond risk ratings six, seven, eight, and nine, respectively. 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

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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, or risk rated six. Risk ratings are updated, at a minimum, quarterly. The following tables present loans by risk rating:

	June 30, 2012					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,194,772	$ 50,667	$ 64,901	$	$	$ 1,310,340
Non-owner occupied	1,176,396	13,719	69,844			1,259,959
Multi-family	179,437		957			180,394
Commercial and industrial						
Commercial	1,221,199	13,018	26,831	1,786		1,262,834
Leases	309,636	128	1,037			310,801
Construction and land development						
Construction	199,584	202				199,786
Land	115,772	7,132	37,905			160,809
Residential real estate	390,861	6,262	33,232	59		430,414
Consumer	53,448	797	1,580			55,825
Total	$ 4,841,105	$ 91,925	$ 236,287	$ 1,845	$	$ 5,171,162

	June 30, 2012					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$ 4,838,455	$ 89,236	$ 178,105	$	$	$ 5,105,796
Past due 30 - 59 days	1,616	2,450	13,977	59		18,102
Past due 60 - 89 days	1,034	239	6,260			7,533
Past due 90 days or more			37,945	1,786		39,731
Total	$ 4,841,105	$ 91,925	$ 236,287	$ 1,845	$	$ 5,171,162

	December 31, 2011					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,139,776	$ 67,220	$ 45,186	$	$	$ 1,252,182
Non-owner occupied	1,103,593	33,470	38,969			1,176,032
Multi-family	123,917	414	809			125,140
Commercial and industrial						
Commercial	1,067,602	20,657	31,648	200		1,120,107
Leases	215,778	105	592			216,475
Construction and land development						
Construction	193,248	3,087	17,942			214,277
Land	120,858	8,551	37,990			167,399
Residential real estate	405,398	12,637	24,985			443,020
Consumer	68,546	971	2,987			72,504

Total	$ 4,438,716	$ 147,112	$ 201,108	$ 200	$	$ 4,787,136

	December 31, 2011					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$ 4,429,291	$ 143,908	$ 144,641	$	$	$ 4,717,840
Past due 30 - 59 days	6,475	661	5,639			12,775
Past due 60 - 89 days	2,950	2,104	5,952			11,006
Past due 90 days or more		439	44,876	200		45,515
Total	$ 4,438,716	$ 147,112	$ 201,108	$ 200	$	$ 4,787,136

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

	June 30, 2012	December 31, 2011
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	**$ 48,701**	$ 28,631
Impaired loans without a specific valuation allowance under ASC 310	**176,720**	180,860
Total impaired loans	**$ 225,421**	$ 209,491
Valuation allowance related to impaired loans	**$ (14,445)**	$ (10,377)

The following table presents the impaired loans by class:

	June 30, 2012	December 31, 2011
	(in thousands)	
Commercial real estate		
Owner occupied	**$ 61,997**	$ 46,780
Non-owner occupied	**57,297**	43,123
Multi-family	**957**	809
Commercial and industrial		
Commercial	**28,417**	25,138
Leases	**1,037**	592
Construction and land development		
Construction		20,827
Land	**37,971**	41,084
Residential real estate	**36,842**	28,850
Consumer	**903**	2,288
Total	**$ 225,421**	$ 209,491

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans have been charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable, in the table above as Impaired loans without specific valuation allowance under ASC 310. The valuation allowance disclosed above is included in the allowance for credit losses reported in the consolidated balance sheets as of June 30, 2012 and December 31, 2011.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(in thousands)			
Commercial real estate				
Owner occupied	**$ 57,466**	$ 59,990	$ 53,210	$ 58,652
Non-owner occupied	**55,401**	43,274	56,046	50,744
Multi-family	**1,125**	1,680	1,034	2,326
Commercial and industrial				
Commercial	**27,298**	13,530	26,337	12,057
Leases	**892**	3,339	744	3,522
Construction and land development				
Construction		28,150	1,972	28,704
Land	**37,813**	24,521	38,553	23,796
Residential real estate	**34,614**	34,899	32,943	37,057
Consumer	**1,044**	483	1,487	556
Total	**$ 215,653**	$ 209,866	$ 212,326	$ 217,414

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(in thousands)			
Commercial real estate				
Owner occupied	**$ 441**	$ 802	$ 855	$ 1,153
Non-owner occupied	**553**	601	1,012	1,177
Multi-family		5		9
Commercial and industrial				
Commercial	**259**	41	514	99
Leases				
Construction and land development				
Construction		137		272
Land	**344**	159	696	395
Residential real estate	**63**	133	121	189
Consumer	**7**	3	18	7
Total	**$ 1,667**	$ 1,881	$ 3,216	$ 3,301

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

The following table summarizes nonperforming assets:

	June 30, 2012	December 31, 2011
	(in thousands)	
Nonaccrual loans	**$ 104,324**	$ 90,392

Loans past due 90 days or more on accrual status	**795**	2,589
Troubled debt restructured loans	**115,036**	112,483
Total nonperforming loans	**220,155**	205,464
Foreclosed collateral	**76,994**	89,104
Total nonperforming assets	**$ 297,149**	$ 294,568

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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 June 30,					
	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
	(in thousands)					
2012						
Beginning Balance	$ 12,753	$ 35,118	$ 18,732	$ 26,901	$ 4,618	$ 98,122
Charge-offs	3,185	5,641	2,094	4,933	770	16,623
Recoveries	217	561	274	1,417	214	2,683
Provision	3,593	6,695	45	2,747	250	13,330
Ending balance	$ 13,378	$ 36,733	$ 16,957	$ 26,132	$ 4,312	$ 97,512
2011						
Beginning Balance	$ 17,643	$ 34,089	$ 21,538	$ 27,601	$ 5,262	$ 106,133
Charge-offs	1,516	4,286	3,339	5,926	1,005	16,072
Recoveries	677	804	172	726	44	2,423
Provision	109	4,455	2,905	3,688	734	11,891
Ending balance	$ 16,913	$ 35,062	$ 21,276	$ 26,089	$ 5,035	$ 104,375

	For the Six Months Ended June 30,					
	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
	(in thousands)					
2012						
Beginning Balance	$ 14,195	$ 35,031	$ 19,134	$ 25,535	$ 5,275	$ 99,170
Charge-offs	8,272	10,553	3,514	8,587	2,772	33,698
Recoveries	303	2,264	612	2,194	256	5,629
Provision	7,152	9,991	725	6,990	1,553	26,411
Ending balance	$ 13,378	$ 36,733	$ 16,957	$ 26,132	$ 4,312	$ 97,512
2011						
Beginning Balance	$ 20,587	$ 33,043	$ 20,889	$ 30,782	$ 5,398	$ 110,699
Charge-offs	5,714	10,400	6,621	7,333	2,621	32,689
Recoveries	1,093	1,275	441	1,555	69	4,433
Provision	947	11,144	6,567	1,085	2,189	21,932
Ending balance	$ 16,913	$ 35,062	$ 21,276	$ 26,089	$ 5,035	$ 104,375

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The following tables present loans individually evaluated for impairment by class of loans:

	June 30, 2012			
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Credit Losses Allocated
	(in thousands)			
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$ 61,414	$ 55,863	$ 5,551	$
Non-owner occupied	42,439	38,571	3,868	
Multi-family	699	445	254	
Commercial and industrial				
Commercial	19,232	18,846	386	
Leases	1,037	1,037		
Construction and land development				
Construction				
Land	39,460	33,228	6,232	
Residential real estate	35,714	28,023	7,691	
Consumer	739	708	31	
With an allowance recorded:				
Commercial real estate				
Owner occupied	7,477	6,134	1,343	2,658
Non-owner occupied	24,359	18,726	5,633	1,929
Multi-family	543	512	31	236
Commercial and industrial				
Commercial	12,469	9,571	2,898	4,134
Leases				
Construction and land development				
Construction				
Land	5,024	4,743	281	2,040
Residential real estate	9,935	8,819	1,116	3,253
Consumer	570	195	375	195
With an allowance recorded:				
Total	$ 261,111	$ 225,421	$ 35,690	$ 14,445

	December 31, 2011			
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Credit Losses Allocated
	(in thousands)			
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$ 47,792	$ 41,338	$ 6,454	$
Non-owner occupied	41,500	36,806	4,694	
Multi-family	213	194	19	
Commercial and industrial				
Commercial	24,769	22,804	1,965	
Leases	592	592		
Construction and land development				
Construction	21,774	18,821	2,953	
Land	39,177	34,067	5,110	
Residential real estate	32,577	23,950	8,627	
Consumer	2,328	2,288	40	
With an allowance recorded:				
Commercial real estate				
Owner occupied	5,572	5,442	130	1,333
Non-owner occupied	7,865	6,316	1,549	1,276
Multi-family	630	616	14	218
Commercial and industrial				
Commercial	2,516	2,334	182	1,863
Leases				
Construction and land development				
Construction	5,018	2,006	3,012	499
Land	7,298	7,017	281	3,002
Residential real estate	5,059	4,900	159	2,186
Consumer				
With an allowance recorded:				
Total	$ 244,680	$ 209,491	$ 35,189	$ 10,377

The following tables present the balance in the allowance for credit losses and the recorded investment in loans by portfolio segment and based on impairment method:

	June 30, 2012							
	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
	(in thousands)							
Allowance for credit losses:								
Ending balance attributable to loans								
Individually evaluated for impairment	$ 2,658	$ 2,165	$ 4,134	$ 3,253	$ 2,040	$	$ 195	$ 14,445
Collectively evaluated for impairment	16,763	15,147	19,850	13,704	11,338	2,148	4,117	83,067
Acquired with deteriorated credit quality								
Total ending allowance	$ 19,421	$ 17,312	$ 23,984	$ 16,957	$ 13,378	$ 2,148	$ 4,312	$ 97,512

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	December 31, 2011							
	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
	(in thousands)							
Allowance for credit losses:								
Ending balance attributable to loans								
Individually evaluated for impairment	$ 1,333	$ 1,494	$ 1,863	$ 2,186	$ 3,501	$	$	$ 10,377
Collectively evaluated for impairment	16,434	15,770	21,605	16,948	10,694	2,067	5,275	88,793
Acquired with deteriorated credit quality								
Total ending allowance	$ 17,767	$ 17,264	$ 23,468	$ 19,134	$ 14,195	$ 2,067	$ 5,275	$ 99,170

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.

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

	Three Months Ended June 30, 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	$ 6,227	$ 750	$ 363	$ 5,114	$ 24
Non-owner occupied	2	4,047			4,047	6
Multi-family						
Commercial and industrial						
Commercial	5	5,611			5,611	16
Leases						
Construction and land development						

Construction						
Land	3	3,362		178	3,184	7
Residential real estate	7	4,384		744	3,640	4
Consumer						
Total	23	$ 23,631	$ 750	$ 1,285	$ 21,596	$ 57

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

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	Number of Loans	Pre-Modification Outstanding Recorded Investment	Forgiven Principal Balance	Lost Interest Income (1)	Post-Modification Outstanding Recorded Investment	Waived Fees and Other Expenses
	Six Months Ended June 30, 2012 (in thousands)					
Commercial real estate						
Owner occupied	12	$ 18,629	$ 750	$ 465	$ 17,414	$ 60
Non-owner occupied	5	13,856	430	127	13,299	11
Multi-family						
Commercial and industrial						
Commercial	14	7,707		26	7,681	37
Leases						
Construction and land development						
Construction						
Land	5	3,879		233	3,646	12
Residential real estate	15	6,193	40	985	5,168	7
Consumer	2	68			68	
Total	53	$ 50,332	$ 1,220	$ 1,836	$ 47,276	$ 127

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

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Forgiven Principal Balance	Lost Interest Income (1)	Post-Modification Outstanding Recorded Investment	Waived Fees and Other Expenses
	Three Months Ended June 30, 2011 (in thousands)					
Commercial real estate						
Owner occupied	4	$ 5,740	$	$ 645	$ 5,095	$ 150
Non-owner occupied	4	5,906		31	5,875	47
Multi-family						
Commercial and industrial						
Commercial	2	357			357	
Leases						
Construction and land development						
Construction						
Land	2	615		4	611	13
Residential real estate	11	3,826	707	128	2,991	4
Consumer						
Total	23	$ 16,444	$ 707	$ 808	$ 14,929	$ 214

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

	Six Months Ended June 30, 2011					
	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	11	$ 12,085	$	$ 801	$ 11,284	$ 203
Non-owner occupied	7	14,641	1,000	127	13,514	221
Multi-family						
Commercial and industrial						
Commercial	5	1,317			1,317	22
Leases						
Construction and land development						
Construction	1	162			162	
Land	4	1,389		4	1,385	15
Residential real estate	14	5,540	707	344	4,489	5
Consumer						
Total	42	$ 35,134	$ 1,707	$ 1,276	$ 32,151	$ 466

(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 June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(in thousands)				(in thousands)			
Commercial real estate								
Owner occupied	**1**	**$ 1,091**		$	**5**	**$ 6,348**	1	$ 170
Non-owner occupied					**2**	**3,393**		
Multi-family					**1**	**193**		
Commercial and industrial								
Commercial	**3**	**956**			**4**	**4,906**		
Leases								
Construction and land development								
Construction							2	2,463
Land	**2**	**2,690**	1	162	**4**	**3,666**	1	162
Residential real estate	**1**	**40**	2	574	**2**	**320**	5	2,113
Consumer					**1**	**375**		
Total	**7**	**$ 4,777**	3	$ 736	**19**	**$ 19,201**	9	$ 4,908

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 June 30, 2012 and December 31, 2011, loan commitments outstanding on TDR loans were $0.1 million.

Loan Purchases and Sales

In the second quarter of 2012, the Company had secondary market loan purchases of $45.2 million consisting of $36.0 million of commercial and industrial loans, $8.2 million of commercial leases and a $1.0 million commercial real estate loan. 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 or second quarters of 2012 or 2011. The Company held no loans for sale at June 30, 2012 and December 31, 2011, respectively. In the first six months of 2012, the Company had secondary market loan purchases of $118.5 million consisting of $66.1 million of commercial leases, $51.4 million of commercial and industrial loans and $1.0 million of commercial real estate loans. In the first six months of 2011, the Company purchased $37.2 million of secondary market loans consisting of commercial and industrial loans.

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6. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Balance, beginning of period	$ 81,445	$ 98,312	$ 89,104	$ 107,655
Additions	3,955	9,880	9,295	21,055
Dispositions	(7,396)	(14,706)	(18,141)	(31,310)
Valuation adjustments in the period, net	(1,010)	(7,754)	(3,264)	(11,668)
Balance, end of period	$ 76,994	$ 85,732	$ 76,994	$ 85,732

At June 30, 2012 and 2011, the majority of the Company s repossessed assets were properties located in Nevada.

7. 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 six months ended June 30, 2012, the net deferred tax assets decreased $13.5 million to $48.2 million. This decrease in the net deferred tax asset was primarily the result of the net operating income of the Company for the period and the resulting usage of the NOL and Capital Loss carryforwards. The reduction in the effective tax rate from the first two quarters of 2011 compared to the first two quarters of 2012 is primarily due to 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 carryforwards arising from transactions that generated capital gains.

At June 30, 2012, the $6.4 million deferred tax valuation (compared to $7.6 million at December 31, 2011) relates to net capital losses on ARPS securities sales.

The deferred tax asset related to federal and state net operating loss carryforwards outstanding at June 30, 2012, available to reduce tax liability in future years total $11.2 million (compared to $20.2 million at December 31, 2011). This is comprised of $8.3 million of tax benefits from federal net operating loss carry forwards that begin to expire in 2029, $1.7 million of tax benefits from California state net operating loss carry forwards that will begin to expire in 2029, and $1.3 million of tax benefits from Arizona state net operating loss carryforwards 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 carryforwards.

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 2007. Although, as described below, the Internal Revenue Service s examination of the Company s 2008 net operating loss carryback claim appears to have been resolved in the Company s favor, it is not yet closed.

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 most likely to be 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 three and six month periods ended June 30, 2012 or 2011, 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.

The Internal Revenue Service s Examination Division issued a notice of proposed deficiency on January 10, 2011, proposing a taxable income adjustment of $136.7 million related to deductions taken on our 2008 tax return in connection with the partial worthlessness of collateralized debt obligations, or CDOs. The use of these deductions on the Company s 2008 tax return resulted in a net operating loss carryback claim for a tax refund of approximately $40.0 million of federal taxes for the 2006 and 2007 taxable periods. The Company filed a protest of the proposed deficiency, which was referred to the Appeals Division of the Internal Revenue Service. The Appellate Conferee has conceded that the Company s $136.7 million deduction was reasonable and has proposed no further adjustments. However, the case is not yet closed. Due to the size of the refund, the Appellate Conferee was required to submit and has submitted his formal written recommendation to the Joint Committee on Taxation and will close the case after receiving approval from that committee. The Company has not accrued a reserve for this potential exposure.

8. 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:

	June 30, 2012	December 31, 2011
	(in thousands)	
Commitments to extend credit, including unsecured loan commitments of $198,355 at June 30, 2012 and $167,305 at December 31, 2011	**$ 975,184**	$ 863,120
Credit card commitments and financial guarantees	**300,449**	319,892
Standby letters of credit, including unsecured letters of credit of $2,314 at June 30, 2012 and $2,558 at December 31, 2011	**30,597**	34,768
	$ 1,306,230	$ 1,217,780

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 Company has exposure to credit losses from unfunded commitments and letters of credit. As funds have not been disbursed on these commitments, they are not reported as loans outstanding. Credit losses related to these commitments are not included in the allowance for credit losses reported in Note 5, Loans, Leases and Allowance for Credit Losses of these Consolidated Financial Statements and are accounted for as a separate loss contingency as a liability. This loss contingency for unfunded loan commitments and letters of credit was $1.2 million and $1.1 million as of June 30, 2012 and December 31, 2011, 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 June 30, 2012 and December 31, 2011, commercial real estate related loans accounted for approximately 60% and 61% of total loans and approximately 2% 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% and 49% of these commercial real estate loans were owner occupied at June 30, 2012 and December 31, 2011, respectively. In addition, approximately 4% of total loans were unsecured as of June 30, 2012 and December 31, 2011.

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 $1.4 million was included in occupancy expenses for the three month periods ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, total rent expense included in occupancy expenses was $2.9 million and $2.7 million, respectively.

9. 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 and six months ended June 30, 2012 and 2011, gains and losses from fair value changes included in the Consolidated Statement of Operations were as follows:

	Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
Description	Unrealized Gain/(Loss) on Assets and Liabilities Measured at Fair Value, Net	Interest Income on Securities	Interest Expense on Junior Subordinated Debt	Total Changes Included in Current-Period Earnings
	(in thousands)			
Three Months Ended June 30, 2012				
Securities measured at fair value	$ (23)	$ 3	$	$ (20)
Junior subordinated debt	588		327	261
	$ 565	$ 3	$ 327	$ 241
Six Months Ended June 30, 2012				
Securities measured at fair value	$ (66)	$ 7	$	$ (59)
Junior subordinated debt	298		652	(354)
	$ 232	$ 7	$ 652	$ (413)

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Description	Unrealized Gain (Loss) on Assets and Liabilities Measured at Fair Value, Net	Interest Income on Securities	Interest Expense on Junior Subordinated Debt	Total Changes Included in Current-Period Earnings
	Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the Fair Value Option (in thousands)			
Three Months Ended June 30, 2011				
Securities measured at fair value	$ 35	$ 10	$	$ 45
Junior subordinated debt	300		250	50
	$ 335	$ 10	$ 250	$ 95
Six Months Ended June 30, 2011				
Securities measured at fair value	$ (31)	$ 18	$	$ (13)
Junior subordinated debt	300		499	(199)
	$ 269	$ 18	$ 499	$ (212)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(in thousands)		(in thousands)	
Net gains and (losses) for the period on trading securities included in earnings	**$ (23)**	$ 35	**$ (66)**	$ (31)
Less: net gains and (losses) recognized during the period on trading securities sold during the period		190		190
Change in unrealized gains or (losses) for the period included in earnings for trading securities held at the end of the reporting period	**$ (23)**	$ (155)	**$ (66)**	$ (221)

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 June 30, 2012.

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

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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 publically 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 that which 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 external auditors. 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 6.46%, which is a 599 basis point spread over 3 month LIBOR (0.4606% as of June 30, 2012). As of June 30, 2011, the Company estimated the discount rate at 5.446%, which was a 520 basis point spread over 3 month LIBOR (0.248%).

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

	Fair Value Measurements at the End of the Reporting Period Using:			
June 30, 2012	**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	$	$ 5,898	$	$ 5,898
Securities available for sale				
U.S. Government-sponsored agency securities	$	$ 30,063	$	$ 30,063
Municipal obligations		46,643		46,643
Direct U.S. obligations and GSE residential mortgage-backed securities		844,893		844,893
Mutual funds	30,135			30,135
Private label residential mortgage-backed securities		22,040		22,040
Private label commercial mortgage-backed securities		5,616		5,616
Adjustable-rate preferred stock	76,557			76,557
Trust preferred	22,195			22,195
Corporate bonds	4,963			4,963
Other	24,024			24,024
	$ 157,874	$ 949,255	$	$ 1,107,129

Interest rate swaps	$		$	1,037	$		$	1,037
Liabilities:								
Junior subordinated debt	$		$		$	36,687	$	36,687
Interest rate swaps	$		$	1,025	$		$	1,025

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December 31, 2011	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	$	$ 6,515	$	$ 6,515
Securities available for sale				
U.S. Government-sponsored agency securities	$	$ 156,211	$	$ 156,211
Municipal obligations		5,586		5,586
Direct U.S. obligations and GSE residential mortgage-backed securities		864,584		864,584
Mutual funds	28,864			28,864
Private label residential mortgage-backed securities		25,784		25,784
Private label commercial mortgage-backed securities		5,431		5,431
Adjustable-rate preferred stock	54,676			54,676
Trust preferred	1,323	19,836		21,159
Corporate bonds	4,575			4,575
Other	23,515			23,515
	$ 112,953	$ 1,077,432	$	$ 1,190,385
Interest rate swaps	$	$ 1,729	$	$ 1,729
Liabilities:				
Junior subordinated debt	$	$	$ 36,985	$ 36,985
Interest rate swaps	$	$ 946	$	$ 946

For the six months ended June 30, 2012, 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	$ (36,985)
Transfers into Level 3	
Transfers out of Level 3	
Total gains or losses for the period	
Included in earnings (or changes in net assets) (a)	298
Included in other comprehensive income	
Purchases, sales, and settlements	
Purchases	
Sales	
Settlements	
Closing balance	$ (36,687)

Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) held at the end of the reporting period June 30, 2012.	$	298
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) held at the end of the reporting period June 30, 2011.	$	300

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For Level 3 liabilities measured at fair value on a recurring basis as of June 30, 2012, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at June 30, 2012	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	6.46%

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:

	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 June 30, 2012:				
Impaired loans with specific valuation allowance	$ 34,256	$	$	$ 34,256
Impaired loans without specific valuation allowance	70,027			70,027
Other assets acquired through foreclosure	76,994			76,994
As of December 31, 2011:				
Impaired loans with specific valuation allowance	$ 18,254	$	$	$ 18,254
Impaired loans without specific valuation allowance	71,001			71,001
Other assets acquired through foreclosure	89,104			89,104

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 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 $48.7 million and specific reserves in the allowance for loan losses of $14.4 million at June 30, 2012.

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 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 $77.0 million of such assets at June 30, 2012. 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.

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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 and six months ended June 30, 2012, the Company determined that no securities contained credit losses. For the three and six months ended June 30, 2011, the Company determined that certain collateralized mortgage debt securities contained credit losses. The impairment credit losses related to these debt securities was $0.2 million.

Debt Security Credit Losses

Recognized in Other Comprehensive Income/Earnings

For the Six Months Ended June 30, 2012 and 2011

	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:

	June 30, 2012					December 31, 2011	
	Carrying Amount	**Fair Value**				Carrying Amount	Fair Value
		Level 1	**Level 2**	**Level 3**	**Total**		
	(in thousands)						
Financial assets:							
Investment securities	**$ 1,397,918**	**$ 173,194**	**$ 1,224,219**	**$ 3**	**$ 1,397,416**	$ 1,483,158	$ 1,486,935

Derivatives	**1,037**	**1,037**		**1,037**	1,729	1,729
Loans, net	**5,067,346**	**4,634,074**	**104,283**	**4,738,357**	4,680,899	4,420,006
Financial liabilities:						
Deposits	**6,001,448**	**6,002,558**		**6,002,558**	5,658,512	5,660,518
Customer repurchases	**86,864**	**86,864**		**86,864**	123,626	123,626
FHLB and FRB advances	**230,000**	**230,000**		**230,000**	280,000	280,000
Other borrowed funds	**73,514**		**81,188**	**81,188**	73,321	78,375
Junior subordinated debt	**36,687**		**36,687**	**36,687**	36,985	36,985
Derivatives	**1,025**	**1,025**		**1,025**	946	946

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Interest rate risk

The Company assumes interest rate risk (the risk to the Company s earnings and capital from changes in interest rate levels) as a result of its normal operations. As a result, the fair values of the Company s financial instruments as well as its future net interest income will change when interest rate levels change and that change may be either favorable or unfavorable to the Company.

Interest rate risk exposure is measured using interest rate sensitivity analysis to determine 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 June 30, 2012, 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 June 30, 2012 and December 31, 2011 was insignificant. Loan commitments on which the committed interest rates were less than the current market rate are also insignificant at June 30, 2012 and December 31, 2011.

10. 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 June 30, 2012, 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, Shine Investment Advisory Services, Inc., 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 and six month periods ended June 30, 2012 and 2011:

Western Alliance Bancorporation and Subsidiaries

Operating Segment Results

Unaudited

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank*	Other	Inter-segment eliminations	Consolidated Company
			(dollars in millions)			
At June 30, 2012						
Assets	$ 2,920.2	$ 2,349.6	$ 1,895.9	$ 800.7	$ (802.8)	$ 7,163.6
Gross loans and deferred fees, net	2,002.1	1,783.6	1,422.0		(42.9)	5,164.8
Less: Allowance for credit losses	(60.5)	(20.3)	(16.7)			(97.5)
Net loans	1,941.6	1,763.3	1,405.3		(42.9)	5,067.3
Goodwill	23.2			2.7		25.9
Deposits	2,430.9	1,998.2	1,592.5		(20.2)	6,001.4
FHLB advances and other	100.0	70.0	72.0		(12.0)	230.0
Stockholders equity	329.5	208.7	161.6	680.4	(708.1)	672.1
No. of branches	11	16	12			39
No. of FTE	386	239	228	100		953
			(in thousands)			
Three Months Ended June 30, 2012:						
Net interest income	$ 27,498	$ 24,060	$ 21,374	$ (2,127)	$	$ 70,805
Provision for credit losses	8,747	2,100	2,483			13,330
Net interest income (loss) after provision for credit losses	18,751	21,960	18,891	(2,127)		57,475
Non-interest income	4,291	1,994	1,079	19,833	(19,800)	7,397
Non-interest expense	(18,140)	(12,086)	(11,338)	(5,763)	1,896	(45,431)
Income (loss) from continuing operations before income taxes	4,902	11,868	8,632	11,943	(17,904)	19,441
Income tax expense (benefit)	1,137	4,091	3,340	(3,309)		5,259
Income (loss) from continuing operations	3,765	7,777	5,292	15,252	(17,904)	14,182
Loss from discontinued operations, net				(221)		(221)
Net income (loss)	$ 3,765	$ 7,777	$ 5,292	$ 15,031	$ (17,904)	$ 13,961
			(in thousands)			
Six Months Ended June 30, 2012:						
Net interest income	$ 55,337	$ 47,116	$ 42,610	$ (4,201)	$	$ 140,862
Provision for credit losses	22,229	103	4,079			26,411

Net interest income (loss) after provision for credit losses	33,108	47,013	38,531	(4,201)		114,451
Non-interest income	7,874	3,847	2,256	38,289	(38,985)	13,281
Non-interest expense	(36,970)	(24,005)	(22,410)	(13,532)	4,589	(92,328)
Income (loss) from continuing operations before income taxes	4,012	26,855	18,377	20,556	(34,396)	35,404
Income tax expense (benefit)	(714)	9,263	7,297	(6,146)		9,700
Income (loss) from continuing operations	4,726	17,592	11,080	26,702	(34,396)	25,704
Loss from discontinued operations, net				(443)		(443)
Net income (loss)	$ 4,726	$ 17,592	$ 11,080	$ 26,259	$ (34,396)	$ 25,261

* 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 eliminations	Consolidated Company
			(dollars in millions)			
At June 30, 2011						
Assets	$ 2,842.6	$ 2,055.6	$ 1,565.3	$ 748.7	$ (704.1)	$ 6,508.1
Gross loans and deferred fees, net	1,854.8	1,429.2	1,170.6		(42.9)	4,411.7
Less: Allowance for credit losses	(66.8)	(21.2)	(16.4)			(104.4)
Net loans	1,788.0	1,408.0	1,154.2		(42.9)	4,307.3
Goodwill	23.2			2.7		25.9
Deposits	2,449.2	1,760.2	1,382.0		(3.1)	5,588.3
Stockholders equity	317.4	181.5	143.3	622.6	(649.1)	615.7
No. of branches	12	16	11			39