WESTERN ALLIANCE BANCORPORATION
Form 10-Q
May 08, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2015
or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from__________ to __________
Commission file number: 001-32550

WESTERN ALLIANCE BANCORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	88-0365922 (I.R.S. Employer Identification No.)
One E. Washington Street Suite 1400, Phoenix, AZ (Address of principal executive offices)	85004 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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 the definitions of “large accelerated filer,” "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

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

Common stock issued and outstanding: 89,191,366 shares as of May 4, 2015.

Table of Contents

INDEX

Table of Contents

PART I
GLOSSARY OF ENTITIES AND TERMS
The acronyms and abbreviations identified below are used in various sections of this Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Item 2 and the Consolidated Financial Statements and the Notes to Consolidated Financial Statements in Item I of this Form 10-Q.
ENTITIES:

AAB	Alliance Association Bank	WAB or Bank	Western Alliance Bank
ABA	Alliance Bank of Arizona	WACF	Western Alliance Corporate Finance
BON	Bank of Nevada	WAEF	Western Alliance Equipment Finance
Bridge	Bridge Capital Holdings	WAL or Parent	Western Alliance Bancorporation
Centennial	Centennial Bank	WAPF	Western Alliance Public Finance
Company	Western Alliance Bancorporation and Subsidiaries	WARF	Western Alliance Resort Finance
FIB	First Independent Bank	WAWL	Western Alliance Warehouse Lending
LVSP	Las Vegas Sunset Properties	Western Liberty	Western Liberty Bancorp
TPB	Torrey Pines Bank		

TERMS:

AFS	Available-for-Sale	GAAP	U.S. Generally Accepted Accounting Principles
ALCO	Asset and Liability Management Committee	GSE	Government-Sponsored Enterprise
AOCI	Accumulated Other Comprehensive Income	HTM	Held-to-Maturity
ARPS	Adjustable-Rate Preferred Stock	ICS	Insured Cash Sweep Service
ASC	Accounting Standards Codification	IRC	Internal Revenue Code
ASU	Accounting Standards Update	ISDA	International Swaps and Derivatives Association
ATM	At-the-Market	LIBOR	London Interbank Offered Rate
BOD	Board of Directors	LIHTC	Low-Income Housing Tax Credit
CBL	Central Business Lines	MBS	Mortgage-Backed Securities
CDARS	Certificate Deposit Account Registry Service	NOL	Net Operating Loss
CDO	Collateralized Debt Obligation	NPV	Net Present Value
CEO	Chief Executive Officer	NUBILs	Net Unrealized Built In Losses
CFO	Chief Financial Officer	OCI	Other Comprehensive Income
CRA	Community Reinvestment Act	OREO	Other Real Estate Owned
CRE	Commercial Real Estate	OTTI	Other-than-Temporary Impairment
EPS	Earnings per share	PCI	Purchased Credit Impaired
EVE	Economic Value of Equity	SBIC	Small Business Investment Company
Exchange Act	Securities Exchange Act of 1934, as amended	SEC	Securities and Exchange Commission
FASB	Financial Accounting Standards Board	SSAE	Statement on Standards for Attestation Engagements
FDIC	Federal Deposit Insurance Corporation	TDR	Troubled Debt Restructuring
FHLB	Federal Home Loan Bank	TEB	Tax Equivalent Basis
FRB	Federal Reserve Bank	XBRL	eXtensible Business Reporting Language
FVO	Fair Value Option		

3

Table of Contents

Item 1. Financial Statements.
WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2015	December 31, 2014
	(Unaudited)	
	(in thousands, except per share amounts)	
Assets:		
Cash and due from banks	$126,891	$125,329
Interest-bearing deposits in other financial institutions	365,511	39,067
Cash and cash equivalents	492,402	164,396
Money market investments	663	451
Investment securities - measured at fair value	1,788	1,858
Investment securities - AFS, at fair value; amortized cost of $1,361,998 at March 31, 2015 and $1,493,648 at December 31, 2014	1,399,428	1,520,237
Investments in restricted stock, at cost	51,774	25,275
Loans, net of deferred loan fees and costs	8,818,554	8,398,265
Less: allowance for credit losses	(112,098)	(110,216)
Total loans	8,706,456	8,288,049
Premises and equipment, net	114,261	113,818
Other assets acquired through foreclosure, net	63,759	57,150
Bank owned life insurance	142,944	141,969
Goodwill	23,224	23,224
Other intangible assets, net	2,408	2,689
Deferred tax assets, net	59,079	62,686
Other assets	193,757	198,696
Total assets	$11,251,943	$10,600,498
Liabilities:		
Deposits:		
Non-interest-bearing demand	$2,657,451	$2,288,048
Interest-bearing	7,004,895	6,642,995
Total deposits	9,662,346	8,931,043
Customer repurchase agreements	47,235	54,899
Other borrowings	275,229	390,263
Junior subordinated debt, at fair value	40,746	40,437
Other liabilities	175,057	182,928
Total liabilities	10,200,613	9,599,570
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock - par value $0.0001 and liquidation value per share of $1,000; 20,000,000 authorized; 70,500 shares issued and outstanding at March 31, 2015 and December 31, 2014	70,500	70,500
Common stock - par value $0.0001; 200,000,000 authorized; 89,180,388 shares issued and outstanding at March 31, 2015 and 88,691,249 at December 31, 2014	9	9
Additional paid in capital	831,931	828,327
Retained earnings	125,467	85,453
Accumulated other comprehensive income	23,423	16,639
Total stockholders' equity	1,051,330	1,000,928

Total liabilities and stockholders’ equity	$11,251,943	$10,600,498

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Three Months Ended March 31, 2015	2014
	(in thousands, except per share amounts)	
Interest income:		
Loans, including fees	$100,391	$86,804
Investment securities	8,513	10,226
Dividends	1,275	1,099
Other	783	572
Total interest income	110,962	98,701
Interest expense:		
Deposits	5,146	4,665
Other borrowings	2,244	2,819
Junior subordinated debt	441	421
Customer repurchase agreements	23	19
Total interest expense	7,854	7,924
Net interest income	103,108	90,777
Provision for credit losses	700	3,500
Net interest income after provision for credit losses	102,408	87,277
Non-interest income:		
Service charges and fees	2,889	2,561
Income from bank owned life insurance	977	949
Card income	813	786
Gain on sales of investment securities, net	589	366
Unrealized losses on assets and liabilities measured at fair value, net	(309)	(1,276)
Other income	974	1,187
Total non-interest income	5,933	4,573
Non-interest expense:		
Salaries and employee benefits	32,541	29,555
Occupancy	4,813	4,686
Legal, professional, and directors' fees	3,995	3,639
Data processing	3,126	2,729
Insurance	2,090	2,393
Loan and repossessed asset expenses	1,090	1,147
Card expense	474	600
Marketing	377	559
Intangible amortization	281	597
Net gain on sales / valuations of repossessed and other assets	(351)	(2,547)
Merger / restructure expense	159	157
Other expense	5,438	5,972
Total non-interest expense	54,033	49,487
Income from continuing operations before provision for income taxes	54,308	42,363
Income tax expense	14,118	10,624
Income from continuing operations	40,190	31,739
Loss from discontinued operations, net of tax	—	(654)
Net income	40,190	31,085
Dividends on preferred stock	176	353

Net income available to common stockholders	$40,014	$30,732

5

Table of Contents

	Three Months Ended March 31,	
	2015	2014
	(in thousands, except per share amounts)	
Earnings per share from continuing operations:		
Basic	$0.46	$0.36
Diluted	0.45	0.36
Loss per share from discontinued operations:		
Basic	—	(0.01)
Diluted	—	(0.01)
Earnings per share available to common stockholders:		
Basic	0.46	0.35
Diluted	0.45	0.35
Weighted average number of common shares outstanding:		
Basic	87,941	86,256
Diluted	88,452	87,123
Dividends declared per common share	$—	$—

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Net income	$40,190	$31,085
Other comprehensive income (loss), net:		
Unrealized gain on AFS securities, net of tax effect of $(4,277) and $(6,365), respectively	7,153	10,644
Realized gain on sale of AFS securities included in income, net of tax effect of $220 and $137 respectively	(369)	(229)
Net other comprehensive income	6,784	10,415
Comprehensive income	$46,974	$41,500

See accompanying Notes to Unaudited Consolidated Financial Statements.

7

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
	(in thousands)							
Balance, December 31, 2013	141	$141,000	87,186	$9	$797,146	$(21,546)	$(61,111)	$855,498
Net income	—	—	—	—	—	—	31,085	31,085
Exercise of stock options	—	—	64	—	703	—	—	703
Restricted stock, performance stock unit, and other grants, net	—	—	304	—	(2,543)	—	—	(2,543)
Dividends on preferred stock	—	—	—	—	—	—	(353)	(353)
Other comprehensive income, net	—	—	—	—	—	10,415	—	10,415
Balance, March 31, 2014	141	$141,000	87,554	$9	$795,306	$(11,131)	$(30,379)	$894,805
Balance, December 31, 2014	71	$70,500	88,691	$9	$828,327	$16,639	$85,453	$1,000,928
Net income	—	—	—	—	—	—	40,190	40,190
Exercise of stock options	—	—	51	—	793	—	—	793
Restricted stock, performance stock unit, and other grants, net	—	—	438	—	2,811	—	—	2,811
Dividends on preferred stock	—	—	—	—	—	—	(176)	(176)
Other comprehensive income, net	—	—	—	—	—	6,784	—	6,784
Balance, March 31, 2015	71	$70,500	89,180	$9	$831,931	$23,423	$125,467	$1,051,330

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income	$40,190	$31,085
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	700	3,500
Depreciation and amortization	1,964	1,500
Stock-based compensation	4,129	332
Excess tax benefit of stock-based compensation	(4,579)	(787)
Deferred income taxes	208	(1,696)
Amortization of net premiums for investment securities	2,030	2,050
Accretion of fair market value adjustments due to acquisitions of loans	(1,478)	(3,305)
Accretion and amortization of fair market value adjustments due to acquisitions of other assets and liabilities	78	544
Income from bank owned life insurance	(977)	(949)
Unrealized losses on assets and liabilities measured at fair value, net	309	1,276
(Gains) / Losses on:		
Sales of investment securities	(589)	(366)
Sale of loans	(201)	—
Other assets acquired through foreclosure, net	(1,115)	(1,168)
Valuation adjustments of other repossessed assets, net	786	35
Sale of premises, equipment, and other assets, net	(22)	(1,411)
Changes in, net of acquisitions:		
Other assets	2,889	3,191
Other liabilities	16,798	6,146
Net cash provided by operating activities	61,120	39,977
Cash flows from investing activities:		
Investment securities - measured at fair value		
Principal pay downs and maturities	65	112
Investment securities - AFS		
Purchases	(1,000)	(24,082)
Principal pay downs and maturities	53,172	38,332
Proceeds from sales	78,040	4,196
Investment securities - HTM		
Principal pay downs and maturities	—	6,600
Purchase of investment tax credits	(9,381)	(10,529)
(Purchase) sale of money market investments, net	(212)	1,781
(Purchase) liquidation of restricted stock	(26,499)	4,911
Loan fundings and principal collections, net	(440,408)	(322,640)
Purchase of premises, equipment, and other assets, net	(2,237)	(1,103)
Proceeds from sale of other real estate owned and repossessed assets, net	1,440	13,512
Net cash used in investing activities	(347,020)	(288,910)

Table of Contents

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Cash flows from financing activities:		
Net increase in deposits	731,374	310,939
Net (decrease) increase in borrowings	(122,664)	97,268
Proceeds from exercise of common stock options	793	703
Excess tax benefit of stock-based compensation	4,579	787
Cash dividends paid on preferred stock	(176)	(353)
Net cash provided by financing activities	613,906	409,344
Net increase in cash and cash equivalents	328,006	160,411
Cash and cash equivalents at beginning of period	164,396	305,514
Cash and cash equivalents at end of period	$492,402	$465,925
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$11,499	$5,916
Income taxes	1,657	2,501
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	7,720	2,110
Change in unfunded investment tax credits and SBIC commitments	(2,000)	12,298
Change in unrealized gain on AFS securities, net of tax	6,784	10,415
Change in unfunded obligations	30	16,625

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of operation
WAL is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, and online banking products and services through its wholly-owned banking subsidiary, WAB. WAB operates the following full-service banking divisions: ABA in Arizona, FIB in Northern Nevada, BON in Southern Nevada, and TPB in California. The Company also serves business customers through a robust national platform of specialized financial services including AAB, WACF, WAEF, WAPF, WARF, and WAWL. In addition, the Company has one non-bank subsidiary, LVSP, which holds and manages certain non-performing loans and OREO.
Basis of presentation
The accounting and reporting policies of the Company are in accordance with GAAP and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in the Unaudited Consolidated Financial Statements.
Use of estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; estimated cash flows related to PCI loans; fair value determinations related to acquisitions and other assets and liabilities carried at fair value; and accounting for income taxes. Although management believes these estimates to be reasonably accurate, actual amounts may differ. In the opinion of management, all adjustments considered necessary have been reflected in the Unaudited Consolidated Financial Statements.
Principles of consolidation
As of March 31, 2015, WAL has eight wholly-owned subsidiaries: WAB, LVSP and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities.
The Bank has the following wholly-owned subsidiaries: WAB Investments, Inc., BON Investments, Inc., and TPB Investments, Inc., which hold certain investment securities, municipal loans and leases; BW Real Estate, Inc., which operates as a real estate investment trust and holds certain of WAB's real estate loans and related securities; BW Nevada Holdings, LLC, which owns the Company’s 2700 West Sahara Avenue, Las Vegas, Nevada office building, and WAEF, which offers equipment finance services nationwide.
The Company does not have any other significant entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.
Reclassifications
Certain amounts in the Consolidated Financial Statements as of December 31, 2014 and for the three months ended March 31, 2014 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders’ equity as previously reported.

Table of Contents

Interim financial information

The accompanying Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2015 and 2014 have been prepared in condensed format and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to the Company's audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

Business combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method, the acquiring entity in a business combination recognizes all of the acquired assets and assumed liabilities at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including identified intangible assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies are also recognized at fair value if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the Consolidated Income Statement from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Investment securities

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

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

Interest income is recognized based on the coupon rate and increased by accretion of discounts earned or decreased by the amortization of premiums paid over the contractual life of the security, adjusted for prepayment estimates, using the interest method.

In estimating whether there are any OTTI losses, management considers the 1) length of time and the extent to which the fair value has been less than amortized cost; 2) financial condition and near term prospects of the issuer; 3) impact of changes in market interest rates; and 4) intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value and whether it is not more likely than not the Company would be required to sell the security.

Declines in the fair value of individual AFS debt securities that are deemed to be other-than-temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings; and 2) market or other factors is

recognized in other comprehensive income or loss.
For individual debt securities where the Company either intends to sell the security or more likely than not will not recover all of its amortized cost, the OTTI is recognized in earnings equal to the entire difference between the security's cost basis and its

Table of Contents

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.

Restricted stock

WAB is a member of the FHLB system and maintains an investment in capital stock of the FHLB based on the borrowing capacity used. The Company also maintains an investment in its primary correspondent bank. On January 30, 2015, WAB became a member of the Federal Reserve System and, as part of its membership, is required to maintain stock in the FRB in a specified ratio to its capital. These investments are considered equity securities with no actively traded market. Therefore, the shares are considered restricted investment securities. These investments are carried at cost, which is equal to the value at which they may be redeemed. The dividend income received from the stock is reported in interest income. The Company conducts a periodic review and evaluation of its restricted stock to determine if any impairment exists.

Loans, interest, and fees from loans

The Company generally holds loans for investment and has the intent and ability to hold loans until their maturity. Therefore, they are reported at book value. Net loans are stated at the amount of unpaid principal, reduced by deferred fees and costs, and an allowance for credit losses. In addition, the book value of loans that are subject to a fair value hedge is adjusted for changes in value attributable to the effective portion of the hedged benchmark interest rate risk. Purchased loans are recorded at estimated fair value on the date of purchase, comprised of unpaid principal less estimated credit losses and interest rate fair value adjustments.

The Company may acquire loans through a business combination or in a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected, which are due, at least in part, to credit quality. Loans are evaluated individually to determine if there has been credit deterioration since origination. Such loans may then be aggregated and accounted for as a pool of loans based on common characteristics. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company’s estimate of undiscounted cash flows expected to be collected over the Company’s initial investment in the loan. The excess of contractual cash flows over the cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan’s yield over the remaining life. Subsequent decreases to cash flows expected to be collected are recognized as impairment. The Company may not carry over or create a valuation allowance in the initial accounting for loans acquired under these circumstances. For additional information, see "Note 3. Loans, Leases and Allowance for Credit Losses" of these Notes to Unaudited Consolidated Financial Statements.

For purchased loans that are not deemed impaired, fair value adjustments attributable to both credit and interest rates are accreted (or amortized) over the contractual life of the individual loan. Loan fees collected for the origination of loans less direct loan origination costs (net deferred loan fees) are amortized over the contractual life of the loan through interest income. If the loan has scheduled payments, the amortization of the net deferred loan fee is calculated using the interest method over the contractual life of the loan. If the loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer’s unused line of credit and fees related to standby letters of credit are recognized over the commitment period.

When loans are repaid, any remaining unamortized balances of premiums, discounts, or net deferred fees are recognized as interest income.

Non-accrual loans: For all loan types except credit cards, when a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. The Company ceases accruing interest income when the loan has become delinquent by more than 90 days or when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if the loans are well secured by collateral and in the process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days delinquent.

For all loan types, when a loan is placed on non-accrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed and, the Company makes a loan-level decision to apply either the cash basis or cost recovery method. The Company recognizes income on a cash basis only for those non-accrual loans for which the collection of the remaining principal balance is not in doubt. Under the cost recovery method, subsequent payments received

13

Table of Contents

from the customer are applied to principal and generally no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required.

Impaired loans: A loan is identified as impaired when it is no longer probable that interest and principal will be collected according to the contractual terms of the original loan agreement. Generally, impaired loans are classified as non-accrual. However, in certain instances, impaired loans may continue on an accrual basis, if full repayment of all principal and interest is expected and the loan is both well secured and in the process of collection. Impaired loans are measured for reserve requirements in accordance with ASC 310, Receivables, based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral less applicable disposition costs if the loan is collateral dependent. The amount of an impairment reserve, if any, and any subsequent changes are recorded as a provision for credit losses. Losses are recorded as a charge-off when losses are confirmed. In addition to management's internal loan review process, regulators may from time to time direct the Company to modify loan grades, loan impairment calculations or loan impairment methodology.

Troubled Debt Restructured Loans: A TDR loan is a loan on which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms that have been modified or restructured due to a borrower's financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, or deferral of interest payments. A TDR loan is also considered impaired. A TDR loan may be returned to accrual status when the loan is brought current, has performed in accordance with the contractual restructured terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual restructured principal and interest is no longer in doubt. However, such loans continue to be considered impaired. Consistent with regulatory guidance, a TDR loan that is subsequently modified in another restructuring agreement but has shown sustained performance and classification as a TDR, will be removed from TDR status provided that the modified terms were market-based at the time of modification.

Allowance for credit losses

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

The Company's allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include: 1) the Company's historical loss experience: 2) levels of and trends in delinquencies and impaired loans; 3) levels of and trends in charge-offs and recoveries; 4) trends in volume and terms of loans; 5) changes in underwriting standards or lending policies; 6) experience, ability, depth of lending staff; 7) national and local economic trends and conditions; 8) changes in credit concentrations; 9) out-of-market exposures; 10) changes in quality of loan review system; and 11) changes in the value of underlying collateral.

An internal ten-year loss history is also incorporated into the allowance calculation model. Due to the credit concentration of our loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona, and California. 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, regulators, as an integral part of their examination processes, periodically review the Bank's allowance for credit losses, and may require us to make additions to the allowance based on their judgment about information available to them at the time of their examination. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

The allowance consists of specific and general components. The specific allowance applies to impaired loans. For impaired collateral dependent loans, the reserve is calculated based on the collateral value, net of estimated disposition costs. Generally, the Company obtains independent collateral valuation analysis for each loan every twelve months. Loans not collateral dependent are evaluated based on the expected future cash flows discounted at the original contractual interest rate. The Company's impairment analysis also incorporates various valuation considerations, including loan type, loss experience, and geographic criteria.

The general allowance covers all non-impaired loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above.

Table of Contents

Other assets acquired through foreclosure

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily repossessed assets formerly leased) are classified as OREO and other repossessed property and are initially reported at fair value of the asset less estimated selling costs. Subsequent adjustments are based on the lower of carrying value or fair value less estimated costs to sell the property. Costs related to the development or improvement of the assets are capitalized and costs related to holding the assets are charged to non-interest expense. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances.

Derivative financial instruments

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

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

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk are recorded in current-period earnings. For a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the change in fair value of a cash flow hedge is recognized immediately in non-interest income in the Consolidated Income Statement. Under both the fair value and cash flow hedge scenarios, changes in the fair value of derivatives not considered to be highly effective in hedging the change in fair value or the expected cash flows of the hedged item are recognized in earnings as non-interest income during the period of the change.

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

Derivative instruments that are not designated as hedges, so called free-standing derivatives, are reported in the Consolidated Balance Sheets at fair value and the changes in fair value are recognized in earnings as non-interest income during the period of change.

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

Table of Contents

Income taxes

The Company and its subsidiaries, other than BW Real Estate, Inc., file a consolidated federal tax return. Due to tax regulations and GAAP, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent temporary differences. Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and tax credit carryovers and deferred tax liabilities are recognized for taxable temporary differences. A temporary difference is the difference between the reported amount of an asset or liability and its tax basis. A deferred tax asset is reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment. See "Note 10. Income Taxes" of these Notes to Unaudited Consolidated Financial Statements for further discussion on income taxes.

Off-balance sheet instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instrument arrangements consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Financial Statements when they are funded. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheets. Losses would be experienced when the Company is contractually obligated to make a payment under these instruments and must seek repayment from the borrower, which may not be as financially sound in the current period as they were when the commitment was originally made. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

As with outstanding loans, the Company applies qualitative factors and utilization rates to its off-balance sheet obligations in determining an estimate of losses inherent in these contractual obligations. The estimate for credit losses on off-balance sheet instruments is included within other liabilities and the charge to income that establishes this liability is included in non-interest expense.

Fair values of financial instruments

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

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, prepayment speeds, volatilities, etc.) or model-based valuation techniques

where all significant assumptions are observable, either directly or indirectly, in the market.

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

Table of Contents

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

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

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

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at March 31, 2015 and December 31, 2014. The estimated fair value amounts for March 31, 2015 and December 31, 2014 have been measured as of period-end, and have not been reevaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end.

The information in "Note 12. Fair Value Accounting" in these Notes to Unaudited Consolidated Financial Statements should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company’s assets and liabilities.

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

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

Cash and cash equivalents

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

Money market investments

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

Investment securities

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

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

The Company owns certain CDOs for which quoted prices are not available. Quoted prices for similar assets are also not available for these investment securities. In order to determine the fair value of these securities, the Company engages a third party to estimate the future cash flows and discount rate using third party quotes adjusted based on assumptions regarding the adjustments a market participant would assume necessary for each specific security. As a result of the lack of an active market, the resulting fair values have been categorized as Level 3 in the fair value hierarchy.

Restricted stock

WAB is a member of the FHLB system and maintains an investment in capital stock of the FHLB. WAB also maintains an investment in its primary correspondent bank. On January 30, 2015, WAB became a member of the

Federal Reserve System and, as part of its membership, is required to maintain stock in the FRB. These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of its restricted stock to determine if any impairment exists. The fair values of these investments have been categorized as Level 2 in the fair value hierarchy.

Loans

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

Accrued interest receivable and payable

The carrying amounts reported in the Consolidated Balance Sheets for accrued interest receivable and payable approximate their fair value.

Derivative financial instruments

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

Deposits

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

FHLB advances and other borrowings

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

Junior subordinated debt

Junior subordinated debt is valued by comparing interest rates and spreads to an index relative to the ten-year treasury rate and discounting the contractual cash flows on the Company's debt using these market rates. Junior subordinated debt has been categorized as Level 3 in the fair value hierarchy.

Off-balance sheet instruments

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

Recent accounting pronouncements

In January 2014, the FASB issued guidance within ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The objective of the amendments in ASU 2014-04 to Topic 310, Receivables - Troubled Debt Restructurings by Creditors, is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014. The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

In June 2014, the FASB issued guidance within ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in ASU 2014-11 to Topic 860, Transfers and Servicing, change the accounting for repurchase-to-maturity transactions to secured borrowing accounting and, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The accounting changes are effective for the first interim or annual period beginning after December 15, 2014. The amendments also require disclosure of information about certain transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the same counterparty. An entity will also be required to disclose information about repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014 and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

In June 2014, the FASB issued guidance within ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in ASU 2014-12 to Topic 718, Compensation - Stock Compensation, provide explicit guidance on whether to treat a performance target that could be achieved after the requisite service period as a performance condition that affects vesting or as a nonvesting condition that affects the grant-date fair value of an award. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. An entity may elect to apply the amendments either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued guidance within ASU 2014-15, Presentation of Financial Statements - Going Concern. The amendments in ASU 2014-15 to Subtopic 205-40 provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In February 2015, the FASB issued guidance within ASU 2015-02, Amendments to the Consolidation Analysis. The amendments in ASU 2015-02 to Topic 810, Consolidation, change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships, and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. An entity may apply the amendments in this Update using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the begging of the fiscal year of adoption or, may apply the amendments retrospectively. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In April 2015, the FASB issued guidance within ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 to Subtopic 835-30, Interest - Imputation of Interest, require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued. The new guidance should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

Table of Contents

2. INVESTMENT SECURITIES

The carrying amounts and fair values of investment securities at March 31, 2015 and December 31, 2014 are summarized as follows:

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Available-for-sale				
Collateralized debt obligations	$50	$10,470	$—	$10,520
Commercial MBS issued by GSEs	2,033	148	—	2,181
Corporate debt securities	12,772	743	—	13,515
CRA investments	25,430	256	—	25,686
Municipal obligations	281,703	13,811	(8)	295,506
Preferred stock	82,877	3,172	(1,050)	84,999
Private label commercial MBS	4,964	133	—	5,097
Private label residential MBS	64,089	260	(990)	63,359
Residential MBS issued by GSEs	837,380	17,621	(498)	854,503
Trust preferred securities	32,000	—	(6,513)	25,487
U.S. government sponsored agency securities	18,700	—	(125)	18,575
Total AFS securities	$1,361,998	$46,614	$(9,184)	$1,399,428
Securities measured at fair value				
Residential MBS issued by GSEs				$1,788

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available-for-sale				
Collateralized debt obligations	$50	$11,395	$—	$11,445
Commercial MBS issued by GSEs	2,047	100	—	2,147
Corporate debt securities	52,773	717	(1,001)	52,489
CRA investments	24,302	30	—	24,332
Municipal obligations	285,398	13,688	(49)	299,037
Mutual funds	37,449	500	(247)	37,702
Preferred stock	83,192	2,099	(2,679)	82,612
Private label commercial MBS	5,017	132	—	5,149
Private label residential MBS	70,985	379	(1,121)	70,243
Residential MBS issued by GSEs	881,734	11,440	(1,985)	891,189
Trust preferred securities	32,000	—	(6,454)	25,546
U.S. government-sponsored agency securities	18,701	—	(355)	18,346
Total AFS securities	$1,493,648	$40,480	$(13,891)	$1,520,237
Securities measured at fair value				
Residential MBS issued by GSEs				$1,858

For additional information on the fair value changes of the securities measured at fair value, see the trading securities table in "Note 12. Fair Value Accounting" of these Notes to Unaudited Consolidated Financial Statements.

The Company conducts an OTTI analysis on a quarterly basis. The initial indication of OTTI for both debt and equity securities is a decline in the market value below the amount recorded for an investment, and taking into account the severity and duration of the decline. Another potential indication of OTTI is a downgrade below investment grade. In determining whether an impairment is OTTI, the Company considers the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its

Table of Contents

industry, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. For marketable equity securities, the Company also considers the issuer's financial condition, capital strength, and near-term prospects.

For debt securities, for the purpose of OTTI analysis, the Company also considers the cause of the price decline (general level of interest rates and industry and issuer-specific factors), the issuer's financial condition, near-term prospects, and current ability to make future payments in a timely manner, as well as the issuer's ability to service debt, and any change in agencies' ratings at the evaluation date from the acquisition date and any likely imminent action. For ARPS with a fair value below cost that is not attributable to the credit deterioration of the issuer, such as a decline in cash flows from the security or a downgrade in the security's rating below investment grade, a loss is recorded in other comprehensive income rather than earnings when the Company determines there is intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company has reviewed securities for which there is an unrealized loss in accordance with its accounting policy for OTTI described above and determined that there were no impairment charges for the three months ended March 31, 2015 and 2014. The Company does not consider any securities to be other-than-temporarily impaired as of March 31, 2015 and December 31, 2014. No assurance can be made that additional OTTI will not occur in future periods.

Information pertaining to securities with gross unrealized losses at March 31, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	March 31, 2015					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale						
Municipal obligations	$8	$3,540	$—	$—	$8	$3,540
Preferred stock	2	443	1,048	18,009	1,050	18,452
Private label residential MBS	235	20,292	755	25,301	990	45,593
Residential MBS issued by GSEs	2	1,319	496	45,982	498	47,301
Trust preferred securities	—	—	6,513	25,487	6,513	25,487
U.S. government sponsored agency securities	—	—	125	18,575	125	18,575
Total AFS securities	$247	$25,594	$8,937	$133,354	$9,184	$158,948

	December 31, 2014					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale						
Corporate debt securities	$139	$9,860	$862	$29,139	$1,001	$38,999
Municipal obligations	—	—	49	4,430	49	4,430
Mutual funds	247	25,855	—	—	247	25,855
Preferred stock	232	13,811	2,447	28,109	2,679	41,920
Private label residential MBS	157	24,056	964	26,614	1,121	50,670
Residential MBS issued by GSEs	227	49,217	1,758	97,296	1,985	146,513
Trust preferred securities	—	—	6,454	25,546	6,454	25,546
	—	—	355	18,346	355	18,346

U.S. government sponsored agency securities						
Total AFS securities	$1,002	$122,799	$12,889	$229,480	$13,891	$352,279

At March 31, 2015 and December 31, 2014, the Company's unrealized losses relate primarily to interest rate fluctuations, credit spread widening, and reduced liquidity in applicable markets. The total number of securities in an unrealized loss position at March 31, 2015 was 69, compared to 109 at December 31, 2014. 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

Table of Contents

intend to sell the debt securities in an unrealized loss position in the foreseeable future, none of the securities described in the above table or in this paragraph were deemed to be OTTI.
The preferred stock and trust preferred securities have yields based on floating rate LIBOR, which are highly correlated to the federal funds rate and have been negatively affected by the low rate environment. This has resulted in unrealized losses for these securities. The FRB continues to express its intention to keep interest rates, particularly the federal funds rate, at historically low levels through 2015.
The amortized cost and fair value of securities as of March 31, 2015, by contractual maturities, are shown below. MBS are shown separately as individual MBS are comprised of pools of loans with varying maturities. Therefore, these securities are listed separately in the maturity summary.

	March 31, 2015	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Available-for-sale		
Due in one year or less	$31,520	$31,855
After one year through five years	63,053	66,268
After five years through ten years	106,629	110,558
After ten years	252,330	265,607
Mortgage-backed securities	908,466	925,140
Total AFS securities	$1,361,998	$1,399,428

The following tables summarize the carrying amount of the Company's investment ratings position as March 31, 2015 and December 31, 2014:

	March 31, 2015							
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Available-for-sale								
Collateralized debt obligations	$—	$—	$—	$—	$—	$10,520	$—	$10,520
Commercial MBS issued by GSEs	—	2,181	—	—	—	—	—	2,181
Corporate debt securities	—	—	2,758	5,614	5,143	—	—	13,515
CRA investments	—	—	—	—	—	—	25,686	25,686
Municipal obligations	8,140	—	137,718	143,238	6,215	195	—	295,506
Preferred stock	—	—	—	—	56,556	18,386	10,057	84,999
Private label commercial MBS	5,097	—	—	—	—	—	—	5,097
Private label residential MBS	53,785	—	58	2,935	3,410	3,171	—	63,359
Residential MBS issued by GSEs	—	854,503	—	—	—	—	—	854,503
Trust preferred securities	—	—	—	—	25,487	—	—	25,487
U.S. government sponsored agency securities	—	18,575	—	—	—	—	—	18,575
Total AFS securities (1)	$67,022	$ 875,259	$140,534	$151,787	$96,811	$32,272	$35,743	$1,399,428

Securities measured at fair value								
Residential MBS issued by GSEs	$—	$ 1,788	$—	$—	$—	$—	$—	$1,788

(1) The Company uses the average credit rating of the combination of S&P, Moody’s, and Fitch, where ratings differ.

Table of Contents

	December 31, 2014							
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Available-for-sale								
Collateralized debt obligations	$—	$—	$—	$—	$—	$11,445	$—	$11,445
Commercial MBS issued by GSEs	—	2,147	—	—	—	—	—	2,147
Corporate debt securities	—	—	2,759	5,570	44,160	—	—	52,489
CRA investments	—	—	—	—	—	—	24,332	24,332
Municipal obligations	8,168	—	138,256	146,155	6,263	195	—	299,037
Mutual funds (2)	—	—	—	—	37,702	—	—	37,702
Preferred stock	—	—	—	—	54,585	17,632	10,395	82,612
Private label commercial MBS	5,149	—	—	—	—	—	—	5,149
Private label residential MBS	59,944	—	68	3,439	3,595	3,197	—	70,243
Residential MBS issued by GSEs	—	891,189	—	—	—	—	—	891,189
Trust preferred securities	—	—	—	—	25,546	—	—	25,546
U.S. government sponsored agency securities	—	18,346	—	—	—	—	—	18,346
Total AFS securities (1)	$73,261	$911,682	$141,083	$155,164	$171,851	$32,469	$34,727	$1,520,237
Securities measured at fair value								
Residential MBS issued by GSEs	$—	$1,858	$—	$—	$—	$—	$—	$1,858

(1) The Company uses the average credit rating of the combination of S&P, Moody's, and Fitch, where ratings differ.
(2) At least 80% of mutual funds are investment grade corporate debt securities.

Securities with carrying amounts of approximately $739.5 million and $755.5 million at March 31, 2015 and December 31, 2014, respectively, were pledged for various purposes as required or permitted by law.

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Gross gains	$1,048	$366
Gross losses	(459)	—
Net gains on sales of investment securities	$589	$366

Table of Contents

3. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

The composition of the Company’s loan portfolio is as follows:

	March 31, 2015	December 31, 2014
	(in thousands)	
Commercial and industrial	$3,529,173	$3,326,708
Commercial real estate - non-owner occupied	2,113,829	2,052,566
Commercial real estate - owner occupied	1,818,002	1,732,888
Construction and land development	842,894	748,053
Residential real estate	292,196	299,402
Commercial leases	196,039	205,639
Consumer	26,421	33,009
Loans, net of deferred loan fees and costs	8,818,554	8,398,265
Allowance for credit losses	(112,098)	(110,216)
Total	$8,706,456	$8,288,049

Net deferred loan fees and costs as of March 31, 2015 and December 31, 2014 total $14.5 million and $12.5 million, respectively. Net unamortized discounts on loans total $7.1 million and $7.5 million as of March 31, 2015 and December 31, 2014, respectively.

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

	March 31, 2015					
	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	$1,816,700	$1,024	$—	$278	$1,302	$1,818,002
Non-owner occupied	1,926,506	2,775	—	3,285	6,060	1,932,566
Multi-family	180,830	433	—	—	433	181,263
Commercial and industrial						
Commercial	3,524,938	1,721	125	2,389	4,235	3,529,173
Leases	194,596	1,443	—	—	1,443	196,039
Construction and land development						
Construction	452,886	—	—	—	—	452,886
Land	389,933	—	75	—	75	390,008
Residential real estate	280,560	7,441	194	4,001	11,636	292,196
Consumer	25,994	164	8	255	427	26,421
Total loans	$8,792,943	$15,001	$402	$10,208	$25,611	$8,818,554

Table of Contents

	December 31, 2014					
	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	$1,730,164	$1,406	$180	$1,138	$2,724	$1,732,888
Non-owner occupied	1,855,454	2,389	3,361	8,737	14,487	1,869,941
Multi-family	182,180	—	445	—	445	182,625
Commercial and industrial						
Commercial	3,324,132	1,523	15	1,038	2,576	3,326,708
Leases	205,639	—	—	—	—	205,639
Construction and land development						
Construction	388,399	—	—	—	—	388,399
Land	356,209	—	2,640	805	3,445	359,654
Residential real estate	292,065	2,347	205	4,785	7,337	299,402
Consumer	32,540	177	21	271	469	33,009
Total loans	$8,366,782	$7,842	$6,867	$16,774	$31,483	$8,398,265

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

	March 31, 2015				December 31, 2014			
	Non-accrual loans			Loans past due 90 days or more and still accruing	Non-accrual loans			Loans past due 90 days or more and still accruing
	Current	Past Due/ Delinquent	Total Non-accrual		Current	Past Due/ Delinquent	Total Non-accrual	
	(in thousands)							
Commercial real estate								
Owner occupied	$12,178	$—	$12,178	$278	$13,630	$—	$13,630	$1,138
Non-owner occupied	33,094	271	33,365	3,285	30,226	8,601	38,827	2,171
Multi-family	—	—	—	—	—	—	—	—
Commercial and industrial								
Commercial	918	3,284	4,202	100	2,621	496	3,117	703
Leases	346	—	346	—	373	—	373	—
Construction and land development								
Construction	—	—	—	—	—	—	—	—
Land	5,101	—	5,101	—	2,686	2,640	5,326	805
Residential real estate	1,361	4,001	5,362	—	1,332	4,841	6,173	232
Consumer	—	188	188	67	25	188	213	83
Total	$52,998	$7,744	$60,742	$3,730	$50,893	$16,766	$67,659	$5,132

The reduction in interest income associated with loans on non-accrual status was approximately $0.7 million and $1.0 million for the three months ended March 31, 2015 and 2014, respectively.

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

Table of Contents

The following tables present gross loans by risk rating:

	March 31, 2015					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$1,757,286	$29,585	$29,281	$1,295	$555	$1,818,002
Non-owner occupied	1,853,930	23,899	54,304	433	—	1,932,566
Multi-family	180,830	—	433	—	—	181,263
Commercial and industrial						
Commercial	3,481,617	35,301	12,255	—	—	3,529,173
Leases	187,791	2,698	5,550	—	—	196,039
Construction and land development						
Construction	448,657	4,229	—	—	—	452,886
Land	369,247	820	19,941	—	—	390,008
Residential real estate	276,970	3,621	11,605	—	—	292,196
Consumer	25,918	192	311	—	—	26,421
Total	$8,582,246	$100,345	$133,680	$1,728	$555	$8,818,554

	March 31, 2015					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$8,572,564	$96,831	$121,265	$1,728	$555	$8,792,943
Past due 30 - 59 days	9,667	1,529	3,805	—	—	15,001
Past due 60 - 89 days	—	327	75	—	—	402
Past due 90 days or more	15	1,658	8,535	—	—	10,208
Total	$8,582,246	$100,345	$133,680	$1,728	$555	$8,818,554

	December 31, 2014					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$1,664,270	$28,072	$39,222	$1,324	$—	$1,732,888
Non-owner occupied	1,771,138	35,752	62,611	440	—	1,869,941
Multi-family	182,180	—	445	—	—	182,625
Commercial and industrial						
Commercial	3,295,027	14,380	17,146	155	—	3,326,708
Leases	202,772	2,494	373	—	—	205,639
Construction and land development						
Construction	383,677	4,241	481	—	—	388,399
Land	328,278	10,289	21,087	—	—	359,654
Residential real estate	284,052	2,044	13,306	—	—	299,402
Consumer	32,419	233	357	—	—	33,009
Total	$8,143,813	$97,505	$155,028	$1,919	$—	$8,398,265

26

Table of Contents

	December 31, 2014					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$8,140,140	$95,091	$129,787	$1,764	$—	$8,366,782
Past due 30 - 59 days	2,771	198	4,718	155	—	7,842
Past due 60 - 89 days	385	37	6,445	—	—	6,867
Past due 90 days or more	517	2,179	14,078	—	—	16,774
Total	$8,143,813	$97,505	$155,028	$1,919	$—	$8,398,265

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

	March 31, 2015	December 31, 2014
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310 (1)	$131,823	$124,928
Impaired loans without a specific valuation allowance under ASC 310 (2)	25,310	41,822
Total impaired loans	$157,133	$166,750
Valuation allowance related to impaired loans (3)	$(9,666)	$(10,765)

(1) Includes TDR loans with a specific valuation allowance under ASC 310 of $103.6 million and $103.3 million at March 31, 2015 and December 31, 2014, respectively.

(2) Includes TDR loans without a specific valuation allowance under ASC 310 of $18.7 million and $35.0 million at March 31, 2015 and December 31, 2014, respectively.

(3) Includes valuation allowance related to TDR loans of $7.0 million and $8.9 million at March 31, 2015 and December 31, 2014, respectively.

The following table presents impaired loans by class:

	March 31, 2015	December 31, 2014
	(in thousands)	
Commercial real estate		
Owner occupied	$41,363	$44,893
Non-owner occupied	61,684	66,324
Multi-family	—	—
Commercial and industrial		
Commercial	13,984	13,749
Leases	346	373
Construction and land development		
Construction	—	—
Land	21,140	21,748
Residential real estate	18,274	19,300
Consumer	342	363
Total	$157,133	$166,750

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable in the table above as “Impaired loans without a specific valuation allowance under ASC 310.” However, before concluding that an impaired loan needs no associated valuation allowance, an assessment is made to consider all available and relevant information for the method used to evaluate impairment and the type of loan being assessed. The valuation allowance disclosed above is included in the allowance for credit losses reported in the Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014.

27

Table of Contents

The following table presents the average investment in impaired loans and income recognized on impaired loans:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Average balance on impaired loans	$162,109	$172,696
Interest income recognized on impaired loans	1,182	1,386
Interest recognized on non-accrual loans, cash basis	653	606

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Commercial real estate		
Owner occupied	$42,927	$36,748
Non-owner occupied	65,080	70,039
Multi-family	—	—
Commercial and industrial		
Commercial	13,269	15,583
Leases	357	439
Construction and land development		
Construction	—	—
Land	21,212	22,586
Residential real estate	18,911	26,799
Consumer	353	502
Total	$162,109	$172,696

The average investment in TDR loans included in the average investment in impaired loans table above for the three months ended March 31, 2015 and 2014 was $126.1 million and $124.2 million, respectively.

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Commercial real estate		
Owner occupied	$420	$391
Non-owner occupied	330	373
Multi-family	—	—
Commercial and industrial		
Commercial	79	193
Leases	—	—
Construction and land development		
Construction	—	—
Land	194	261
Residential real estate	157	157
Consumer	2	11
Total	$1,182	$1,386

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

Table of Contents

The following table summarizes nonperforming assets:

	March 31, 2015	December 31, 2014
	(in thousands)	
Non-accrual loans (1)	$60,742	$67,659
Loans past due 90 days or more on accrual status	3,730	5,132
Troubled debt restructured loans (2)	71,597	84,720
Total nonperforming loans	136,069	157,511
Other assets acquired through foreclosure, net	63,759	57,150
Total nonperforming assets	$199,828	$214,661

(1) Includes non-accrual TDR loans of $50.7 million and $53.6 million at March 31, 2015 and December 31, 2014, respectively.

(2) Includes accruing TDR loans only.

Loans Acquired with Deteriorated Credit Quality

Changes in the accretable yield for loans acquired with deteriorated credit quality in the Centennial and Western Liberty acquisitions are as follows:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Balance, at beginning of period	$19,156	$28,164
Reclassification from non-accretable to accretable yield (1)	430	1,466
Accretion to interest income	(1,078)	(2,404)
Reversal of fair value adjustments upon disposition of loans	(552)	(395)
Balance, at end of period	$17,956	$26,831

(1) The primary drivers of reclassification from non-accretable to accretable yield resulted from changes in estimated cash flows.

Allowance for Credit Losses

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

	Three Months Ended March 31,					
	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
	(in thousands)					
2015						
Beginning Balance	$18,558	$28,783	$7,456	$54,566	$853	$110,216
Charge-offs	—	—	(400)	(393)	(54)	(847)
Recoveries	157	383	533	916	40	2,029
Provision	(716)	(1,055)	(923)	3,562	(168)	700
Ending balance	$17,999	$28,111	$6,666	$58,651	$671	$112,098
2014						
Beginning Balance	$14,519	$32,064	$11,640	$39,657	$2,170	$100,050
Charge-offs	—	(171)	(406)	(1,478)	(12)	(2,067)
Recoveries	211	560	553	922	170	2,416
Provision	1,970	2,400	(490)	392	(772)	3,500
Ending balance	$16,700	$34,853	$11,297	$39,493	$1,556	$103,899

Table of Contents

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

	Commercial Real Estate-Owner Occupied (in thousands)	Commercial Real Estate-Non-Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Commercial Leases	Consumer	Total Loans
Loans as of March 31, 2015:								
Recorded Investment:								
Impaired loans with an allowance recorded	$27,639	$ 52,405	$12,963	$18,274	$ 20,368	$20	$154	$131,823
Impaired loans with no allowance recorded	13,724	9,279	1,021	—	772	326	188	25,310
Total loans individually evaluated for impairment	41,363	61,684	13,984	18,274	21,140	346	342	157,133
Loans collectively evaluated for impairment	1,760,512	1,981,415	3,514,861	271,368	821,754	195,693	26,079	8,571,682
Loans acquired with deteriorated credit quality	16,127	70,730	328	2,554	—	—	—	89,739
Total recorded investment	$1,818,002	$ 2,113,829	$3,529,173	$292,196	$ 842,894	$196,039	$26,421	$8,818,554
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$30,907	$ 53,198	$15,106	$23,342	$ 20,485	$21	$167	$143,226
Impaired loans with no allowance recorded	13,723	9,441	1,036	—	962	477	188	25,827
Total loans individually evaluated for impairment	44,630	62,639	16,142	23,342	21,447	498	355	169,053
Loans collectively	1,760,512	1,981,415	3,514,861	271,368	821,754	195,693	26,079	8,571,682

evaluated for impairment								
Loans acquired with deteriorated credit quality	22,003	103,139	1,081	3,420	—	—	—	129,643
Total unpaid principal balance	$1,827,145	$ 2,147,193	$3,532,084	$298,130	$ 843,201	$196,191	$26,434	$8,870,378
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$2,036	$ 2,725	$2,214	$1,026	$ 1,652	$8	$5	$9,666
Impaired loans with no allowance recorded	—	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	2,036	2,725	2,214	1,026	1,652	8	5	9,666
Loans collectively evaluated for impairment	10,376	12,936	53,553	5,640	16,347	2,848	666	102,366
Loans acquired with deteriorated credit quality	—	38	28	—	—	—	—	66
Total allowance for credit losses	$12,412	$ 15,699	$55,795	$6,666	$ 17,999	$2,856	$671	$112,098

Table of Contents

	Commercial Real Estate-Owner Occupied (in thousands)	Commercial Real Estate-Non-Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Commercial Leases	Consumer	Total Loans
Loans as of December 31, 2014:								
Recorded Investment:								
Impaired loans with an allowance recorded	$28,024	$ 44,937	$11,399	$19,300	$ 21,052	$41	$175	$124,928
Impaired loans with no allowance recorded	16,869	21,387	2,350	—	696	332	188	41,822
Total loans individually evaluated for impairment	44,893	66,324	13,749	19,300	21,748	373	363	166,750
Loans collectively evaluated for impairment	1,670,083	1,910,420	3,312,629	277,692	726,305	205,266	32,646	8,135,041
Loans acquired with deteriorated credit quality	17,912	75,822	330	2,410	—	—	—	96,474
Total recorded investment	$1,732,888	$ 2,052,566	$3,326,708	$299,402	$ 748,053	$205,639	$33,009	$8,398,265
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$31,292	$ 45,853	$11,829	$24,420	$ 21,169	$41	$187	$134,791
Impaired loans with no allowance recorded	17,010	21,550	4,104	—	885	483	188	44,220
Total loans individually evaluated for impairment	48,302	67,403	15,933	24,420	22,054	524	375	179,011
Loans collectively evaluated for	1,670,083	1,910,420	3,312,629	277,692	726,305	205,266	32,646	8,135,041

impairment								
Loans acquired with deteriorated credit quality	24,273	108,935	1,150	3,439	—	—	—	137,797
Total unpaid principal balance	$1,742,658	$ 2,086,758	$3,329,712	$305,551	$ 748,359	$205,790	$33,021	$8,451,849
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$2,082	$ 2,537	$1,926	$1,052	$ 3,112	$39	$17	$10,765
Impaired loans with no allowance recorded	—	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	2,082	2,537	1,926	1,052	3,112	39	17	10,765
Loans collectively evaluated for impairment	10,198	13,734	49,809	6,404	15,446	2,761	836	99,188
Loans acquired with deteriorated credit quality	174	58	31	—	—	—	—	263
Total allowance for credit losses	$12,454	$ 16,329	$51,766	$7,456	$ 18,558	$2,800	$853	$110,216

Troubled Debt Restructurings

A TDR loan is a loan on which the Company, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms that have been modified or restructured due to a borrower’s financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, or deferral of interest payments. The majority of the Company's modifications are extensions in terms or deferral of payments which result in no lost principal or interest followed by reductions in interest rates or accrued interest. A TDR loan is also considered impaired. Consistent with regulatory guidance, a TDR loan that is subsequently modified in another restructuring agreement but has shown sustained performance and classification as a TDR, will be removed from TDR status provided that the modified terms were market-based at the time of modification.

Table of Contents

The Company did not have any new TDR loans during the three months ended March 31, 2015. The following table presents information on the financial effects of TDR loans by class for the three months ended March 31, 2014:

	Three Months Ended March 31, 2014					
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Forgiven Principal Balance	Lost Interest Income	Post-Modification Outstanding Recorded Investment	Waived Fees and Other Expenses
	(dollars in thousands)					
Commercial real estate						
Owner occupied	1	$798	$378	$117	$303	$33
Non-owner occupied	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—
Commercial and industrial						
Commercial	1	63	—	—	63	3
Leases	—	—	—	—	—	—
Construction and land development						
Construction	—	—	—	—	—	—
Land	—	—	—	—	—	—
Residential real estate	1	405	166	37	202	—
Consumer	—	—	—	—	—	—
Total	3	$1,266	$544	$154	$568	$36

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

	Three Months Ended March 31,			
	2015		2014	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Commercial real estate				
Owner occupied	—	$—	1	$303
Non-owner occupied	—	—	—	—
Multi-family	—	—	—	—
Commercial and industrial				
Commercial	—	—	1	63
Leases	—	—	—	—
Construction and land development				
Construction	1	137	—	—
Land	—	—	—	—
Residential real estate	—	—	1	202
Consumer	—	—	—	—
Total	1	$137	3	$568

A TDR loan is deemed to have a payment default when it becomes past due 90 days, goes on non-accrual, or is restructured again. Payment defaults, along with other qualitative indicators, are considered by management in the determination of the allowance for credit losses.

At March 31, 2015, loan commitments outstanding on TDR loans were not significant. At December 31, 2014, there was $1.2 million loan commitments outstanding on TDR loans.

Loan Purchases and Sales

For the three months ended March 31, 2015 and 2014, the Company had secondary market loan purchases of $18.4 million and $15.6 million, respectively. For 2015, these purchased loans consisted of $11.0 million of commercial and industrial loans, $6.0 million of commercial real estate loans, and $1.4 million of commercial leases. For 2014, these purchased loans consisted of

Table of Contents

commercial and industrial loans. In addition, the Company periodically acquires newly originated loans at closing through participations or loan syndications.

During the three months ended March 31, 2015, the Company sold loans with a carrying value of $10.0 million and recognized a gain of $0.2 million on the sale. The Company had no significant loan sales in 2014.

4. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

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

	Three Months Ended March 31,		
	2015		
	Gross Balance	Valuation Allowance	Net Balance
	(in thousands)		
Balance, beginning of period	$71,421	$(14,271)	$57,150
Transfers to other assets acquired through foreclosure, net	7,720	—	7,720
Proceeds from sale of other real estate owned and repossessed assets, net	(2,288)	848	(1,440)
Valuation adjustments, net	—	(786)	(786)
Gains, net (1)	1,115	—	1,115
Balance, end of period	$77,968	$(14,209)	$63,759
	2014		
Balance, beginning of period	$88,421	$(21,702)	$66,719
Transfers to other assets acquired through foreclosure, net	2,110	—	2,110
Proceeds from sale of other real estate owned and repossessed assets, net	(19,473)	5,961	(13,512)
Valuation adjustments, net	—	(35)	(35)
Gains, net (1)	1,168	—	1,168
Balance, end of period	$72,226	$(15,776)	$56,450

(1) Includes net gains related to initial transfers to other assets of $0.6 million and zero during the three months ended March 31, 2015 and 2014, respectively, pursuant to accounting guidance.

At March 31, 2015 and December 31, 2014, the majority of the Company’s repossessed assets consisted of properties located in Nevada. The Company held 68 properties at March 31, 2015, compared to 67 at December 31, 2014.

5. OTHER BORROWINGS

The following table summarizes the Company’s borrowings as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
	(in thousands)	
Short-Term:		
Revolving line of credit	$—	$25,000
FHLB advances	16,949	96,987
Other short-term debt	58,280	58,182
Total short-term borrowings	$75,229	$180,169
Long-Term:		
FHLB advances	$200,000	$210,094
Total long-term borrowings	$200,000	$210,094

The Company maintains other lines of credit with correspondent banks totaling $70.0 million, of which $25.0 million is secured by pledged securities and $45.0 million is unsecured. As of March 31, 2015, there were no outstanding balances on the Company's lines of credit. At December 31, 2014, the Company had revolving lines of credit with other institutions with outstanding advances totaling $25.0 million, at an interest rate of 1.75%. In addition, the Bank has entered into federal funds credit line agreements with correspondent banks under which it can borrow up to $100.0

million on an unsecured basis. There

were no amounts outstanding on these lines of credit as of March 31, 2015 and December 31, 2014. The lending institutions will determine the interest rate charged on funds at the time of the borrowing.

The Company maintains lines of credit with the FHLB and FRB. The Company’s borrowing capacity is determined based on collateral pledged, generally consisting of investment securities and loans, at the time of the borrowing. At March 31, 2015, there were $16.9 million of FHLB advances classified as short-term with a weighted average interest rate of 1.91%. At December 31, 2014, short-term FHLB advances of $97.0 million had a weighted average interest rate of 1.24%.

The Company has also issued 10% Senior Notes with a remaining principal balance of $58.4 million and a carrying value of $58.3 million at March 31, 2015, maturing in September 2015. The weighted average interest rate on all short-term debt is 8.20% at March 31, 2015, compared to 4.15% at December 31, 2014.

At March 31, 2015, there was $200.0 million of FHLB advances classified as long-term, with a weighted average interest rate of 1.04%. The weighted average interest rate on long-term debt was 1.06% at December 31, 2014. As of March 31, 2015 and December 31, 2014, the Company had additional available credit with the FHLB of approximately $1.06 billion and $935.0 million, respectively, and with the FRB of approximately $1.21 billion and $1.15 billion, respectively.

6. STOCKHOLDERS' EQUITY

Common Stock Issuance Under ATM Distribution Agreement

On June 4, 2014, the Company entered into a distribution agency agreement with Credit Suisse Securities (USA) LLC, under which the Company may sell shares of its common stock up to an aggregate offering price of $100.0 million on the New York Stock Exchange. The parties executed an Amended and Restated Distribution Agency Agreement on October 30, 2014. The Company pays Credit Suisse a mutually agreed rate, not to exceed 2% of the gross offering proceeds of the shares. The common stock will be sold at prevailing market prices at the time of the sale or at negotiated prices and, as a result, prices will vary.

Sales in the ATM offering are being made pursuant to a prospectus dated May 14, 2012 and a prospectus supplement filed with the SEC on June 4, 2014, in connection with one or more offerings of shares from the Company's shelf registration statement on Form S-3 (No. 333-181128). During the three months ended March 31, 2015 and 2014, there were no sales under the ATM offering.

Stock-Based Compensation

Restricted Stock

For the three months ended March 31, 2015, 291,000 shares of restricted stock that vest over three years were granted to Company employees and 64,000 shares of restricted stock that will be fully vested at June 30, 2015 were granted to non-employee WAL and WAB directors . The Company estimates the compensation cost for restricted stock grants based upon the grant date fair value. The aggregate grant date fair value for the restricted stock issued during the three months ended March 31, 2015 was $9.4 million. For the three months ended March 31, 2015, the Company recognized $2.5 million in stock-based compensation expense related to these restricted stock grants, compared to $1.7 million in expense for the three months ended March 31, 2014.

In addition, the Company granted 52,200 shares of restricted stock to certain members of executive management that have both performance and service conditions that affect vesting. The performance condition is based on achieving an EPS target for fiscal year 2015 and, if this target is met, the restricted stock will vest over a three year service period. Assuming the EPS target is met, the grant date fair value of the awards was $1.4 million. For the three months ended March 31, 2015, the Company recognized $0.1 million in stock-based compensation expense related to these restricted stock grants. There was no related stock-based compensation expense for the three months ended March 31, 2014.

There were approximately 1.0 million and 1.1 million restricted shares outstanding at March 31, 2015 and December 31, 2014, respectively.

Performance Stock Units

In January 2012, the Company began granting executive management committee members performance stock units that do not vest unless the Company achieves a specified cumulative EPS target over a three-year performance period. The Company estimates the cost of performance stock units based upon the grant date fair value and expected vesting percentage over the three-year performance period. For the three months ended March 31, 2015, the Company recognized $1.0 million in stock-

Table of Contents

based compensation expense related to these performance stock units, compared to $0.7 million in expense for the three months ended March 31, 2014.

The first three-year performance period ended on December 31, 2014, and the Company's cumulative EPS for the performance period exceeded the level required for a maximum award under the terms of the grant. As a result, on February 18, 2015, executive management committee members were granted 285,000 of fully vested common shares. As of March 31, 2015, outstanding performance stock unit grants related to 2013 and 2014 are expected to pay out at the maximum award amount, or 514,450 common shares. In January 2015, performance stock units were granted to executive management committee members with cumulative target awards equivalent to 104,300 shares of common stock. Assuming a 100% vesting percentage for the 2015 performance stock units, the grant date fair value of the awards was $2.8 million.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Three Months Ended March 31,					
	2015			2014		
	Unrealized holding gains (losses) on AFS	Impairment loss on securities	Total	Unrealized holding gains (losses) on AFS	Impairment loss on securities	Total
	(in thousands)					
Beginning Balance	$16,495	$144	$16,639	$(21,690)	$144	$(21,546)
Other comprehensive income before reclassifications	7,153	—	7,153	10,644	—	10,644
Amounts reclassified from accumulated other comprehensive income	(369)	—	(369)	(229)	—	(229)
Net current-period other comprehensive income	6,784	—	6,784	10,415	—	10,415
Ending Balance	$23,279	$144	$23,423	$(11,275)	$144	$(11,131)

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

	Three Months Ended March 31,	
Income Statement Classification	2015	2014
	(in thousands)	
Gain on sales of investment securities, net	$589	$366
Income tax expense	(220)	(137)
Net of tax	$369	$229

8. DERIVATIVES AND HEDGING ACTIVITIES

The Company is a party to various derivative instruments, mainly through its subsidiary, WAB. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require a small or no initial investment, and allow for the net settlement of positions. A derivative's notional amount serves as the basis for the payment provision of the contract and takes the form of units, such as shares or dollars. A derivative's underlying variable is a specified interest rate, security price, commodity price, foreign exchange rate, index, or other variable. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the fair value of the derivative contract.

The primary type of derivatives that the Company uses are interest rate swaps. Generally, these instruments are used to help manage the Company's exposure to interest rate risk and meet client financing and hedging needs.

Derivatives are recorded at fair value in the Consolidated Balance Sheet, after taking into account the effects of bilateral collateral and master netting agreements. These agreements allow the Company to settle all derivative contracts held with the same counterparty on a net basis, and to offset net derivative positions with related cash collateral, where applicable.

As of March 31, 2015, December 31, 2014, and March 31, 2014, the Company does not have any outstanding cash flow hedges or free-standing derivatives.

Table of Contents

Derivatives Designated in Hedge Relationships

The Company utilizes derivatives that have been designated as part of a hedge relationship in accordance with the applicable accounting guidance to minimize the exposure to changes in benchmark interest rates and volatility of net interest income and EVE to interest rate fluctuations. The primary derivative instruments used to manage interest rate risk are interest rate swaps, which convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index.

The Company designates its “pay fixed/receive variable” interest rate swaps as fair value hedges. These contracts convert certain fixed-rate long-term loan assets into variable-rate assets, thereby modifying the Company's exposure to changes in interest rates. As a result, the Company receives variable-rate interest payments in exchange for making fixed-rate payments over the lives of the contracts without exchanging the notional amounts.

Fair Values, Volume of Activity, and Gain/Loss Information Related to Derivative Instruments

The following table summarizes the fair values of the Company's derivative instruments on a gross and net basis as of March 31, 2015, December 31, 2014, and March 31, 2014. The change in the notional amounts of these derivatives from December 31, 2014 to March 31, 2015 indicates the volume of the Company's derivative transaction activity during the first three months of 2015. The derivative asset and liability balances are presented on a gross basis, prior to the application of bilateral collateral and master netting agreements. Total derivative assets and liabilities are adjusted to take into account the impact of legally enforceable master netting agreements that allow the Company to settle all derivative contracts with the same counterparty on a net basis and to offset the net derivative position with the related collateral. Where master netting agreements are not in effect or are not enforceable under bankruptcy laws, the Company does not adjust those derivative amounts with counterparties. The fair value of derivative contracts, after taking into account the effects of master netting agreements, is included in other assets or other liabilities in the Consolidated Balance Sheets, as indicated in the following table:

	March 31, 2015			December 31, 2014			March 31, 2014		
		Fair Value			Fair Value			Fair Value	
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
	(in thousands)								
Derivatives designated as hedging instruments:									
Fair value hedges									
Interest rate swaps	$670,942	$7	$ 73,049	$647,703	$7	$ 57,820	$516,829	$55	$ 12,423
Total	670,942	7	73,049	647,703	7	57,820	516,829	55	12,423
Netting adjustments (1)	—	—	—	—	—	—	—	55	55
Net derivatives in the balance sheet	$670,942	$7	$ 73,049	$647,703	$7	$ 57,820	$516,829	$—	$ 12,368

(1) Netting adjustments represent the amounts recorded to convert our derivative balances from a gross basis to a net basis in accordance with the applicable accounting guidance.

Fair value hedges

An assessment of effectiveness is performed at both initiation of a hedge and on a quarterly basis thereafter. All of the Company's fair value hedges remained “highly effective” as of March 31, 2015, December 31, 2014, and March 31, 2014.

The following table summarizes the pre-tax net gains (losses) on fair value hedges for the three months ended March 31, 2015 and March 31, 2014 and where they are recorded in the income statement.

	Three Months Ended March 31,			
	2015		2014	
Income Statement Classification	Net Gain (Loss) on Derivatives	Increase (Decrease) to Basis of	Net Gain (Loss) on Derivatives	Increase (Decrease) to Basis of

		Hedged Assets (a)		Hedged Assets (a)
	(in thousands)			
Unrealized (losses) gains on assets and liabilities measured at fair value, net	$(15,230)	$15,235	$(15,139)	$14,775

(a) Net gain (loss) on loans represent the change in fair value caused by fluctuations in interest rates; differences relate to ineffectiveness associated with the fair value hedge.

Table of Contents

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. Management generally enters into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with the same counterparty. Additionally, management monitors counterparty credit risk exposure on each contract to determine appropriate limits on the Company's total credit exposure across all product types. In general, the Company has a zero credit threshold with regard to derivative exposure with counterparties. Management reviews the Company's collateral positions on a daily basis and exchanges collateral with counterparties in accordance with standard ISDA documentation and other related agreements. The Company generally holds collateral in the form of highly rated securities issued by the U.S. Treasury or government-sponsored enterprises, such as GNMA, FNMA, and FHLMC. The total collateral netted against net derivative liabilities totaled $69.7 million at March 31, 2015, $57.8 million at December 31, 2014, and $12.0 million at March 31, 2014.

The following table summarizes our largest exposure to an individual counterparty at the dates indicated:

	March 31, 2015	December 31, 2014	March 31, 2014
	(in thousands)		
Largest gross exposure (derivative asset) to an individual counterparty	$7	$7	$49
Collateral posted by this counterparty	—	—	—
Derivative liability with this counterparty	—	—	12,037
Collateral pledged to this counterparty	—	—	24,040
Net exposure after netting adjustments and collateral	$7	$7	$49

Credit Risk Contingent Features

Management has entered into certain derivative contracts that require the Company to post collateral to the counterparties when these contracts are in a net liability position. Conversely, the counterparties post collateral when these contracts are in a net asset position. The amount of collateral to be posted is based on the amount of the net liability and exposure thresholds. As of March 31, 2015, December 31, 2014, and March 31, 2014 the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting provisions) held by the Company that were in a net liability position totaled $73.0 million, $57.8 million, and $12.4 million, respectively. As of March 31, 2015, the Company was in an over-collateralized net position of $13.6 million after considering $83.3 million of collateral held in the form of securities. As of December 31, 2014 and March 31, 2014, the Company was in an over-collateralized position of $14.2 million and $12.1 million, respectively.

9. EARNINGS PER SHARE

Diluted EPS is based on the weighted average outstanding common shares during each period, including common stock equivalents. Basic EPS is based on the weighted average outstanding common shares during the period.

The following table presents the calculation of basic and diluted EPS:

	Three Months Ended March 31,	
	2015	2014
	(in thousands, except per share amounts)	
Weighted average shares - basic	87,941	86,256
Dilutive effect of stock awards	511	867
Weighted average shares - diluted	88,452	87,123
Net income available to common stockholders	$40,014	$30,732
Earnings per share - basic	0.46	0.35
Earnings per share - diluted	0.45	0.35

The Company had zero and 1,500 stock options outstanding as of March 31, 2015 and December 31, 2014, respectively, that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive.

Table of Contents

10. INCOME TAXES

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

For the three months ended March 31, 2015, the net deferred tax assets decreased $3.6 million to $59.1 million. This overall decrease was primarily the result of the decreases to deferred tax assets from changes in the fair market value of AFS securities, stock-based compensation awards vesting, and fair market value adjustments related to acquired loans, which were partially offset by an increase to the deferred tax assets for the allowance for credit losses.

Although realization is not assured, the Company believes that the realization of the recognized deferred tax asset of $59.1 million at March 31, 2015 is more likely than not based on expectations as to future taxable income and based on available tax planning strategies within the meaning of ASC 740, Income Taxes, that could be implemented if necessary to prevent a carryover from expiring.

As of March 31, 2015 and December 31, 2014, the Company had a $1.3 million and $1.8 million, respectively, deferred tax valuation allowance related to net capital loss carryovers from the sale of preferred stock investments and $0.5 million, for both periods, related to IRC Section 382 limitations associated with the Company's acquisition of Western Liberty and Arizona state NOL carryovers.

The deferred tax asset related to federal and state NOL carryovers outstanding at March 31, 2015 and December 31, 2014 available to reduce the tax liability in future years totaled $8.5 million. The entire $8.5 million of tax benefits relate to federal NOL carryovers (subject to an annual limitation imposed by IRC Section 382). The Company’s ability to use federal NOL carryovers, as well as its ability to use certain future tax deductions called NUBILs associated with the Company's acquisition of Western Liberty and Centennial will be subject to separate annual limitations of $1.8 million and $1.6 million of deductions from taxable income, respectively. In management’s opinion, it is more likely than not that the results of future operations will generate sufficient taxable income to realize all but $0.5 million of the deferred tax benefits related to these NOL carryovers and NUBILs.

The effective tax rate was 26.00% and 25.08% for the three months ended March 31, 2015 and 2014, respectively. The increase in the effective tax rate is primarily due to proportionately lower tax-exempt income and a decrease in the amount of valuation allowance that will be released during 2015.

Investments in LIHTC

The Company invests in LIHTC funds that are designed to generate a return primarily through the realization of federal tax credits.

Investments in LIHTC and unfunded LIHTC obligations are included as part of other assets and other liabilities, respectively, in the Consolidated Balance Sheets and total $126.6 million and $42.0 million, respectively, as of March 31, 2015. For each of the three months ended March 31, 2015 and 2014, $3.0 million of amortization related to LIHTC investments was recognized as a component of current income tax expense.

11. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments and Letters of Credit

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

Lines of credit are obligations to lend money to a borrower. Credit risk arises when the borrower's current financial condition may indicate less ability to pay than when the commitment was originally made. In the case of standby letters of credit, the risk arises from the potential 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.

38

Table of Contents

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 1 year.

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

	March 31, 2015	December 31, 2014
	(in thousands)	
Commitments to extend credit, including unsecured loan commitments of $262,322 at March 31, 2015 and $232,863 at December 31, 2014	$2,389,629	$2,164,523
Credit card commitments and financial guarantees	42,343	42,038
Standby letters of credit, including unsecured letters of credit of $5,185 at March 31, 2015 and $5,166 at December 31, 2014	49,578	49,556
Total	$2,481,550	$2,256,117

Commitments to extend credit are agreements to lend to a customer provided that 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 3. Loans, Leases and Allowance for Credit Losses" of these Unaudited Consolidated Financial Statements and are accounted for as a separate loss contingency. This loss contingency for unfunded loan commitments and letters of credit was $2.1 million as of March 31, 2015 and December 31, 2014. Changes to this liability are adjusted through non-interest expense.

Concentrations of Lending Activities

The Company’s lending activities are driven in large part by the customers served in the market areas where the Company has branch offices in the states of Arizona, Nevada, and California. Despite the geographic concentration of lending activities, the Company does not have a single external customer from which it derives 10% or more of its revenues. The Company monitors concentrations within five broad categories: geography, industry, product, call report classifications, and collateral. The Company's loan portfolio includes significant credit exposure to the CRE market. As of both March 31, 2015 and December 31, 2014, CRE related loans accounted for approximately 54% of total loans. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 46% of these CRE loans, excluding construction and land loans, were owner-occupied at both March 31, 2015 and December 31, 2014.

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 these lawsuits, but in the opinion of management, based in part on consultation with outside 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 $1.6 million was included in occupancy expenses for each of the three months ended March 31, 2015 and 2014.

Table of Contents

12. 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 in "Note 1. Summary of Significant Accounting Policies" of these Notes to Unaudited Consolidated Financial Statements.

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 as of the end of the month following the event or change in circumstances that caused the transfer.

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

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

For the three months ended March 31, 2015 and 2014, gains and losses from fair value changes included in the Consolidated Income Statements were as follows:

	Changes in Fair Values for Items Measured at Fair Pursuant to Election of the Fair Value Option			
	Unrealized Gain/(Loss) on Assets and Liabilities Measured at Fair Value, Net (in thousands)	Interest Income on Securities	Interest Expense on Junior Subordinated Debt	Total Changes Included in Current-Period Earnings
Three Months Ended March 31, 2015				
Securities measured at fair value	$(5)	$—	$—	$(5)
Junior subordinated debt	(309)	—	(441)	(750)
Total	$(314)	$—	$(441)	$(755)
Three Months Ended March 31, 2014				
Securities measured at fair value	$18	$1	$—	$19

Junior subordinated debt	(978)	—	(421)	(1,399)
Total	$(960)	$1	$(421)	$(1,380)

There were no net gains or losses recognized during the three months ended March 31, 2015 and 2014 on trading securities sold during the period.

Interest income on securities measured at fair value is accounted for similarly to those classified as AFS. Any premiums or discounts are recognized in interest income over the term of the securities. For MBS, estimates of prepayments are considered

Table of Contents

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: Preferred stock, mutual funds, and CRA investments are reported at fair value utilizing Level 1 inputs. With the exception of CDO securities, 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. The Company estimates the fair value of CDO securities utilizing Level 3 inputs, which include pricing indications from comparable securities.

Securities measured at fair value: All of the Company’s securities measured at fair value, which consist of MBS, are reported at fair value utilizing Level 2 inputs in the same manner as described above for AFS securities.

Independent pricing service: Our independent pricing service provides pricing information on Level 1, 2, and 3 securities, and represents the pricing source for the majority of the portfolio. Management independently evaluates fair value measurements received from the Company's third party pricing service through multiple review steps. First, management reviews what has transpired in the marketplace with respect to interest rates, credit spreads, volatility, and mortgage rates, among other things, and develops an expectation of changes to the securities valuations from the previous quarter. Then, management obtains market values from additional sources. The pricing service provides management with observable market data including interest rate curves and mortgage prepayment speed grids, as well as dealer quote sheets, new bond offering sheets, and historical trade documentation. Management reviews the assumptions and decides whether they are reasonable. Management may compare interest rates, credit spreads and prepayments speeds used as part of the assumptions to those that management believes are reasonable. Management may price securities using the provided assumptions to determine whether they can develop similar prices on like securities. Any discrepancies between management’s review and the prices provided by the vendor are discussed with the vendor and the Company’s other valuation advisors. Last, management selects a sample of investment securities and compares the values provided by its primary third party pricing service to the market values obtained from secondary sources and evaluates those with notable variances.

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

Interest rate swaps: 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 are based on contractual cash flows as the Company anticipates that it will pay the debt according to its contractual terms. The Company uses the BB 20-Year Index adjusted for a credit risk spread. The Company estimated the discount rate at 6.235%, which is a 596 basis point spread over 3 month LIBOR (0.271% as of March 31, 2015). As of December 31, 2014, the Company estimated the discount rate at 6.242%, which was a 599 basis point spread over 3 month LIBOR of 0.256%.

Table of Contents

The fair value of assets and liabilities measured at fair value on a recurring basis were determined using the following inputs as of the periods presented:

	Fair Value Measurements at the End of the Reporting Period Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
March 31, 2015				
Assets:				
Measured at fair value				
Residential MBS issued by GSEs	$—	$1,788	$—	$1,788
Available-for-sale				
Collateralized debt obligations	$—	$—	$10,520	$10,520
Commercial MBS issued by GSEs	—	2,181	—	2,181
Corporate debt securities	—	13,515	—	13,515
CRA investments	25,686	—	—	25,686
Municipal obligations	—	295,506	—	295,506
Preferred stock	32,447	52,552	—	84,999
Private label commercial MBS	—	5,097	—	5,097
Private label residential MBS	—	63,359	—	63,359
Residential MBS issued by GSEs	—	854,503	—	854,503
Trust preferred securities	—	25,487	—	25,487
U.S. government sponsored agency securities	—	18,575	—	18,575
Total AFS securities	$58,133	$1,330,775	$10,520	$1,399,428
Derivative assets (1)	$—	$7	$—	$7
Liabilities:				
Junior subordinated debt	$—	$—	$40,746	$40,746
Derivative liabilities (1)	—	73,049	—	73,049

(1) Derivative assets and liabilities relate to interest rate swaps, see "Note 8. Derivatives and Hedging Activities." In addition, the carrying value of loans includes a positive value of $72,375 as of March 31, 2015, which relates to the change in fair value attributed to fluctuations in interest rates.

Table of Contents

	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)			
December 31, 2014				
Assets:				
Measured at fair value				
Residential MBS issued by GSEs	$—	$1,858	$—	$1,858
Available-for-sale				
Collateralized debt obligations	$—	$—	$11,445	$11,445
Commercial MBS issued by GSEs	—	2,147	—	2,147
Corporate debt securities	—	52,489	—	52,489
CRA investments	24,332	—	—	24,332
Municipal obligations	—	299,037	—	299,037
Mutual funds	37,702	—	—	37,702
Preferred stock	82,612	—	—	82,612
Private label commercial MBS	—	5,149	—	5,149
Private label residential MBS	—	70,243	—	70,243
Residential MBS issued by GSEs	—	891,189	—	891,189
Trust preferred securities	—	25,546	—	25,546
U.S. government sponsored agency securities	—	18,346	—	18,346
Total AFS securities	$144,646	$1,364,146	$11,445	$1,520,237
Derivative assets (1)	$—	$7	$—	$7
Liabilities:				
Junior subordinated debt	$—	$—	$40,437	$40,437
Derivative liabilities (1)	—	57,820	—	57,820

(1) Derivative assets and liabilities relate to interest rate swaps, see "Note 8. Derivatives and Hedging Activities." In addition, the carrying value of loans includes a positive value of $57,140 as of December 31, 2014, which relates to the change in fair value attributed to fluctuations in interest rates.

For the three months ended March 31, 2015 and 2014, the change in Level 3 assets and liabilities measured at fair value on a recurring basis was as follows:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014
	Junior Subordinated Debt	CDO Securities	Junior Subordinated Debt
	(in thousands)		
Beginning balance	$(40,437)	$11,445	$(41,858)
Transfers into Level 3	—	—	—
Total gains (losses) for the period			
Included in earnings (1)	(309)	—	(978)
Included in other comprehensive income (2)	—	(925)	—
Ending balance	$(40,746)	$10,520	$(42,836)

Change in unrealized gains (losses) for the period included in earnings	$(309)	$—	$(978)

(1) Total gains (losses) for the period are included in the non-interest income line, Unrealized gains (losses) on assets and liabilities measured at fair value, net.
(2) Total gains (losses) for the period are included in the other comprehensive income line, Unrealized (loss) gain on AFS securities.

Table of Contents

For Level 3 liabilities measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows:

	March 31, 2015	Valuation Technique	Significant Unobservable Inputs
	(in thousands)		
Junior subordinated debt	$40,746	Discounted cash flow	Adjusted Corporate Bond over Treasury Index with comparable credit spread
CDO securities	10,520	S&P Model	Pricing indications from comparable securities

	December 31, 2014	Valuation Technique	Significant Unobservable Inputs
	(in thousands)		
Junior subordinated debt	$40,437	Discounted cash flow	Adjusted Corporate Bond over Treasury Index with comparable credit spread
CDO securities	11,445	S&P Model	Pricing indications from comparable securities

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. The input value used in the fair value measurement of the Company's junior subordinated debt was 6.235% and 6.242% as of March 31, 2015 and December 31, 2014, respectively.

The significant unobservable inputs used in the fair value measurement of the Company's CDO securities include securities terms, conditions, and underlying collateral type, as well as trustee and servicer reports, trade data on comparable securities, and market quotes that are converted into spreads to benchmark LIBOR curves. Significant increases or decreases in these inputs could result in significantly different fair value measurements.

Fair value on a nonrecurring basis

Certain assets are measured at fair value on a nonrecurring basis. That is, the assets 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 March 31, 2015:				
Impaired loans with specific valuation allowance	$122,157	$—	$—	$122,157
Impaired loans without specific valuation allowance (1)	24,353	—	—	24,353
Other assets acquired through foreclosure	63,759	—	—	63,759
As of December 31, 2014:				
Impaired loans with specific valuation allowance	$114,163	$—	$—	$114,163
Impaired loans without specific valuation allowance (1)	38,019	—	—	38,019
Other assets acquired through foreclosure	57,150	—	—	57,150

(1) Excludes loan balances with charge-offs of $1.0 million and $3.8 million as of March 31, 2015 and December 31, 2014, respectively.

Impaired loans: The specific reserves for collateral dependent impaired loans are based on collateral value, net of estimated disposition costs and other identified quantitative inputs. Collateral value is determined based on third-party appraisals. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2. However, certain assumptions and unobservable inputs are often used by the appraiser; therefore, qualifying the assets as Level 3 in the fair value hierarchy. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal (which are generally obtained every twelve months), age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the

Table of Contents

collateral is further impaired below the 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 estimated fair value of $131.8 million and $124.9 million, respectively, at March 31, 2015 and December 31, 2014. The fair value of these Level 3 impaired loans reflects the carrying value of loan, which has been reduced by any deficit in appraised value compared to book value, estimated disposition costs, and estimated losses of similar impaired loans based on historical loss experience. Specific reserves in the allowance for loan losses for these loans were $9.7 million and $10.8 million, respectively, at March 31, 2015 and December 31, 2014.

Other assets acquired through foreclosure: Other assets acquired through foreclosure consist of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets classified as other assets acquired through foreclosure and other repossessed property are initially reported at the fair value determined by independent appraisals using appraised value less estimated cost to sell. Such properties are generally re-appraised every twelve months. There is risk for subsequent volatility. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to expense. The Company had $63.8 million of such assets at March 31, 2015. 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 the appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement.

Credit vs. non-credit losses

Under the provisions of ASC 320, Investments-Debt and Equity Securities, OTTI is separated into the amount of total impairment related to the credit loss and the amount of the total impairment related to all other factors. The amount of the total OTTI related to the credit loss is recognized in earnings. The amount of the total impairment related to all other factors is recognized in OCI.

For the three months ended March 31, 2015 and 2014, the Company determined that no securities experienced credit losses.

There is no OTTI balance recognized in comprehensive income as of March 31, 2015 and 2014.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2015				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
	(in thousands)				
Financial assets:					
Investment securities:					
AFS	$1,399,428	$58,133	$1,330,775	$10,520	$1,399,428
Trading	1,788	—	1,788	—	1,788
Derivative assets	7	—	7	—	7
Loans, net	8,706,456	—	8,278,056	146,510	8,424,566
Accrued interest receivable	36,481	—	36,481	—	36,481
Financial liabilities:					
Deposits	$9,662,346	$—	$9,666,687	$—	$9,666,687
Customer repurchases	47,235	—	47,235	—	47,235
FHLB and FRB advances	216,949	—	216,949	—	216,949
Other borrowed funds	58,280	—	—	60,231	60,231
Junior subordinated debt	40,746	—	—	40,746	40,746
Derivative liabilities	73,049	—	73,049	—	73,049
Accrued interest payable	6,244	—	6,244	—	6,244

Table of Contents

	December 31, 2014				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
	(in thousands)				
Financial assets:					
Investment securities:					
AFS	$1,520,237	$144,646	$1,364,146	$11,445	$1,520,237
Trading	1,858	—	1,858	—	1,858
Derivative assets	7	—	7	—	7
Loans, net	8,288,049	—	7,984,692	152,182	8,136,874
Accrued interest receivable	36,705	—	36,705	—	36,705
Financial liabilities:					
Deposits	$8,931,043	$—	$8,935,566	$—	$8,935,566
Customer repurchases	54,899	—	54,899	—	54,899
FHLB and FRB advances	307,081	—	307,081	—	307,081
Other borrowed funds	83,182	—	25,000	61,074	86,074
Junior subordinated debt	40,437	—	—	40,437	40,437
Derivative liabilities	57,820	—	57,820	—	57,820
Accrued interest payable	9,890	—	9,890	—	9,890

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 EVE and net interest income resulting from hypothetical changes in interest rates. If potential changes to EVE and net interest income resulting from hypothetical interest rate changes are not within the limits established by the BOD, the BOD may direct management to adjust the asset and liability mix to bring interest rate risk within Board-approved limits. As of March 31, 2015, the Company's interest rate risk profile was within Board-approved limits.

WAB has an ALCO charged with managing interest rate risk within the BOD approved limits. Limits are structured to prohibit an interest rate risk profile that does not conform to both management and BOD risk tolerances. There is also ALCO reporting at the holding company level for reviewing interest rate risk for the Consolidated Company, which gets reported to the BOD and the Finance and Investment Committee.

Fair value of commitments

The estimated fair value of standby letters of credit outstanding at March 31, 2015 and December 31, 2014 was insignificant. Loan commitments on which the committed interest rates were less than the current market rate are also insignificant at March 31, 2015 and December 31, 2014.

Table of Contents

13. REGULATORY CAPITAL REQUIREMENTS

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

The capital framework under Basel III became effective for the Company on January 1, 2015. Under the Basel III final rules, minimum requirements have increased for both the quantity and quality of capital held by the Company. A new capital conservation buffer, comprised of common equity Tier 1 capital, is also established above the regulatory minimum capital requirements. This capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. Strict eligibility requirements for regulatory capital instruments have been implemented under the final rules and the final rules also revise the definitions and calculations of Tier 1 capital, total capital, and risk-weighted assets.

As of March 31, 2015 and December 31, 2014, the Company and WAB exceeded the capital levels necessary to be classified as well-capitalized, as defined by the banking agencies. The actual capital amounts and ratios for the Company and WAB are presented in the following tables as of the periods indicated:

	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Tangible Average Assets	Total Capital Ratio	Tier 1 Capital Ratio	Tier 1 Leverage Ratio	Common Equity Tier 1
	(dollars in thousands)							
Basel III								
March 31, 2015								
WAL	$1,160,370	$1,048,879	$10,308,909	$10,704,679	11.3 %	10.2 %	9.8 %	9.0 %
WAB	1,078,021	965,273	10,189,722	10,582,156	10.6	9.5	9.1	9.5
Well-capitalized ratios					10.0	8.0	5.0	6.5
Minimum capital ratios					8.0	6.0	4.0	4.5
Basel I								
December 31, 2014								
WAL	$1,119,618	$1,007,278	$9,555,390	$10,367,575	11.7 %	10.5 %	9.7 %	—
WAB	1,057,253	945,687	9,435,459	10,232,297	11.2	10.0	9.2	—
Well-capitalized ratios					10.0	6.0	5.0	—
Minimum capital ratios					8.0	4.0	4.0	—

14. MERGERS, ACQUISITIONS AND DISPOSITIONS

Acquisition of Bridge Capital Holdings

On March 9, 2015, the Company entered into a definitive agreement to acquire Bridge Capital Holdings and its wholly-owned subsidiary, Bridge Bank, headquartered in San Jose, California. The total purchase price will include stock and cash consideration. Each outstanding share of Bridge common stock will be converted into 0.8145 shares of the Company's common stock plus $2.39 in cash. Subject to Bridge shareholder and regulatory approval, the transaction is expected to close in 2015.

Table of Contents

PartnersFirst Discontinued Operations

The Company discontinued its affinity credit card business and presented these activities as discontinued operations. During the second quarter 2014, the Company shut down its remaining affinity credit card operations. Therefore, no additional discontinued operations will be reported in future periods.

The following table summarizes the operating results of the discontinued operations for the three months ended March 31, 2014:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Operating revenue	$—	$(144)
Non-interest expenses	—	(858)
Loss before income taxes	—	(1,002)
Income tax benefit	—	(348)
Net loss	$—	$(654)

15. SEGMENTS

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

The Company's segment reporting process begins with the assignment of all loan and deposit accounts directly to the segments where these products are originated and/or serviced. Equity capital is assigned to each segment based on the risk profile of their assets and liabilities, which ranged from 0% to 12% during the year, with a funds credit provided for the use of this equity as a funding source. Any excess equity not allocated to segments based on risk is assigned to the Corporate & Other segment.

Net interest income, provision for credit losses, and non-interest expense amounts are recorded in their respective segment to the extent that the amounts are directly attributable to those segments. Net interest income is recorded in each segment on a TEB with a corresponding increase in income tax expense, which is eliminated in the Corporate & Other segment.

Further, net interest income of a reportable segment includes a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics. Using this funds transfer pricing methodology, liquidity is transferred between users and providers. A net user of funds has lending/investing in excess of deposits/borrowings and a net provider of funds has deposits/borrowings in excess of lending/investing. A segment that is a user of funds is charged for the use of funds, while a provider of funds is credited through funds transfer pricing, which is determined based on the average life of the assets or liabilities in the portfolio.

Net income amounts for each reportable segment is further derived by the use of expense allocations. Certain expenses not directly attributable to a specific segment are allocated across all segments based on key metrics, such as number of employees, average loan balances, and average deposit balances. These types of expenses include information technology, operations, human resources, finance, risk management, credit administration, legal, and marketing.

Income taxes are applied to each segment based on the effective tax rate for the geographic location of the segment. Any difference in the corporate tax rate and the aggregate effective tax rates in the segments are adjusted in the Corporate & Other segment.

Table of Contents

The following is a summary of selected operating segment information as of March 31, 2015, December 31, 2014, and March 31, 2014 and for the three months ended March 31, 2015 and 2014:

	Arizona	Nevada	California	Central Business Lines	Corporate & Other	Consolidated Company
At March 31, 2015	(dollars in millions)					
Assets:						
Cash, cash equivalents, and investment securities	$2.3	$10.8	$2.6	$—	$1,930.4	$ 1,946.1
Loans, net of deferred loan fees and costs	2,383.5	1,805.5	1,799.6	2,788.3	41.7	8,818.6
Less: allowance for credit losses	(30.3)	(23.0)	(22.9)	(35.4)	(0.5)	(112.1)
Total loans	2,353.2	1,782.5	1,776.7	2,752.9	41.2	8,706.5
Other assets acquired through foreclosure, net	20.5	23.2	—	—	20.1	63.8
Goodwill and other intangible assets, net	—	25.6	—	—	—	25.6
Other assets	42.3	65.8	21.0	22.2	358.6	509.9
Total assets	$2,418.3	$1,907.9	$1,800.3	$2,775.1	$2,350.3	$ 11,251.9
Liabilities:						
Deposits	$2,344.0	$3,362.3	$2,514.1	$1,113.7	$328.2	$ 9,662.3
Other borrowings	—	—	—	—	275.2	275.2
Other liabilities	16.5	37.7	4.5	86.1	118.3	263.1
Total liabilities	2,360.5	3,400.0	2,518.6	1,199.8	721.7	10,200.6
Allocated equity:	264.0	227.0	208.2	284.3	67.8	1,051.3
Total liabilities and stockholders' equity	$2,624.5	$3,627.0	$2,726.8	$1,484.1	$789.5	$ 11,251.9
Excess funds provided (used)	206.2	1,719.1	926.5	(1,291.0)	(1,560.8)	—

	Arizona	Nevada	California	Central Business Lines	Corporate & Other	Consolidated Company
At December 31, 2014	(dollars in millions)					
Assets:						
Cash, cash equivalents, and investment securities	$2.3	$5.0	$2.5	$—	$1,702.4	$ 1,712.2
Loans, net of deferred loan fees and costs	2,341.9	1,668.7	1,751.7	2,590.0	46.0	8,398.3
Less: allowance for credit losses	(30.7)	(21.9)	(23.0)	(34.0)		