WESTERN ALLIANCE BANCORPORATION
Form 10-Q
August 05, 2011

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

(Mark One)

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2011 or

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

Commission File Number: 001-32550

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

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

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

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

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

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

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

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

Common stock issued and outstanding: 82,187,686 shares as of July 31, 2011.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (unaudited)	December 31, 2010
	(in thousands, except per share amounts)	
Assets:		
Cash and due from banks	**$ 131,172**	$ 87,984
Federal funds sold		918
Interest-bearing demand deposits in other financial institutions	**403,388**	127,844
Cash and cash equivalents	**534,560**	216,746
Money market investments	**23,745**	37,733
Investment securities measured, at fair value	**7,204**	14,301
Investment securities available-for-sale, at fair value; amortized cost of $1,034,069 at June 30, 2011 and $1,187,608 at December 31, 2010	**1,024,805**	1,172,913
Investment securities held-to-maturity, at amortized cost; fair value of $83,153 at June 30, 2011 and $47,996 at December 31, 2010	**82,441**	48,151
Investments in restricted stock, at cost	**35,885**	36,877
Loans:		
Held for investment, net of deferred fees	**4,411,705**	4,240,542
Less: allowance for credit losses	**104,375**	110,699
Total loans	**4,307,330**	4,129,843
Premises and equipment, net	**109,243**	114,372
Goodwill	**25,925**	25,925
Other intangible assets	**11,586**	13,366
Other assets acquired through foreclosure, net	**85,732**	107,655
Bank owned life insurance	**131,533**	129,808
Deferred tax assets, net	**71,312**	79,860
Prepaid expenses	**19,005**	24,741
Other assets	**37,709**	41,501
Discontinued operations, assets held for sale	**74**	91
Total assets	**$ 6,508,089**	$ 6,193,883
Liabilities:		
Deposits:		
Non-interest-bearing demand	**$ 1,516,797**	$ 1,443,251
Interest-bearing	**4,071,523**	3,895,190
Total deposits	**5,588,320**	5,338,441
Customer repurchase agreements	**148,650**	109,409
Other borrowings	**73,138**	72,964
Junior subordinated debt, at fair value	**42,734**	43,034

Other liabilities	**39,594**	27,861
Total liabilities	**5,892,436**	5,591,709
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock par value $.0001 and liquidation value per share of $1,000; 20,000,000 authorized; 140,000 issued and outstanding	**132,333**	130,827
Common stock par value $.0001; 200,000,000 authorized; 82,138,618 shares issued and outstanding at June 30, 2011 and 81,668,565 at December 31, 2010	**8**	8
Surplus	**741,531**	739,561
Retained deficit	**(252,424)**	(258,800)
Accumulated other comprehensive loss	**(5,795)**	(9,422)
Total stockholders equity	**615,653**	602,174
Total liabilities and stockholders equity	**$ 6,508,089**	$ 6,193,883

See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	**$ 64,919**	$ 64,201	**$ 128,801**	$ 126,368
Investment securities taxable	**7,633**	5,203	**14,530**	11,112
Investment securities non-taxable	**13**	31	**33**	82
Dividends taxable	**273**	28	**581**	136
Dividends non-taxable	**623**	65	**1,328**	301
Other	**185**	472	**339**	735
Total interest income	**73,646**	70,000	**145,612**	138,734
Interest expense:				
Deposits	**7,548**	11,067	**15,446**	23,146
Customer repurchase agreements	**100**	114	**186**	397
Other borrowings	**2,023**	369	**4,204**	819
Junior subordinated and subordinated debt	**689**	994	**1,391**	2,198
Total interest expense	**10,360**	12,544	**21,227**	26,560
Net interest income	**63,286**	57,456	**124,385**	112,174
Provision for credit losses	**11,891**	23,115	**21,932**	51,862
Net interest income after provision for credit losses	**51,395**	34,341	**102,453**	60,312
Non-interest income:				
Securities impairment charges, net	**(226)**	(1,071)	**(226)**	(1,174)
Portion of impairment charges recognized in other comprehensive loss (before taxes)				
Net securities impairment charges recognized in earnings	**(226)**	(1,071)	**(226)**	(1,174)
Gain on sales of securities, net	**2,666**	6,079	**4,045**	14,297
Mark to market (losses) gains, net	**336**	6,250	**(173)**	6,551
Gain on extinguishment of debt		3,000		3,000
Service charges and fees	**2,243**	2,319	**4,527**	4,515
Trust and investment advisory fees	**657**	1,181	**1,293**	2,394
Other fee revenue	**1,039**	830	**1,799**	1,592
Income from bank owned life insurance	**1,822**	780	**3,006**	1,499
Other	**1,060**	1,392	**2,156**	2,715
Total non-interest income	**9,597**	20,760	**16,427**	35,389
Non-interest expense:				

Salaries and employee benefits	**22,960**	22,161	**45,800**	43,601
Occupancy expense, net	**5,044**	4,828	**9,898**	9,615
Net loss on sales/valuations of repossessed assets and bank premises, net	**8,633**	11,994	**14,762**	10,980
Insurance	**2,352**	3,759	**6,214**	7,251
Loan and repossessed asset expenses	**2,284**	1,564	**4,406**	3,928
Legal, professional and director fees	**2,361**	2,139	**3,727**	4,007
Marketing	**1,135**	1,045	**2,292**	2,201
Data processing	**928**	793	**1,776**	1,584
Intangible amortization	**890**	907	**1,779**	1,813
Customer service	**828**	1,154	**1,720**	2,219
Merger/restructuring expenses	**(109)**		**109**	
Other	**3,702**	2,918	**6,672**	6,904
Total non-interest expense	**51,008**	53,262	**99,155**	94,103
Income from continuing operations before provision for income taxes	**9,984**	1,839	**19,725**	1,598
Income tax expense (benefit)	**3,295**	(190)	**7,324**	(1,751)
Income from continuing operations	**6,689**	2,029	**12,401**	3,349
Loss from discontinued operations, net of tax benefit	**(460)**	(802)	**(1,019)**	(1,737)
Net income	**6,229**	1,227	**11,382**	1,612
Dividends and accretion on preferred stock	**2,503**	2,466	**5,006**	4,933
Net income (loss) available to common shareholders	**$ 3,726**	$ (1,239)	**$ 6,376**	$ (3,321)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	*2010*	***2011***	2010
Income (loss) per share basic and diluted				
Continuing operations	**$ 0.05**	$ (0.01)	**$ 0.09**	$ (0.02)
Discontinued	**(0.01)**	(0.01)	**(0.01)**	(0.02)
	$ 0.05	$ (0.02)	**$ 0.08**	$ (0.05)
Average number of common shares basic	**80,883**	72,160	**80,838**	72,063
Average number of common shares diluted	**81,223**	72,160	**81,119**	72,063
Dividends declared per common share	**$**	$	**$**	$

See the accompanying notes.

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

	Three Months Ended June 30,		***Six Months Ended June 30,***	
	2011	*2010*	***2011***	*2010*
	(in thousands)			
Net income	**$ 6,229**	$ 1,227	**$ 11,382**	$ 1,612
Other comprehensive income (loss), net:				
Unrealized gain on securities available-for-sale, net	**10,505**	1,842	**6,019**	6,390
Impairment loss on securities, net	**144**	605	**144**	668
Realized gain on sale of available-for-sale securities included in income, net	**(1,703)**	(3,872)	**(2,536)**	(9,205)
Net other comprehensive income (loss)	**8,946**	(1,425)	**3,627**	(2,147)
Comprehensive income (loss)	**$ 15,175**	$ (198)	**$ 15,009**	$ (535)

The amount of impairment losses reclassified out of accumulated other comprehensive income into earnings for the three and six months ended June 30, 2011 were $0.2 million. The income tax benefit related to these losses was $0.1 million. The amount of impairment losses reclassified out of accumulated other comprehensive income into earnings for the three and six months ended June 30, 2010 were $1.1 million and $1.2 million, respectively. The income tax benefit related to these losses was $0.4 million.
See the accompanying notes.

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

	Preferred Stock		*Common Stock*			*Accumulated Other Comprehensive Income*	*Retained Earnings*	*Total Stockholders*
	Shares	*Amount*	*Shares*	*Amount*	*Surplus*	*(Loss)*	*(Deficit)*	*Equity*
					(in thousands)			
Balance, December 31, 2010	140	$ 130,827	81,669	$ 8	$ 739,561	$ (9,422)	$ (258,800)	$ 602,174
Net income							**11,382**	**11,382**
Exercise of stock options			**46**		**312**			**312**
Stock-based compensation			**146**		**1,434**			**1,434**
Restricted stock grants, net			**278**		**224**			**224**
Dividends on preferred stock							**(3,500)**	**(3,500)**
Accretion on preferred stock discount		**1,506**					**(1,506)**	
Other comprehensive income, net						**3,627**		**3,627**
Balance, June 30, 2011	**140**	**$ 132,333**	**82,139**	**$ 8**	**$ 741,531**	**$ (5,795)**	**$ (252,424)**	**$ 615,653**

See the accompanying notes.

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

	Six Months Ended June 30, 2011	2010
	(in thousands)	
Cash flows from operating activities:		
Net Income	**$ 11,382**	$ 1,612
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	**21,932**	51,862
Depreciation and amortization	**5,393**	7,149
Stock-based compensation	**1,658**	3,895
Deferred income taxes and income taxes receivable	**6,689**	1,999
Net amortization of discounts and premiums for investment securities	**4,172**	2,761
Securities impairment	**226**	1,174
(Gains)/Losses on:		
Sales of securities, AFS	**(4,045)**	(14,297)
Derivatives	**121**	(136)
Sale of repossessed assets, net	**14,795**	11,697
Sale of premises and equipment, net	**(33)**	(717)
Sale of loans, net		(8)
Extinguishment of debt		(3,000)
Changes in:		
Other assets	**7,311**	(47,948)
Other liabilities	**11,745**	(70,310)
Fair value of assets and liabilities measured at fair value	**173**	(6,551)
Servicing rights, net	**164**	18
Net cash provided by (used in) operating activities	**81,683**	(60,800)
Cash flows from investing activities:		
Proceeds from sale of securities measured at fair value	**2,907**	8,069
Principal pay downs and maturities of securities measured at fair value	**4,177**	10,409
Proceeds from sale of available-for-sale securities	**286,819**	335,031
Principal pay downs and maturities of available-for-sale securities	**109,234**	645,803
Purchase of available-for-sale securities	**(242,658)**	(1,023,367)
Purchases of securities held-to-maturity	**(35,157)**	
Proceeds from maturities of securities held-to-maturity	**640**	2,746
Loan originations and principal collections, net	**(219,857)**	(100,776)
Investment in money market	**13,988**	48,966
Liquidation of restricted stock	**991**	959
Sale and purchase of premises and equipment, net	**1,549**	1,921
Proceeds from sale of other real estate owned, net	**27,566**	12,567
Net cash used in investing activities	**(49,801)**	(57,672)

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in thousands)	
Cash flows from financing activities:		
Net increase in deposits	**249,879**	507,982
Net increase/ (decrease) in borrowings	**39,241**	(222,490)
Proceeds from issuance of common stock options and stock warrants	**312**	273
Cash dividends paid on preferred stock	**(3,500)**	(3,500)
Net cash provided by financing activities	**285,932**	282,265
Net increase in cash and cash equivalents	**317,814**	163,793
Cash and cash equivalents at beginning of year	**216,746**	396,830
Cash and cash equivalents at end of year	**$ 534,560**	$ 560,623
Supplemental disclosure:		
Cash paid during the period for:		
Interest	**$ 21,297**	$ 24,788
Income taxes		
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	**20,438**	44,682
Assets transferred to held for sale		116

See the accompanying notes.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operation

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

Basis of Presentation

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

Use of estimates in the preparation of financial statements

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

Principles of consolidation

WAL has 10 wholly-owned subsidiaries: Bank of Nevada (BON), Western Alliance Bank (WAB), Torrey Pines Bank (TPB), which are all banking subsidiaries; Western Alliance Equipment Finance, Inc. (WAEF), which provides equipment leasing; and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities. In addition, WAL maintains an 80 percent interest in Shine Investment Advisory Services Inc. (Shine), a registered investment advisor. WAL divested formerly wholly-owned subsidiary Premier Trust, Inc. as of September 1, 2010.

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

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2010 and for the three and six months ended June 30, 2010 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders equity as previously reported.

Interim financial information

The accompanying unaudited consolidated financial statements as of June 30, 2011 and 2010 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

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Investment securities

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

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

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

In estimating whether there are any other than temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near term prospects of the issuer, 3) the impact of changes in market interest rates, and 4) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

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

Derivative financial instruments

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

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

Allowance for credit losses

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

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

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

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

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

1. A loan moving from impaired performing to impaired nonperforming does not mandate an increased reserve. The individual account is evaluated for a specific reserve requirement when the loan moves to impaired status, not when it moves to nonperforming status, and is reevaluated at each subsequent reporting period. Because our nonperforming loans are predominately collateral dependent, reserves are primarily based on collateral value, which is not affected by borrower performance but rather by market conditions.
2. Not all impaired accounts require a specific reserve. The payment performance of the borrower may require an impaired classification, but the collateral evaluation may support adequate collateral coverage. For a number of impaired accounts in which borrower performance has ceased, the collateral coverage is now sufficient because a partial charge off of the account has been taken. In those instances, neither a general reserve nor a specific reserve is assessed.

Other assets acquired through foreclosure

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

Goodwill

The Company recorded as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. As per this guidance, a two-step process is outlined for impairment testing of goodwill. Impairment testing is generally performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. The resulting impairment amount if any is charged to current period earnings as non-interest expense.

Income taxes

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

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of $71.3 million at June 30, 2011 is more likely than not based on expectations as to future taxable income and based on available tax planning strategies as defined in FASB ASC 740, *Income Taxes* (ASC 740) that could be implemented if necessary to prevent a carryforward from expiring.

The most significant source of these timing differences are the credit loss reserve build and net operating loss carryforwards, which account for substantially all of the net deferred tax asset. In general, the Company will need to generate approximately $199 million of taxable income during the respective carryforward periods to fully realize its deferred tax assets.

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

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

Fair values of financial instruments

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

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

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

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

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

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

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

Management uses its best judgment in estimating the fair value of the Company s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at June 30, 2011 or 2010. The estimated fair value amounts for 2011 and 2010 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 10, Fair Value of Financial Instruments, should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company s assets and liabilities.

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

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

Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheets for cash and due from banks and federal funds sold and other approximates their fair value.

Securities

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

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

The Company owns certain collateralized debt obligations (CDOs) for which quoted prices are not available. Quoted prices for similar assets are also not available for these investment securities. In order to determine the fair value of these securities, the Company has estimated the future cash flows and discount rate using observable market inputs adjusted based on assumptions regarding the adjustments a market participant would assume necessary for each specific security. As a result, the resulting fair values have been categorized as Level 3 in the fair value hierarchy.

Restricted stock

The Company s subsidiary banks are members of the Federal Home Loan Bank (FHLB) system and maintain an investment in capital stock of the FHLB. The Company s subsidiary banks also maintain an investment in their primary correspondent bank. These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of our FHLB stock to determine if any impairment exists.

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Loans

Fair value for loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality with adjustments that the Company believes a market participant would consider in determining fair value based on a third party independent valuation. As a result, the fair value for loans disclosed in Note 10, Fair Value of Financial Instruments, is categorized as Level 3 in the fair value hierarchy.

Accrued interest receivable and payable

The carrying amounts reported in the consolidated balance sheets for accrued interest receivable and payable approximate their fair value. Accrued interest receivable and payable fair value measurements disclosed in Note 10 Fair Value of Financial Instruments, are classified as Level 3 in the fair value hierarchy.

Derivative financial instruments

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

Deposit liabilities

The fair value disclosed for demand and savings deposits is by definition equal to the amount payable on demand at their reporting date (that is, their carrying amount) which the Company believes a market participant would consider in determining fair value. The carrying amount for variable-rate deposit accounts approximates their fair value. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits. The fair value measurement of the deposit liabilities disclosed in Note 10, Fair Value of Instruments, is categorized as Level 3 in the fair value hierarchy.

Federal Home Loan Bank and Federal Reserve advances and other borrowings

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

Other Borrowings

The Company issued senior notes are based on quoted market prices and categorized as Level 3 of the fair value hierarchy.

Junior subordinated and subordinated debt

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

Off-balance sheet instruments

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

Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued guidance within the Accounting Standards Update (ASU) 2010-20 Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users evaluation of (i) the nature of credit risk inherent in the entity s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll forward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period are required for the Company s financial statements that include periods beginning on or after January 1, 2011. The adoption of this guidance did not have any impact on the Company s consolidated statement of income (loss), its consolidated balance sheet, or its consolidated statement of cash flows.

In April 2011, the FASB issued guidance within the ASU 2011-02 A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 clarifies when a loan modification or restructuring is considered a troubled debt restructuring. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and will be applied retrospectively to the beginning of the annual period of adoption. The adoption of this guidance is not expected to have a material impact on the Company s consolidated statement of income (loss), its consolidated balance sheet, or its consolidated statement of cash flows.

In April 2011, the FASB issued guidance within the ASU 2011-03 Reconsideration of Effective Control for Repurchase Agreements. The amendments in ASU 2011-03 remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011, and will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of this guidance is not expected to have a material impact on the Company s consolidated statement of income (loss), its consolidated balance sheet, or its consolidated statement of cash flows.

In May 2011, the FASB issued guidance within the ASU 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in ASU 2011-04 generally represent clarifications of Topic 820, *Fair Value Measurement* but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). This guidance is effective for the first interim or annual period beginning on or after December 15, 2011, and will be applied prospectively. The Company is currently evaluating the impact of the adoption of this guidance but does not anticipate a material impact on the Company s consolidated statement of income (loss), its consolidated balance sheet, or its consolidated statement of cash flows.

In June 2011, the FASB issued guidance within the ASU 2011-05 Presentation of Comprehensive Income. The amendments in ASU 2011-05 to Topic 220, *Comprehensive Income*, allow an entity the option to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011, and will be applied retrospectively. The adoption of this guidance is not expected to have a material impact on the Company s consolidated statement of income (loss), its consolidated balance sheet, or its consolidated statement of cash flows.

2. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In the first quarter of 2010, the Company decided to discontinue its affinity credit card segment, PartnersFirst, and has presented certain activities as discontinued operations. The Company transferred certain assets with balances at June 30, 2011 of $0.1 million to held-for-sale and reported a portion of its operations as discontinued. At June 30, 2011 and December 31, 2010, the Company had $40.9 million and $45.6 million, respectively, of outstanding credit card loans which will have continuing cash flows related to the collection of these loans. These credit card loans are included in loans held for investment as of June 30, 2011 and December 31, 2010.

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in thousands)			
Affinity card revenue	$ 399	$ 459	$ 770	$ 950
Non-interest expenses	(1,192)	(1,842)	(2,527)	(3,945)
Loss before income taxes	(793)	(1,383)	(1,757)	(2,995)
Income tax benefit	(333)	(581)	(738)	(1,258)
Net loss	$ (460)	$ (802)	$ (1,019)	$ (1,737)

3. EARNINGS PER SHARE

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

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

	Three Months Ended June 30, **2011**	Three Months Ended June 30, 2010	Six Months Ended June 30, **2011**	Six Months Ended June 30, 2010
	(in thousands, except per share amounts)			
Weighted average shares Basic	**80,883**	72,160	**80,838**	72,063
Dilutive effect of options	**341**		**281**	
Weighted average shares Diluted	**81,224**	72,160	**81,119**	72,063
Net income available to common stockholders	**$ 3,726**	**$ (1,239)**	**$ 6,376**	**$ (3,321)**
Earnings (loss) per share Basic	**0.05**	**(0.02)**	**0.08**	**(0.05)**
Earnings (loss) per share Diluted	**0.05**	**(0.02)**	**0.08**	**(0.05)**

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

4. INVESTMENT SECURITIES

Carrying amounts and fair values of investment securities at June 30, 2011 and December 31, 2010 are summarized as follows:

	June 30, 2011				
	Amortized Cost	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities held-to-maturity			(in thousands)		
Collateralized debt obligations	$ 50	$ 50	$ 2,144	$	$ 2,194
Corporate bonds	80,000	80,000		(1,450)	78,550
Municipal obligations	891	891	18		909
Other	1,500	1,500			1,500

$	82,441	$	82,441	$	2,162	$	(1,450)	$	83,153

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Securities available-for-sale	Amortized Cost	OTTI Recognized in Other Comprehensive Loss	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
			(in thousands)		
US Government-sponsored agency securities	$ 206,852	$	$	$ (5,076)	$ 201,776
Municipal obligations	312			(6)	306
Adjustable-rate preferred stock	64,368		2,274	(284)	66,358
Corporate securities	5,000			(87)	4,913
Direct obligation and GSE residential mortgage-backed securities	688,005		5,304	(4,076)	689,233
Private label residential mortgage-backed securities	14,973	(1,811)	1,857	(849)	14,170
Trust preferred securities	32,036			(6,717)	25,319
Other	22,523		265	(58)	22,730
	$ 1,034,069	$ (1,811)	$ 9,700	$ (17,153)	$ 1,024,805

Securities measured at fair value	
Direct obligation and GSE residential mortgage-backed securities	$ 7,204

	December 31, 2010			
Securities held-to-maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		(in thousands)		
Collateralized debt obligations	$ 276	$ 459	$	$ 735
Corporate bonds	45,000		(632)	44,368
Municipal obligations	1,375	18		1,393
Other	1,500			1,500
	$ 48,151	$ 477	$ (632)	$ 47,996

Securities available-for-sale	Amortized Cost	OTTI Recognized in Other Comprehensive Loss	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
			(in thousands)		
	$ 280,299	$	$ 622	$ (3,329)	$ 277,592

US Government-sponsored agency securities					
Municipal obligations	312		1	(11)	302
Adjustable-rate preferred stock	66,255		1,410	(422)	67,243
Corporate securities	5,000			(93)	4,907
Direct obligation and GSE residential mortgage-backed securities	772,217		5,804	(8,632)	769,389
Private label residential mortgage-backed securities	9,203	(1,811)	1,811	(1,092)	8,111
Trust preferred securities	32,057			(8,931)	23,126
Other	22,265		99	(121)	22,243
	$ 1,187,608	$ (1,811)	$ 9,747	$ (22,631)	$ 1,172,913

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Securities measured at fair value

U.S. Government-sponsored agency securities	$	2,511
Direct obligation and GSE residential mortgage-backed securities		11,790
	$	14,301

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

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

Gross unrealized losses at June 30, 2011 are primarily caused by interest rate fluctuations, credit spread widening and reduced liquidity in applicable markets. The Company has reviewed securities on which there is an unrealized loss in accordance with its accounting policy for OTTI described above and recorded $0.2 million of impairment charges for the three and six months ended June 30, 2011. For the three and six months ended June 30, 2010, the Company recorded $1.1 million and $1.2 million, respectively. The impairment charges are attributed to the unrealized losses in the Company s CDO portfolio.

The Company does not consider any other securities to be other-than-temporarily impaired as of June 30, 2011 and December 31, 2010. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, additional OTTI may occur in future periods.

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Information pertaining to securities with gross unrealized losses at June 30, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	June 30, 2011			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities held-to-maturity				
Corporate bonds	$ 1,450	$ 78,550	$	$
	$ 1,450	$ 78,550	$	$

	June 30, 2011			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities available-for-sale				
US Government-sponsored agency securities	$ 5,076	$ 201,776	$	$
Adjustable-rate preferred stock	284	11,062		
Corporate securities	87	4,913		
Direct obligation and GSE residential mortgage-backed securities	3,998	313,618	78	8,045
Municipal obligations	6	210		
Private label residential mortgage-backed securities	218	6,250	631	5,642
Trust preferred securities			6,717	25,319
Other	58	6,192		
	$ 9,727	$ 544,021	$ 7,426	$ 39,006

	December 31, 2010			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities held-to-maturity				
Corporate bonds	$ 632	$ 39,368	$	$
	$ 632	$ 39,368	$	$

	December 31, 2010			
	Less Than Twelve Months		Over Twelve Months	

	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities available-for-sale				
US Government-sponsored agency securities	$ 3,329	$ 173,561	$	$
Adjustable-rate preferred stock	422	21,549		
Corporate securities	93	4,907		
Direct obligation and GSE residential mortgage-backed securities	8,562	425,248	69	8,798
Municipal obligations	11	206		
Private label residential mortgage-backed securities	2	1,990	1,091	6,121
Trust preferred securities			8,931	23,126
Other	121	6,129		
	$ 12,540	$ 633,590	$ 10,091	$ 38,045

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At June 30, 2011 and December 31, 2010, 82 and 84 debt securities (excluding adjustable rate preferred stock, debt obligations and other structured securities), respectively, have unrealized losses with aggregate depreciation of approximately 1.1% and 1.2%, respectively, from the Company s amortized cost basis. These unrealized losses relate primarily to fluctuations in the current interest rate environment. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysis reports. Since material downgrades have not occurred and management does not have the intent to sell the debt securities for the foreseeable future, none of the securities described in the above table or in this paragraph were deemed to be other than temporarily impaired.

At June 30, 2011 and December 31, 2010, two investments in trust preferred securities have unrealized losses with aggregate depreciation of approximately 20.0% and 27.9%, respectively, from the Company s amortized cost basis. These unrealized losses relate primarily to fluctuations in the current interest rate environment, and specifically to the widening of credit spreads on virtually all corporate and structured debt, which began in 2007. The Company has the intent and ability to hold trust preferred securities for the foreseeable future, none were deemed to be other than temporarily impaired.

At June 30, 2011, the net unrealized loss on trust preferred securities classified as AFS was $6.7 million, compared to $8.9 million at December 31, 2010. The Company actively monitors its debt and other structured securities portfolios classified as AFS for declines in fair value.

The amortized cost and fair value of securities as of June 30, 2011 and December 31, 2010, by contractual maturities, are shown in the table below. The actual maturities of the mortgage-backed securities may differ from their contractual maturities because the loans underlying the securities may be repaid without any penalties. Therefore, these securities are listed separately in the maturity summary. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2011		December 31, 2010	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Securities held-to-maturity				
Due in one year or less	$	$	$	$
After one year through five years	358	362	999	1,011
After five years through ten years	75,375	74,020	40,376	39,843
After ten years	5,208	7,271	5,276	5,642
Other	1,500	1,500	1,500	1,500
	$ 82,441	$ 83,153	$ 48,151	$ 47,996
Securities available-for-sale				
Due in one year or less	$ 1,117	$ 1,124	$ 13,005	$ 13,632
After one year through five years	8,130	8,602	8,434	8,663
After five years through ten years	226,965	222,377	294,027	291,243
After ten years	87,437	80,846	77,660	67,743
Mortgage backed securities	687,897	689,126	772,217	769,389
Other	22,523	22,730	22,265	22,243
	$ 1,034,069	$ 1,024,805	$ 1,187,608	$ 1,172,913

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The following table summarizes the Company s investment ratings position as of June 30, 2011:

	Securities ratings profile As of June 30, 2011					
	Investment- grade (1)				Noninvestment-grade (1)	
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Totals
	(in thousands)					
Municipal obligations	$ 40	$ 891	$	$	$ 266	$ 1,197
Direct & GSE residential mortgage- backed securities	696,437					696,437
Private label residential mortgage- backed securities	10,449	738	848		2,135	14,170
U.S. Government-sponsered agency securities	201,776					201,776
Adjustable-rate preferred stock		1,012	55,690	9,656		66,358
CDOs & trust preferred securities			25,319		50	25,369
Corporate bonds		10,000	64,913			74,913
Total (2)	$ 908,702	$ 12,641	$ 146,770	$ 9,656	$ 2,451	$ 1,080,220

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

(2) Securities values are shown at carrying value as of June 30, 2011. Unrated securities consist of CRA investments with a carrying value of $22.7 million, an HTM Corporate security with a carrying value of $10 million and an other investment of $1.5 million.

The following table summarizes the Company s investment ratings position as of December 31, 2010.

	Securities ratings profile As of December 31, 2010					
	Investment- grade (1)				Noninvestment-grade (1)	
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Totals
	(in thousands)					
Municipal obligations	$ 40	$ 1,375	$	$	$ 262	$ 1,677
Direct & GSE residential mortgage- backed securities	781,179					781,179
Private label residential mortgage- backed securities	5,796				2,315	8,111
	280,103					280,103

U.S. Government-sponsered agency securities						
Adjustable-rate preferred stock			60,263	6,980		67,243
CDOs & trust preferred securities			21,681	1,445	276	23,402
Corporate bonds		5,000	44,907			49,907
Total (2)	$ 1,067,118	$ 6,375	$ 126,851	$ 8,425	$ 2,853	$ 1,211,622

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

(2) Securities values are shown at carrying value as of December 31, 2010. Unrated securities consist of CRA investments with a carrying value of $22.2 million and an other investment of $1.5 million.

Securities with carrying amounts of approximately $562.4 million and $427.2 million at June 30, 2011 and December 31, 2010 were pledged for various purposes as required or permitted by law.

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5. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

The composition of the Company s loans held for investment portfolio as of June 30, 2011 and December 31, 2010 is as follows:

	June 30, 2011	December 31, 2010
	(in thousands)	
Commercial real estate owner occupied	$ 1,285,281	$ 1,223,150
Commercial real estate non-owner occupied	1,170,038	1,038,488
Commercial and industrial	840,887	744,659
Residential real estate	473,881	527,302
Construction and land development	396,338	451,470
Commercial leases	188,629	189,968
Consumer	62,597	71,545
Deferred fees and unearned income,net	(5,946)	(6,040)
	4,411,705	4,240,542
Allowance for credit losses	(104,375)	(110,699)
Total	$ 4,307,330	$ 4,129,843

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

	June 30, 2011					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,267,615	$ 162	$ 3,034	$ 14,470	$ 17,666	$ 1,285,281
Non-owner occupied	1,072,227	459	399	3,579	4,437	1,076,664
Multi-family	90,758	129	1,432	1,055	2,616	93,374
Commercial and industrial						
Commercial	832,752	768	4,440	2,927	8,135	840,887
Leases	188,629					188,629
Construction and land development						
Construction	208,063	2,087	3,412	14,853	20,352	228,415
Land	159,537		321	8,065	8,386	167,923
Residential real estate	440,541	1,972	5,410	25,958	33,340	473,881
Consumer	60,762	492	329	1,014	1,835	62,597
Total loans	$ 4,320,884	$ 6,069	$ 18,777	$ 71,921	$ 96,767	$ 4,417,651

	December 31, 2010					
	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	$ 1,195,219	$ 2,512	$ 10,314	$ 15,105	$ 27,931	$ 1,223,150
Non-owner occupied	947,784	1,111	1,022	5,543	7,676	955,460
Multi-family	80,857			2,407	2,407	83,264
Commercial and industrial						
Commercial	741,337	1,644	135	1,543	3,322	744,659
Leases	189,968					189,968
Construction and land development						
Construction	219,382			22,300	22,300	241,682
Land	199,773	338		9,678	10,016	209,789
Residential real estate	491,275	8,574	3,208	24,008	35,790	527,065
Consumer	69,027	655	460	1,403	2,518	71,545
Total loans	$ 4,134,622	$ 14,834	$ 15,139	$ 81,987	$ 111,960	$ 4,246,582

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

	June 30, 2011		December 31, 2010	
	Non-accrual	Loans past due 90 days or more and still accruing	Non-accrual	Loans past due 90 days or more and still accruing
	(in thousands)			
Commercial real estate				
Owner occupied	$ 30,039	$ 119	$ 25,316	$
Non-owner occupied	9,155		12,189	
Multi-family	1,393		2,752	
Commercial and industrial				
Commercial	8,177		7,349	151
Leases				
Construction and land development				
Construction	18,265		22,300	
Land	12,569		14,223	
Residential real estate	33,023		32,638	
Consumer	129	1,015	232	1,307
Total	$ 112,750	$ 1,134	$ 116,999	$ 1,458

Nonaccrual loans and loans past due 90 days or more and still accruing interest totaled $113.9 million and $118.5 million at June 30, 2011 and December 31, 2010, respectively. The reduction in interest income associated with loans on nonaccrual status was approximately $1.5 million and $2.3 million for the three and six months ended June 30, 2011 respectively, and $0.1 million and $1.3 million for the three and six months ended June 30, 2010, respectively.

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

	June 30, 2011					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,144,725	$ 80,084	$ 60,472	$	$	$ 1,285,281
Non-owner occupied	995,964	41,974	38,726			1,076,664
Multi-family	91,280	416	1,678			93,374
Commercial and industrial						
Commercial	783,870	32,946	23,929	142		840,887
Leases	184,561	780	3,288			188,629
Construction and land development						
Construction	194,320	5,458	28,637			228,415
Land	118,478	11,484	37,961			167,923
Residential real estate	417,340	15,452	41,089			473,881
Consumer	59,491	1,452	1,654			62,597
Total	$ 3,990,029	$ 190,046	$ 237,434	$ 142	$	$ 4,417,651

	June 30, 2011					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current	$ 3,983,229	$ 187,279	$ 150,376	$	$	$ 4,320,884
Past due 30 - 59 days	1,152	1,475	3,442			6,069
Past due 60 - 89 days	4,061	1,173	13,543			18,777
Past due 90 days or more	1,587	119	70,073	142		71,921
Total	$ 3,990,029	$ 190,046	$ 237,434	$ 142	$	$ 4,417,651

	December 31, 2010					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,075,051	$ 89,731	$ 58,368	$	$	$ 1,223,150

Non-owner occupied	883,867	27,785	43,807			955,460
Multi-family	78,442		4,823			83,264
Commercial and industrial						
Commercial	699,177	27,252	17,426	804		744,659
Leases	186,262	51	3,655			189,968
Construction and land development						
Construction	200,375	12,086	29,220			241,682
Land	141,916	19,070	48,803			209,789
Residential real estate	460,591	17,647	48,828			527,065
Consumer	69,339	1,284	921			71,545
Total	$ 3,795,020	$ 194,905	$ 255,853	$ 804	$	$ 4,246,582

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	December 31, 2010					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current	$ 3,785,145	$ 188,555	$ 160,318	$ 607	$	$ 4,134,625
Past due 30 - 59 days	6,000	1,875	6,959			14,834
Past due 60 - 89 days	2,457	4,474	8,158	49		15,138
Past due 90 days or more	1,418	1	80,418	148		81,985
Total	$ 3,795,020	$ 194,905	$ 255,853	$ 804	$	$ 4,246,582

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

	June 30, 2011	December 31, 2010
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	**$ 42,894**	$ 45,316
Impaired loans without a specific valuation allowance under ASC 310	**161,057**	193,019
Total impaired loans	**$ 203,951**	$ 238,335
Valuation allowance related to impaired loans	**$ (14,900)**	$ (13,440)

Net impaired loans were $204 million at June 30, 2011, a net decrease of $34.4 million from December 31, 2010. This decline is primarily attributable to a decrease in commercial real estate impaired loans, which were $102.6 million at June 30, 2011 compared to $123.9 million at December 31, 2010, a decrease of $21.3 million. In addition, impaired residential real estate loans, impaired construction and land loans and impaired consumer and credit card loans also decreased by $6.3 million, $7.6 million, and $0.4 million, respectively, from $42.4 million, $58.4 million, and $0.8 million at December 31, 2010, to $36.1 million, $50.8 million and $0.4 million at June 30, 2011. Impaired commercial and industrial loans increased by $1.3 million from $12.8 million at December 31, 2010 to $14.1 million at June 30, 2011.

The following table presents the impaired loans by class:

	June 30, 2011	December 31, 2010
	(in thousands)	
Commercial real estate		
Owner occupied	$ 60,576	$ 51,157
Non-owner occupied	40,303	67,959
Multi-family	1,678	4,823
Commercial and industrial		
Commercial	10,763	9,148
Leases	3,288	3,655
Construction and land development		
Construction	28,638	31,707
Land	22,147	26,708
Residential real estate	36,128	42,423
Consumer	430	755

Total	$	203,951	$	238,335

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans have been charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable, in the table above as Impaired loans without specific valuation allowance under ASC 310. The valuation allowance disclosed above is included in the allowance for credit losses reported in the consolidated balance sheets as of June 30, 2011 and December 31, 2010.

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in thousands)			
Commercial real estate				
Owner occupied	$ 59,990	$ 56,599	$ 58,652	$ 52,265
Non-owner occupied	43,274	33,405	50,744	33,401
Multi-family	1,680	6,291	2,326	5,297
Commercial and industrial				
Commercial	13,530	11,624	12,057	14,183
Leases	3,339	9	3,522	4
Construction and land development				
Construction	28,150	28,360	28,704	28,592
Land	24,521	40,412	23,796	45,076
Residential real estate	34,899	45,459	37,057	43,884
Consumer	483	538	556	483
Total	$ 209,866	$ 222,697	$ 217,414	$ 223,185

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in thousands)		(in thousands)	
Commercial real estate				
Owner occupied	$ 802	$ 481	$ 1,153	$ 901
Non-owner occupied	601	386	1,177	539
Multi-family	5	19	9	31
Commercial and industrial				
Commercial	41	30	99	52
Leases				
Construction and land development				
Construction	137	161	272	260
Land	159	237	395	227
Residential real estate	133	95	189	121
Consumer	3	1	7	7
Total	$ 1,881	$ 1,410	$ 3,301	$ 2,138

The Company is not committed to lend significant additional funds on these impaired loans.
The following table summarizes nonperforming assets:

	June 30, 2011	December 31, 2010
	(in thousands)	
Nonaccrual loans	**$ 112,750**	$ 116,999

Loans past due 90 days or more on accrual status	**1,134**	1,458
Troubled debt restructured loans	**86,809**	116,696
Total nonperforming loans	**200,693**	235,153
Foreclosed collateral	**85,732**	107,655
Total nonperforming assets	**$ 286,425**	$ 342,808

Allowance for Credit Losses

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in thousands)			
Allowance for credit losses:				
Balance at beginning of period	**$ 106,133**	$ 112,724	**$ 110,699**	$ 108,623
Provisions charged to operating expenses:				
Construction and land development	**109**	4,125	**947**	13,345
Commercial real estate	**4,455**	13,251	**11,144**	23,225
Residential real estate	**2,905**	1,826	**6,567**	7,920
Commercial and industrial	**3,688**	2,636	**1,085**	5,817
Consumer	**734**	1,277	**2,189**	1,555
Total provision	**11,891**	23,115	**21,932**	51,862
Acquisitions				
Recoveries of loans previously charged-off:				
Construction and land development	**677**	1,800	**1,093**	2,209
Commercial real estate	**804**	808	**1,275**	830
Residential real estate	**172**	295	**441**	526
Commercial and industrial	**726**	573	**1,555**	1,811
Consumer	**44**	14	**69**	81
Total recoveries	**2,423**	3,490	**4,433**	5,457
Loans charged-off:				
Construction and land development	**1,516**	7,921	**5,714**	16,559
Commercial real estate	**4,286**	7,827	**10,400**	13,711
Residential real estate	**3,339**	7,835	**6,621**	13,690
Commercial and industrial	**5,926**	4,602	**7,333**	9,359
Consumer	**1,005**	1,132	**2,621**	2,611
Total charged-off	**16,072**	29,317	**32,689**	55,930
Net charge-offs	**13,649**	25,827	**28,256**	50,473
Balance at end of period	**$ 104,375**	$ 110,012	**$ 104,375**	$ 110,012

The following table presents loans individually evaluated for impairment by class of loans:

	June 30, 2011			
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Credit Losses Allocated
	(in thousands)			
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$ 56,405	$ 50,221	$ 6,184	$
Non-owner occupied	47,495	40,303	7,192	
Multi-family	2,161	1,340	821	
Commercial and industrial				
Commercial	11,351	9,414	1,937	
Leases	3,288	3,288		
Construction and land development				
Construction	13,881	13,784	97	
Land	25,697	20,814	4,883	
Residential real estate	27,859	21,463	6,396	
Consumer	456	430	26	
With an allowance recorded:				
Commercial real estate				
Owner occupied	10,355	10,355		3,683
Non-owner occupied				
Multi-family	350	338	12	194
Commercial and industrial				
Commercial	1,503	1,349	154	721
Leases				
Construction and land development				
Construction	17,865	14,854	3,011	3,203
Land	1,333	1,333		753
Residential real estate	15,467	14,665	802	6,346
Consumer				
With an allowance recorded:				
Total	$ 235,466	$ 203,951	$ 31,515	$ 14,900

	December 31, 2010			
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Credit Losses Allocated
	(in thousands)			
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$ 38,893	$ 36,811	$ 2,082	$
Non-owner occupied	72,705	66,156	6,549	
Multi-family	7,087	4,478	2,609	
Commercial and industrial				
Commercial	9,155	4,780	4,375	
Leases	3,655	3,655		
Construction and land development				
Construction	23,214	19,217	3,997	
Land	31,237	24,807	6,430	
Residential real estate	38,936	32,593	6,343	
Consumer	548	522	26	
With an allowance recorded:				
Commercial real estate				
Owner occupied	15,684	14,346	1,338	3,873
Non-owner occupied	1,961	1,804	157	530
Multi-family	358	346	12	179
Commercial and industrial				
Commercial	4,520	4,367	153	3,170
Leases				
Construction and land development				
Construction	12,490	12,490		1,722
Land	5,018	1,901	3,117	1,124
Residential real estate	11,598	9,830	1,768	2,716
Consumer	232	232		126
Total	$ 277,291	$ 238,335	$ 38,956	$ 13,440

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

	June 30, 2011							
	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Commercial Leases	Consumer	Total
	(in thousands)							
Allowance for credit losses:								
	$ 3,683	$ 194	$ 721	$ 6,346	$ 3,956	$	$	$ 14,900

Ending balance attributable to loans individually evaluated for impairment								
Collectively evaluated for impairment	12,608	18,613	22,378	14,899	12,963	3,009	5,005	$ 89,475
Acquired with deteriorated credit quality								$
Total ending allowance	$ 16,291	$ 18,807	$ 23,099	$ 21,245	$ 16,919	$ 3,009	$ 5,005	$ 104,375

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	December 31, 2010
Commercial &	Commercial