

WESTERN ALLIANCE BANCORPORATION

Form 10-Q

May 10, 2007

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

(Mark One)

**Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended March 31, 2007 or**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 333-124406**

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

**Nevada  
(State or Other Jurisdiction  
of Incorporation or Organization)  
2700 W. Sahara Avenue, Las Vegas, NV  
(Address of Principal Executive Offices)**

**88-0365922  
(I.R.S. Employer I.D. Number)  
  
89102  
(Zip Code)**

**(702) 248-4200  
(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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

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: 30,413,953 shares as of April 30, 2007.

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**Table of Contents****Part I. Financial Information****ITEM I. FINANCIAL STATEMENTS****Western Alliance Bancorporation and Subsidiaries****Consolidated Balance Sheets****March 31, 2007 and December 31, 2006****(Unaudited)**

| <i>(\$ in thousands, except per share amounts)</i>  | March 31,<br>2007  | December 31,<br>2006 |
|---|--------------------|----------------------|
| <b>Assets</b>   |                    |                      |
| Cash and due from banks   | \$ 129,655         | \$ 143,721           |
| Federal funds sold  | 166,802            | 121,159              |
| <b>Cash and cash equivalents</b>  | <b>296,457</b>     | <b>264,880</b>       |
| Securities held to maturity (approximate fair value \$8,067 and \$95,404, respectively)       | 7,908              | 97,495               |
| Securities available for sale   | 337,098            | 444,826              |
| Securities measured at fair value   | 285,860            |                      |
| Gross loans, including net deferred loan fees   | 3,336,037          | 3,003,222            |
| Less: Allowance for loan losses   | (37,519)           | (33,551)             |
| <b>Loans, net</b>   | <b>3,298,518</b>   | <b>2,969,671</b>     |
| Premises and equipment, net   | 125,570            | 99,859               |
| Bank owned life insurance   | 85,226             | 82,058               |
| Investment in restricted stock  | 16,845             | 18,483               |
| Accrued interest receivable   | 19,107             | 17,425               |
| Deferred tax assets, net  | 2,683              | 8,000                |
| Goodwill  | 203,340            | 132,188              |
| Other intangible assets, net of accumulated amortization of \$1,812 and \$1,457, respectively | 34,069             | 16,042               |
| Other assets  | 14,963             | 18,677               |
| <b>Total assets</b>   | <b>\$4,727,644</b> | <b>\$4,169,604</b>   |
| <b>Liabilities and Stockholders Equity</b>  |                    |                      |
| <b>Liabilities</b>  |                    |                      |
| Non-interest bearing demand deposits  | \$1,242,979        | \$1,154,245          |
| Interest bearing deposits:  |                    |                      |
| Demand  | 268,697            | 246,318              |
| Savings and money market  | 1,648,106          | 1,407,916            |
| Time, \$100 and over  | 610,779            | 524,935              |
| Other time  | 78,584             | 67,009               |

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|  |                  |                  |
|--|------------------|------------------|
|  | 3,849,145        | 3,400,423        |
| Customer repurchase agreements                         | 175,951          | 170,656          |
| Federal Home Loan Bank advances and other borrowings   |                  |                  |
| One year or less                                       | 28,000           | 11,000           |
| Over one year  | 28,682           | 58,011           |
| Junior subordinated debt (2007 measured at fair value) | 70,385           | 61,857           |
| Subordinated debt                                      | 40,000           | 40,000           |
| Accrued interest payable and other liabilities         | 24,236           | 19,078           |
| <b>Total liabilities</b>                               | <b>4,216,399</b> | <b>3,761,025</b> |

Commitments and Contingencies (Note 6)

Stockholders' Equity

Preferred stock, par value \$.0001; shares authorized 20,000,000; no shares issued and outstanding 2007 and 2006

Common stock, par value \$.0001; shares authorized 100,000,000; shares issued and outstanding 2007: 29,962,618; 2006: 27,084,626

|   |         |         |
|---|---------|---------|
|   | 3       | 3       |
| Additional paid-in capital  | 381,271 | 287,553 |
| Retained earnings   | 130,814 | 126,170 |
| Accumulated other comprehensive loss - net unrealized loss on available for sale securities | (843)   | (5,147) |

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| <b>Total stockholders' equity</b> | <b>511,245</b> | <b>408,579</b> |
|-----------------------------------|----------------|----------------|

|   |                    |                    |
|---|--------------------|--------------------|
| <b>Total liabilities and stockholders' equity</b> | <b>\$4,727,644</b> | <b>\$4,169,604</b> |
|---|--------------------|--------------------|

See Notes to Unaudited Consolidated Financial Statements.

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**Western Alliance Bancorporation and Subsidiaries**  
**Consolidated Statements of Income**  
**Three Months Ended March 31, 2007 and 2006**  
**(Unaudited)**

| <i>(\$ in thousands, except per share amounts)</i>                         | 2007          | 2006          |
|--|---------------|---------------|
| Interest income on:  |               |               |
| Loans, including fees  | \$59,020      | \$34,754      |
| Securities taxable   | 6,895         | 6,527         |
| Securities nontaxable  | 58            | 463           |
| Dividends taxable  | 420           | 169           |
| Dividends nontaxable   | 387           |               |
| Federal funds sold and other   | 533           | 283           |
| <b>Total interest income</b>   | <b>67,313</b> | <b>42,196</b> |
| Interest expense on:   |               |               |
| Deposits   | 21,873        | 9,924         |
| Short-term borrowings  | 2,389         | 1,698         |
| Long-term borrowings   | 516           | 613           |
| Junior subordinated debt and subordinated debt                             | 1,679         | 567           |
| <b>Total interest expense</b>  | <b>26,457</b> | <b>12,802</b> |
| <b>Net interest income</b>   | <b>40,856</b> | <b>29,394</b> |
| Provision for loan losses  | 441           | 542           |
| <b>Net interest income after provision for loan losses</b>                 | <b>40,415</b> | <b>28,852</b> |
| Non-interest income:   |               |               |
| Trust and investment advisory services                                     | 2,105         | 1,576         |
| Service charges  | 1,069         | 669           |
| Income from bank owned life insurance                                      | 928           | 612           |
| Other  | 1,488         | 640           |
| Non-interest income, excluding securities and fair value gains (losses)    | 5,590         | 3,497         |
| Investment securities gains, net   | 284           |               |
| Unrealized gain/loss on assets and liabilities measured at fair value, net | (13)          |               |
| Non-interest income  | 5,861         | 3,497         |
| Other expense:   |               |               |
| Salaries and employee benefits   | 17,033        | 11,577        |
| Occupancy  | 4,239         | 2,450         |
| Advertising and other business development                                 | 1,462         | 1,039         |
| Customer service   | 1,323         | 1,249         |

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|                                       |          |          |
|---------------------------------------|----------|----------|
| Legal, professional and director fees | 1,044    | 645      |
| Audits and exams                      | 531      | 406      |
| Supplies                              | 509      | 285      |
| Data processing                       | 435      | 346      |
| Correspondent and wire transfer costs | 418      | 401      |
| Telephone                             | 340      | 206      |
| Insurance                             | 298      | 226      |
| Travel and automobile                 | 287      | 143      |
| Intangible amortization               | 257      | 56       |
| Other                                 | 745      | 491      |
|                                       | 28,921   | 19,520   |
| <b>Income before income taxes</b>     | 17,355   | 12,829   |
| Income tax expense                    | 5,952    | 4,391    |
| <b>Net income</b>                     | \$11,403 | \$ 8,438 |
| <b>Comprehensive income</b>           | \$11,897 | \$ 7,879 |
| Earnings per share:                   |          |          |
| Basic                                 | \$ 0.42  | \$ 0.37  |
| Diluted                               | \$ 0.39  | \$ 0.33  |

See Notes to Unaudited Consolidated Financial Statements.

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**Western Alliance Bancorporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Three Months Ended March 31, 2007 and 2006**  
**(Unaudited)**  
*(\$ in thousands)*

|   | 2007            | 2006           |
|---|-----------------|----------------|
| Cash Flows from Operating Activities:   |                 |                |
| Net income  | \$ 11,403       | \$ 8,438       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                |
| Decrease in other assets  | 6,545           | 3,019          |
| Other, net  | 1,313           | 2,215          |
| <b>Net cash provided by operating activities</b>                                  | <b>19,261</b>   | <b>13,672</b>  |
| Cash Flows from Investing Activities:   |                 |                |
| Proceeds from maturities of securities  | 17,610          | 141,495        |
| Purchases of securities   | (52,706)        | (20,000)       |
| Proceeds from the sale of securities  | 8,764           |                |
| Net cash received in settlement of acquisition                                    | 46,793          | 50,938         |
| Net increase in loans made to customers   | (40,197)        | (153,168)      |
| Purchase of premises and equipment  | (11,889)        | (7,315)        |
| Proceeds from sale of premises and equipment                                      | 2,628           |                |
| Other, net  | 938             | (384)          |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>(28,059)</b> | <b>11,566</b>  |
| Cash Flows from Financing Activities:   |                 |                |
| Net increase in deposits  | 46,460          | 141,624        |
| Net proceeds from (repayments on) borrowings                                      | (7,103)         | 21,280         |
| Proceeds from exercise of stock options and stock warrants                        | 1,018           | 763            |
| Other, net  |                 | 45             |
| <b>Net cash provided by financing activities</b>                                  | <b>40,375</b>   | <b>163,712</b> |
| <b>Increase in cash and cash equivalents</b>                                      | <b>31,577</b>   | <b>188,950</b> |
| Cash and Cash Equivalents, beginning of period                                    | 264,880         | 174,336        |
| Cash and Cash Equivalents, end of period  | \$296,457       | \$ 363,286     |
| Supplemental Disclosure of Cash Flow Information                                  |                 |                |
| Cash payments for interest  | \$ 26,590       | \$ 13,180      |
| Cash payments for income taxes  | \$              | \$ 195         |
| Supplemental Disclosure of Noncash Investing and Financing Activities             |                 |                |
| Stock issued in connection with acquisition                                       | \$ 91,304       | \$ 99,680      |
| See Notes to Unaudited Consolidated Financial Statements.                         |                 |                |





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**Note 1. Nature of Business and Summary of Significant Accounting Policies**

(Dollars in thousands, except per share amounts)

**Nature of business**

Western Alliance Bancorporation is a bank holding company providing a full range of banking services to commercial and consumer customers through its wholly owned subsidiaries Bank of Nevada and First Independent Bank of Nevada, operating in Nevada, Alliance Bank of Arizona, operating in Arizona, Torrey Pines Bank and Alta Alliance Bank, operating in California, Miller/Russell & Associates, Inc., operating in Nevada, Arizona and Southern California, and Premier Trust, Inc., operating in Nevada and Arizona. These entities are collectively referred to herein as the Company. First Independent Bank was acquired on March 31, 2007. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and general industry practices.

**Use of estimates in the preparation of financial statements**

The preparation of financial statements 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. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

**Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Bank of Nevada, First Independent Bank of Nevada, Alliance Bank of Arizona, Torrey Pines Bank, Alta Alliance Bank (collectively referred to herein as the Banks), Miller/Russell & Associates, Inc., and Premier Trust, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

**Interim financial information**

The accompanying unaudited consolidated financial statements as of March 31, 2007 and 2006 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, 2006.

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.

Condensed financial information as of December 31, 2006 has been presented next to the interim consolidated balance sheet for informational purposes.

**Table of Contents****Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)****Recent Accounting Pronouncements**

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation provides that the tax effects from an uncertain tax position can be recognized in our financial statements only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. For further discussion of the impact of FIN 48, please refer to Note 8 of these financial statements.

In September 2006, the FASB ratified the consensus of the Emerging Issues Task Force (EITF) Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangement. EITF 06-4 applies to endorsement split dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods and requires an employer to recognize a liability for future benefits over the service period based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with early adoption permitted. We do not expect EITF 06-4 to have a material impact on our financial statements.

**Note 2. Fair Value Accounting**

The Company elected early adoption of SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, effective January 1, 2007. Instruments for which the fair value option (FVO) was adopted and the reasons therefore are as follows:

Junior subordinated debt

All investment securities previously classified as held-to-maturity, with the exception of tax-advantaged municipal bonds

All fixed-rate securities previously classified as available-for-sale

The junior subordinated debt, with a balance of \$61.9 million at January 1, 2007, (before the application of SFAS 159) is a primary source of funding for the Company's held-to-maturity portfolio, which excluding tax-advantaged municipal obligations had an amortized cost of \$90.5 million at the same date. The held-to-maturity portfolio consists primarily of fixed rate and hybrid adjustable rate mortgage-backed securities and collateralized mortgage obligations. The junior subordinated debt includes \$20.0 million which carries a fixed rate through June 2011, with the remaining balances carrying rates which re-set at least semi-annually. This represents a natural hedge on the Company's balance sheet, with changes in fair value of the fixed rate securities and fixed rate junior subordinated debt moving inversely from one another as market rates move up and down. The early adoption of SFAS 159 on these instruments will more accurately reflect this hedge in the Company's consolidated financial statements. The FVO was not elected for tax-advantaged securities since the tax benefit is based upon the contractual rate paid on the security at time of purchase and does not include changes in fair value or accretion or amortization of discounts or premiums resulting from revaluation. The carrying value of these tax-advantaged securities was \$7.9 million at March 31, 2007.

Fixed-rate available-for-sale securities had an amortized cost of \$215.6 million and an aggregate net unrealized loss of \$5.9 million at January 1, 2007. These securities represent some of the most volatile on the Company's balance sheet with long durations and low coupon rates relative to the market. While initially these investments were funded with relatively long duration non-interest bearing and administered rate money market deposits, as the liability structure of the company has shortened they are now preponderantly funded with overnight Federal Home Loan Bank borrowings, customer repurchase agreements and CDs. All of these sources of funding have pricing which moves with the market, and thus

**Table of Contents****Note 2. Fair Value Accounting (continued)**

there is not an effective match for the fixed rate securities on the liability side of the balance sheet. This causes much volatility in reported earnings as interest rates move and the net interest margin contracts and expands. The Company's ability to hedge the market-value risk on the securities was historically limited by the complexities of accounting for derivative financial instruments. The adoption of SFAS 159 on these securities will provide more transparency in the consolidated financial statements as users will be more able to ascertain changes in the Company's net income caused by changes in market interest rates. The FVO was not elected for variable-rate available-for-sale securities since the liability funding match is more closely aligned with these shorter duration assets.

The following table provides the impact of adoption on the Company's balance sheet as January 1, 2007 (in thousands):

| Description   | Carrying Value Prior to Adoption | Cumulative Effect Adjustment | Carrying Value After Adoption |
|---|----------------------------------|------------------------------|-------------------------------|
| Securities previously reported as held to maturity    | \$ 97,495                        | \$ (2,267)                   | \$ 95,228                     |
| Securities previously reported as available for sale  | 444,826                          | (5,861)                      | 444,826                       |
| Junior subordinated debt                              | (61,857)                         | (2,270)                      | (64,127)                      |
| Gross cumulative effect adjustment                    |                                  | (10,398)                     |                               |
| Less reclassification from other comprehensive income |                                  | 5,861                        |                               |
| Pre-tax cumulative effect adjustment                  |                                  | (4,537)                      |                               |
| Effect on net deferred tax asset                      |                                  | 1,588                        |                               |
| Cumulative effect adjustment, net                     |                                  | \$ (2,949)                   |                               |

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

For the three months ended March 31, 2007, gains and losses from fair value changes included in the Consolidated Statement of Income were as follows (in thousands):

| Description | Changes in Fair Values for the Three-Month Period Ended March 31, 2007 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option |                               |  | Total Changes in Fair Values Included in Current-Period Earnings |
|-------------|---|-------------------------------|--|--|
|             | Unrealized gain/(loss) on assets and liabilities measured at Fair Value, net  | Interest Income on Securities | Interest Expense on Junior Subordinated Debt |  |
|             |   |                               |  |  |

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|                                   |         |        |     |        |
|-----------------------------------|---------|--------|-----|--------|
| Securities measured at fair value | \$ (13) | \$ 476 | \$  | \$ 463 |
| Junior Subordinated Debt          |         |        | 201 | 201    |
|                                   | 8       |        |     |        |

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**Table of Contents****Note 2. Fair Value Accounting (continued)**

The difference between the aggregate fair value of \$70.4 million and the aggregate unpaid principal balance of \$69.1 million of junior subordinated debt was \$1.3 million at March 31, 2007.

Interest income on securities measured at fair value are accounted for similarly to those classified as available for sale and held to maturity. As of January 1, 2007, a discount or premium was calculated for each security based upon the difference between the par value and the fair value at that date. These premiums and discounts will generally be recognized in interest income over the term of the securities. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations. Interest expense on junior subordinated debt is also determined under a constant yield calculation. As of January 1, 2007, a premium was recorded for certain junior subordinated debt offerings. These premiums are being amortized over the expected lives of the offerings.

Concurrent with the adoption of SFAS 159, the Company adopted SFAS 157, *Fair Value Measurements*, effective January 1, 2007. SFAS 159 requires early adoption of SFAS 157 if the company chooses to early adopt SFAS 159. SFAS 157 provides a definition of fair value and provides a framework for calculating fair value.

The Company measures certain assets and liabilities at fair value on a recurring basis, including securities available for sale, securities measured at market value and junior subordinated debt. The fair value of these assets and liabilities were determined using the following inputs at March 31, 2007:

| Description                       | March 31,<br>2007 | Fair Value Measurements at Reporting Date<br>Using:                                       |   |  |
|-----------------------------------|-------------------|---|---|--|
|                                   |                   | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>ASSETS</b>                     |                   |   |   |  |
| Securities available for sale     | \$ 337,098        | \$  | \$ 337,098  | \$   |
| Securities measured at fair value | 285,860           |   | 285,860   |  |
| Total                             | \$ 622,958        | \$  | \$ 622,958  | \$   |
| <b>LIABILITIES</b>                |                   |   |   |  |
| Junior subordinated debt          | \$ 70,385         | \$  | \$ 70,385   | \$   |

To value securities available for sale and securities measured at fair value the Company utilizes matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

Junior subordinated debt is valued by comparing interest rates and spreads to benchmark indices offered to institutions with similar credit profiles to our own and discounting the cash flows on our offerings using these market rates.

**Note 3. Merger and Acquisition Activity**

Effective March 31, 2007, the Company acquired 100% of the outstanding common stock of First Independent Capital of Nevada (FICN), headquartered in Reno, Nevada. FICN is the parent company of First Independent Bank of Nevada

(FIB). The tax-free merger was accomplished according to the Agreement and Plan of Merger (the Merger Agreement), dated December 19, 2006. At the date of

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**Note 3. Merger and Acquisition Activity (continued)**

acquisition, FIB became a wholly-owned subsidiary of the Company. As the merger closed on March 30, 2007, FIB's results for the three months ended March 31, 2007 were not included with the Company's results of operations. The merger increases the Company's presence in Northern Nevada.

Total assets, loans and deposits acquired in this merger were \$530.7 million, \$292.8 million and \$402.9 million, respectively and are included in the Company's consolidated balance sheet as of March 31, 2007. We also added four full service offices in Northern Nevada through this merger.

As provided by the Merger Agreement and based on valuation amounts determined as of the merger date, approximately 1.12 million shares of FICN common stock were exchanged for approximately \$21.9 million in cash and approximately 2.5 million shares of the Company's common stock at a calculated exchange ratio of 2.84412. The exchange of shares represented approximately 8% of the Company's outstanding common stock as of the merger date. As part of the acquisition, 389,000 replacement options with a grant date fair value of \$10.1 million were issued to FICN shareholders. As part of the merger agreement, \$2.0 million of contingent consideration may be paid pro rata to the FICN shareholders at any time prior to the two-year anniversary of the merger date, depending on the performance of certain loans segregated in the FICN portfolio.

The merger was accounted for under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations*. Accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the merger date. Appropriate amounts and adjustments shown were recorded by FIB and included in the FIB reporting segment. Certain amounts, including goodwill, are subject to change when the determination of the asset and liability values is finalized within one year from the merger date. Valuations of certain assets and liabilities of FIB will be performed with the assistance of independent valuation consultants. None of the resulting goodwill is expected to be deductible for tax purposes.

**Note 4. Earnings Per Share**

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

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



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|  | Three Months Ended<br>March 31,             |          |
|--|---|----------|
|  | 2007  | 2006     |
|  | (in thousands, except per share<br>amounts) |          |
| Basic:                                       |   |          |
| Net income applicable to common stock        | \$11,403                                    | \$ 8,438 |
| Average common shares outstanding            | 26,950                                      | 22,999   |
| Earnings per share                           | \$ 0.42                                     | \$ 0.37  |
| Diluted:                                     |   |          |
| Net income applicable to common stock        | \$11,403                                    | \$ 8,438 |
| Average common shares outstanding            | 26,950                                      | 22,999   |
| Stock option adjustment                      | 1,134                                       | 1,310    |
| Restricted stock adjustment                  | 104   |          |
| Stock warrant adjustment                     | 993   | 1,046    |
| Average common equivalent shares outstanding | 29,181                                      | 25,355   |
| Earnings per share                           | \$ 0.39                                     | \$ 0.33  |

**Table of Contents****Note 5. Loans**

The components of the Company's loan portfolio as of March 31, 2007 and December 31, 2006 are as follows (in thousands):

|                                   | March 31,<br>2007 | December 31,<br>2006 |
|-----------------------------------|-------------------|----------------------|
| Construction and land development | \$ 757,498        | \$ 715,546           |
| Commercial real estate            | 1,419,477         | 1,232,260            |
| Residential real estate           | 403,798           | 384,082              |
| Commercial and industrial         | 722,574           | 645,469              |
| Consumer                          | 38,218            | 29,561               |
| Less: net deferred loan fees      | (5,528)           | (3,696)              |
|                                   | 3,336,037         | 3,003,222            |
| Less:                             |                   |                      |
| Allowance for loan losses         | (37,519)          | (33,551)             |
|                                   | \$3,298,518       | \$2,969,671          |

Changes in the allowance for loan losses for the three months ended March 31, 2007 and 2006 are as follows (in thousands):

|  | Three Months Ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2007                            | 2006     |
| Balance, beginning                     | \$33,551                        | \$21,192 |
| Acquisitions                           | 3,706                           | 5,877    |
| Provision charged to operating expense | 441                             | 542      |
| Recoveries of amounts charged off      | 79                              | 163      |
| Less amounts charged off               | (258)                           | (85)     |
| Balance, ending                        | \$37,519                        | \$27,689 |

At March 31, 2007, total impaired and non-accrual loans were \$2.6 million, compared with \$2.3 million at December 31, 2006. Loans past due 90 days or more and still accruing were \$2.5 million at March 31, 2007 and \$794,000 at December 31, 2006.

**Note 6. Contingencies****Contingencies**

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

**Table of Contents****Note 6. Contingencies (continued)****Financial Instruments with Off-balance Sheet Risk**

A summary of the contract amount of the Company's exposure to off-balance sheet risk is as follows:

|   | March 31,<br>2007 | December 31,<br>2006 |
|---|-------------------|----------------------|
|   | (in thousands)    |                      |
| Commitments to extend credit, including unsecured loan commitments of \$266,238 in 2007 and \$194,586 in 2006 | \$1,197,628       | \$1,083,854          |
| Credit card commitments and guarantees  | 18,630            | 16,233               |
| Standby letters of credit, including unsecured letters of credit of \$19,823 in 2007 and \$5,127 in 2006      | 58,562            | 61,157               |
|   | \$1,274,820       | \$1,161,244          |

**Note 7. Stock-based Compensation**

For the three months ended March 31, 2007, 157,000 stock options with a weighted average exercise price of \$34.80 per share were granted to certain key employees. The Company estimates the value of each option award on the date of grant using a Black-Scholes valuation model. The weighted average grant date fair value of these options was \$11.43 per option. These stock options generally have a vesting period of four years and a life of seven years.

As of March 31, 2007, there were 2.6 million options outstanding, compared with 2.3 million at March 31, 2006.

Related to the acquisition of FICN, 389,000 replacement options with a weighted average exercise price of \$20.28 were issued. These replacement options had a total fair value of \$10.1 million, were fully vested as of the grant date, and were included in the purchase price.

For the three months ended March 31, 2007 and March 31, 2006 the company recognized stock-based compensation expense related to options of \$355,000 and \$99,000 respectively.

For the three months ended March 31, 2007, 181,625 shares of restricted stock were also issued with a weighted average grant date fair value of \$34.45 per share. The Company estimates the compensation cost for restricted stock grants based upon the grant date fair value. Generally, these restricted stock grants have a 3-year vesting period.

There were 399,000 and 134,000 restricted shares outstanding at March 31, 2007 and 2006, respectively. For the three months ended March 31, 2007 and March 31, 2006 the Company recognized stock-based compensation of \$915,000 and \$214,000 related to the Company's restricted stock plan.

**Note 8. Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction and in various states. The Company is no longer subject to U.S. federal, state or local tax examinations by tax authorities for years before 2003. The Company has not undergone any recent examinations by the Internal Revenue Service.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended March 31, 2007 and 2006.

**Table of Contents****Note 9. Segment Information**

The following is a summary of selected operating segment information as of and for the periods ended March 31, 2007 and 2006:

| (in thousands)   | Bank<br>of Nevada | Alliance<br>Bank<br>of Arizona | Torrey<br>Pines<br>Bank | Alta<br>Alliance<br>Bank | First<br>Independent<br>Bank | Other     | Intersegment<br>Eliminations | Consolidated<br>Company |
|--|-------------------|--------------------------------|-------------------------|--------------------------|------------------------------|-----------|------------------------------|-------------------------|
| <b>At March 31,<br/>2007:</b>                                |                   |                                |                         |                          |                              |           |                              |                         |
| Assets   | \$2,913,926       | \$706,779                      | \$616,526               | \$63,905                 | \$530,670                    | \$24,425  | \$(128,587)                  | \$4,727,644             |
| Gross loans<br>and deferred<br>fees                          | 2,122,463         | 503,777                        | 424,735                 | 12,265                   | 292,797                      |           | (20,000)                     | 3,336,037               |
| Less:<br>Allowance for<br>loan losses                        | (23,296)          | (5,732)                        | (4,672)                 | (113)                    | (3,706)                      |           |                              | (37,519)                |
| Net loans  | 2,099,167         | 498,045                        | 420,063                 | 12,152                   | 289,091                      |           | (20,000)                     | 3,298,518               |
| Deposits   | 2,274,568         | 618,822                        | 519,382                 | 41,131                   | 402,865                      |           | (7,623)                      | 3,849,145               |
| Stockholders<br>equity                                       | 347,210           | 52,859                         | 40,609                  | 23,681                   | 122,748                      | (75,862)  |                              | 511,245                 |
| Number of<br>branches  | 15                | 10                             | 6                       | 2                        | 4                            |           |                              | 37                      |
| Number of<br>full-time<br>employees                          | 538               | 134                            | 111                     | 30                       | 95                           | 51        |                              | 959                     |
| <b>Three Months<br/>Ended<br/>March 31,<br/>2007:</b>        |                   |                                |                         |                          |                              |           |                              |                         |
| Net interest<br>income                                       | \$28,966          | \$6,694                        | \$5,856                 | \$379                    | \$                           | \$(1,039) | \$                           | \$40,856                |
| Provision for<br>loan losses                                 | 287               |                                | 121                     | 33                       |                              |           |                              | 441                     |
| Net interest<br>income after<br>provision for<br>loan losses | 28,679            | 6,694                          | 5,735                   | 346                      |                              | (1,039)   |                              | 40,415                  |
| Noninterest<br>income  | 2,922             | 531                            | 448                     | 82                       |                              | 2,353     | (475)                        | 5,861                   |
| Noninterest<br>expense                                       | (15,053)          | (5,399)                        | (4,324)                 | (1,323)                  |                              | (3,297)   | 475                          | (28,921)                |
|  | 16,548            | 1,826                          | 1,859                   | (895)                    |                              | (1,983)   |                              | 17,355                  |

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|                            |           |          |          |          |            |           |
|----------------------------|-----------|----------|----------|----------|------------|-----------|
| Income before income taxes |           |          |          |          |            |           |
| Income tax expense         | 5,510     | 711      | 727      | (358)    | (638)      | 5,952     |
| Net income                 | \$ 11,038 | \$ 1,115 | \$ 1,132 | \$ (537) | \$ (1,345) | \$ 11,403 |

| (in thousands)                                      | Bank of Nevada | Alliance Bank of Arizona | Torrey Pines Bank | Other    | Intersegment Eliminations | Consolidated Company |
|---|----------------|--------------------------|-------------------|----------|---------------------------|----------------------|
| <b>At March 31, 2006:</b>                           |                |                          |                   |          |                           |                      |
| Assets  | \$2,567,971    | \$564,988                | \$438,171         | \$68,801 | \$(59,786)                | \$3,580,145          |
| Gross loans and deferred fees                       | 1,559,218      | 447,021                  | 347,928           |          |                           | 2,354,167            |
| Less: Allowance for loan losses                     | (18,032)       | (5,990)                  | (3,667)           |          |                           | (27,689)             |
| Net loans   | 1,541,186      | 441,031                  | 344,261           |          |                           | 2,326,478            |
| Deposits  | 2,121,150      | 509,522                  | 328,049           |          | (1,307)                   | 2,957,414            |
| Stockholders equity                                 | 256,951        | 46,940                   | 35,428            | 17,019   |                           | 356,338              |
| <b>Three Months Ended March 31, 2006:</b>           |                |                          |                   |          |                           |                      |
| Net interest income                                 | \$ 18,693      | \$ 5,795                 | \$ 4,978          | \$ (72)  | \$                        | \$ 29,394            |
| Provision for loan losses                           | (214)          | 534                      | 222               |          |                           | 542                  |
| Net interest income after provision for loan losses | 18,907         | 5,261                    | 4,756             | (72)     |                           | 28,852               |
| Noninterest income                                  | 1,616          | 366                      | 267               | 1,582    | (334)                     | 3,497                |
| Noninterest expense                                 | (10,026)       | (4,386)                  | (3,186)           | (2,256)  | 334                       | (19,520)             |
| Income before income taxes                          | 10,497         | 1,241                    | 1,837             | (746)    |                           | 12,829               |
| Income tax expense                                  | 3,461          | 477                      | 746               | (293)    |                           | 4,391                |
| Net income  | \$ 7,036       | \$ 764                   | \$ 1,091          | \$ (453) | \$                        | \$ 8,438             |

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

The following discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and our unaudited consolidated financial statements and related footnotes in the Quarterly Report on Form 10-Q. Unless the context requires otherwise, the terms "Company", "us", "we", and "our" refer to Western Alliance Bancorporation on a consolidated basis.

**Forward-Looking Information**

Certain statements contained in this document, including, without limitation, statements containing the words "believes", "anticipates", "intends", "expects", "should" and words of similar import, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions in those areas in which we operate, demographic changes, competition, fluctuations in interest rates, changes in business strategy or development plans, changes in governmental regulation, credit quality, the availability of capital to fund the expansion of our business, and other factors referenced in this Report. Except as required by law, we disclaim any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

**Overview**

During the first quarter of 2007, we remained focused on increasing our earnings through growth of our interest earning assets funded with low-cost deposits. We continue to explore and invest in new and expanded business lines and products, including cash management services, credit cards, wealth management and equipment leasing. Organic loan growth for the quarter ended March 31, 2007 was \$40.0 million, or 1.3%, as compared to \$153.2 million, or 8.5% for the same period in 2006. Gross loans acquired in the FICN merger were \$292.8 million. Organic deposit growth was \$45.9 million, or 1.3%, for the three months ended March 31, 2007, compared to \$141.5 million, or 5.9% for the same period in 2006. Total deposits acquired in the FICN merger were \$402.9 million. We reported net income of \$11.4 million, or \$0.39 per diluted share, for the quarter ended March 31, 2007, as compared to \$8.4 million, or \$0.33 per diluted share, for the same period in 2006. The increase in earnings is primarily due to higher net interest income, due primarily to an increase in loans and the increase in interest rates. The provision for loan losses decreased \$0.1 million from the three months ended March 31, 2006 to the same period in 2007, due to the lower loan growth. Non-interest income for the quarter ended March 31, 2007 increased 59.9% from the same period in the prior year, due to increases in trust and investment advisory fees, service charges and income from bank owned life insurance, as well as gain realized on the sale of a branch location. Non-interest expense for the quarter ended March 31, 2007 increased 48.2% from the same period in 2006, due primarily to increases in costs as a result of our continuing organic growth and acquisition activity.

SFAS 159 and 157 were adopted by the Company on January 31, 2007. A detailed explanation of the adoptions is included in Note 2 of the financial statements.

Selected financial highlights are presented in the table below.

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**Western Alliance Bancorporation and Subsidiaries**  
**Summary Consolidated Financial Data**  
**Unaudited**

|   | 2007       | At or for the three months<br>ended March 31,<br>2006 | Change % |
|---|------------|---|----------|
| <b>Selected Balance Sheet Data:</b>                       |            |   |          |
| (\$ in millions)  |            |   |          |
| Total assets  | \$ 4,727.6 | \$ 3,580.1  | 32.1%    |
| Gross loans, including net deferred fees                  | 3,336.0    | 2,354.2   | 41.7     |
| Securities  | 630.9      | 624.9   | 1.0      |
| Federal funds sold and other                              | 166.8      | 221.6   | (24.7)   |
| Deposits  | 3,849.1    | 2,957.4   | 30.2     |
| Borrowings  | 56.7       | 108.6   | (47.8)   |
| Junior subordinated debt                                  | 110.4      | 41.2  | 168.0    |
| Stockholders equity                                       | 511.2      | 356.3   | 43.5     |
| <b>Selected Income Statement Data:</b>                    |            |   |          |
| (\$ in thousands)   |            |   |          |
| Interest income   | \$ 67,313  | \$ 42,196   | 59.5%    |
| Interest expense  | 26,457     | 12,802  | 106.7    |
| Net interest income                                       | 40,856     | 29,394  | 39.0     |
| Provision for loan losses                                 | 441        | 542   | (18.6)   |
| Net interest income after provision for loan losses       | 40,415     | 28,852  | 40.1     |
| Net gain from sale of securities and fair value losses    | 271        |   | 100.0    |
| Non-interest income, excluding gains/losses on securities | 5,590      | 3,497   | 59.9     |
| Non-interest expense                                      | 28,921     | 19,520  | 48.2     |
| Income before income taxes                                | 17,355     | 12,829  | 35.3     |
| Income tax expense  | 5,952      | 4,391   | 35.5     |
| Net Income  | \$ 11,403  | \$ 8,438  | 35.1     |
| Memo: Intangible asset amortization expense, net of tax   | \$ 257     | \$ 56   | 358.9    |
| <b>Common Share Data:</b>                                 |            |   |          |
| Diluted net income per share                              | \$ 0.39    | \$ 0.33   | 18.2%    |
| Book value per share                                      | 17.06      | 13.51   | 26.3     |
| Tangible book value per share (2)                         | 9.49       | 10.03   | (5.4)    |
| Average shares outstanding (in thousands):                |            |   |          |
| Basic   | 26,950     | 22,999  | 17.2     |
| Diluted   | 29,181     | 25,355  | 15.1     |
| Common shares outstanding                                 | 29,963     | 26,365  | 13.6     |

**Selected Performance Ratios:**

|   |       |       |        |
|---|-------|-------|--------|
| Return on average assets (1)                        | 1.13% | 1.19% | (5.0)% |
| Return on average tangible assets (1)               | 1.16  | 1.19  | (2.5)  |
| Return on average stockholders' equity (1)          | 11.17 | 13.75 | (18.8) |
| Return on average tangible stockholders' equity (1) | 17.11 | 13.84 | 23.6   |
| Net interest margin (1)                             | 4.58  | 4.53  | 1.1    |
| Net interest spread                                 | 3.40  | 3.50  | (2.9)  |
| Efficiency ratio - tax equivalent basis             | 61.96 | 58.99 | 5.0    |
| Loan to deposit ratio                               | 86.67 | 79.60 | 8.9    |

**Capital Ratios:**

|                           |      |      |         |
|---------------------------|------|------|---------|
| Tangible Common Equity    | 6.3% | 7.6% | (17.1)% |
| Tier 1 Leverage ratio     | 9.2  | 11.5 | (20.3)  |
| Tier 1 Risk Based Capital | 8.9  | 11.4 | (22.4)  |
| Total Risk Based Capital  | 10.8 | 12.5 | (13.6)  |

**Asset Quality Ratios:**

|  |          |           |          |
|--|----------|-----------|----------|
| Net charge-offs to average loans outstanding (1)         | 0.02%    | (0.02)%   | (200.0)% |
| Non-accrual loans to gross loans                         | 0.05     | 0.00      | 100.0    |
| Non-accrual loans to total assets                        | 0.04     | 0.00      | 100.0    |
| Loans past due 90 days and still accruing to total loans | 0.08     | 0.00      | 100.0    |
| Allowance for loan losses to gross loans                 | 1.12     | 1.18      | (5.1)    |
| Allowance for loan losses to non-accrual loans           | 2113.75% | 95479.31% | (97.8)   |



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- (1) Annualized for the three-month periods ended March 31, 2007 and 2006.
- (2) Represents book value per share net of goodwill and other intangible assets decreased by the related deferred tax liability.

**Primary Factors in Evaluating Financial Condition and Results of Operations**

As a bank holding company, we focus on several factors in evaluating our financial condition and results of operations, including:

Return on Average Equity (ROE) and Return on Tangible Average Equity (ROTE);

Return on Average Assets (ROA) and Return on Average Tangible Assets (ROTA);

Asset Quality;

Asset and Deposit Growth; and

Operating Efficiency.

*Return on Average Equity.* Our net income for the three months ended March 31, 2007 increased 35.1% to \$11.4 million compared to \$8.4 million for the three months ended March 31, 2006. The increase in net income was due primarily to an increase in interest income of \$25.1 million and an increase in non-interest income of \$2.1 million, offset by an increase of \$13.7 million in interest expense and a \$9.4 million increase in non-interest expense. Basic earnings per share increased to \$0.42 per share for the three months ended March 31, 2007 compared to \$0.37 per share for the same period in 2006. Diluted earnings per share was \$0.39 per share for the three month period ended March 31, 2007, compared to \$0.33 per share for the same period in 2006. The increase in net income offset by the increase in equity resulted in an ROE of 11.17% for the three months ended March 31, 2007 compared to 13.75% for the three months ended March 31, 2006. ROTE increased 23.6% to 17.11%.

*Return on Average Assets.* Our ROA for the three months ended March 31, 2007 decreased to 1.13% compared to 1.19% for the same period in 2006. The decrease in ROA are primarily due to the increases in intangible assets as a result of merger and acquisition activity. ROTA decreased to 1.16% from 1.19% for the same period in 2006.

*Asset Quality.* For all banks and bank holding companies, asset quality plays a significant role in the overall financial condition of the institution and results of operations. We measure asset quality in terms of non-accrual and restructured loans and assets as a percentage of gross loans and assets, and net charge-offs as a percentage of average loans. Net charge-offs are calculated as the difference between charged-off loans and recovery payments received on previously charged-off loans. As of March 31, 2007, impaired and non-accrual loans were \$2.6 million compared to \$2.3 million at March 31, 2006. Non-accrual loans as a percentage of gross loans as of March 31, 2007 were 0.05% compared to less than 0.01% as of March 31, 2006. For the three months ended March 31, 2007 and March 31, 2006, net charge-offs/(recoveries) as a percentage of average loans were 0.02% and (0.02)%, respectively.

*Asset Growth.* The ability to produce loans and generate deposits is fundamental to our asset growth. Our assets and liabilities are comprised primarily of loans and deposits, respectively.



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Total assets increased 32.1% to \$4.7 billion as of March 31, 2007 from \$3.6 billion as of March 31, 2006. Gross loans grew 41.7% (20.7% organically) to \$3.3 billion as of March 31, 2007 from \$2.4 billion as of March 31, 2006. Total deposits increased 30.2% (9.8% organically) to \$3.8 billion as of March 31, 2007 from \$3.0 billion as of March 31, 2006.

*Operating Efficiency.* Operating efficiency is measured in terms of how efficiently income before income taxes is generated as a percentage of revenue. Our tax-equivalent efficiency ratio (non-interest expenses divided by the sum of net interest income and non interest income, tax adjusted) was 62.0% for the three months ended March 31, 2007, compared to 59.0% for the same period in 2006.

**Critical Accounting Policies**

The Notes to Audited Consolidated Financial Statements for the year ended December 31, 2006 contain a summary of our significant accounting policies, including discussions on recently issued accounting pronouncements, our adoption of them and the related impact of their adoption. We believe that certain of these policies, along with various estimates that we are required to make in recording our financial transactions, are important to have a complete picture of our financial position. In addition, these estimates require us to make complex and subjective judgments, many of which include matters with a high degree of uncertainty. The following is a discussion of these critical accounting policies and significant estimates. In addition to the information about these policies that can be found in Note 1 of the Audited Consolidated Financial Statements filed with the Company's Annual Report on Form 10-K, the following should be considered:

The Company elected early adoption of SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, effective January 1, 2007. Instruments for which the fair value option (FVO) was adopted and the reasons therefore are as follows:

Junior subordinated debt

All investment securities previously classified as held-to-maturity, with the exception of tax-advantaged municipal bonds

All fixed-rate securities previously classified as available-for-sale

The junior subordinated debt, with a balance of \$61.9 million at January 1, 2007, (before the application of SFAS 159) is the primary source of funding for the Company's held-to-maturity portfolio, which excluding tax-advantaged municipal obligations had an amortized cost of \$90.5 million at the same date. The held-to-maturity portfolio consists primarily of fixed rate and hybrid adjustable rate mortgage backed securities and collateralized mortgage obligations. The junior subordinated debt includes \$20.0 million which carries a fixed rate through June 2011, with the remaining balances carrying rates which re-set at least semi-annually. This represents a natural hedge on the Company's balance sheet, with changes in fair value of the fixed rate securities and fixed rate junior subordinated debt moving inversely from one another as market rates move up and down. The early adoption of SFAS 159 on these instruments will more accurately reflect this hedge in the Company's consolidated financial statements. The FVO was not elected for tax-advantaged securities since the tax benefit is based upon the contractual rate paid on the security at time of purchase and does not include changes in fair value or accretion or amortization of discounts or premiums.

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Fixed-rate available-for-sale securities had an amortized cost of \$215.6 million and an aggregate net unrealized loss of \$5.9 million at January 1, 2007. These securities represent some of the most volatile on the Company's balance sheet with long durations and low coupon rates relative to the market. While initially these investments were funded with relatively long duration non-interest bearing and administered rate money market deposits, as the liability structure of the company has shortened they are now preponderantly funded with overnight Federal Home Loan Bank borrowings, customer repurchase agreements and CDs. All of these sources of funding have pricing which moves with the market, and thus there is not an effective match for the fixed rate securities on the liability side of the balance sheet. This causes much volatility in reported earnings as interest rates move and the net interest margin contracts and expands. The Company's ability to hedge the market-value risk on the securities was historically limited by the complexities of accounting for derivative financial instruments. The adoption of SFAS 159 on these securities will provide more transparency in the consolidated financial statements as users will be more able to ascertain changes in the Company's net income caused by changes in market interest rates. The FVO was not elected for variable-rate available-for-sale securities since the liability funding match is more closely aligned with these shorter duration assets. The carrying value of these tax-advantaged securities was \$7.9 million at March 31, 2007.

Concurrent with the adoption of SFAS 159, the Company adopted SFAS 157, *Fair Value Measurements*, effective January 1, 2007. SFAS 159 requires early adoption of SFAS 157 if the company chooses to early adopt SFAS 159. SFAS 157 provides a definition of fair value and provides a framework for calculating fair value.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended March 31, 2007 and 2006.

**Results of Operations**

Our results of operations depend substantially on net interest income, which is the difference between interest income on interest-earning assets, consisting primarily of loans receivable, securities and other short-term investments, and interest expense on interest-bearing liabilities, consisting primarily of deposits and borrowings. Our results of operations are also dependent upon our generation of non-interest income, consisting primarily of income from trust and investment advisory services and banking service fees. Other factors contributing to our results of operations include our provisions for loan losses, gains or losses on sales of securities and income taxes, as well as the level of our non-interest expenses, such as compensation and benefits, occupancy and equipment and other miscellaneous operating expenses.

The following table sets forth a summary financial overview for the three months ended March 31, 2007 and 2006.

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|   | Three Months Ended<br>March 31, |          | Increase |
|---|---------------------------------|----------|----------|
|   | 2007                            | 2006     |          |
| (in thousands, except per share amounts)                                      |                                 |          |          |
| <b>Consolidated Statement of Earnings Data:</b>                               |                                 |          |          |
| Interest income   | \$67,313                        | \$42,196 | \$25,117 |
| Interest expense  | 26,457                          | 12,802   | 13,655   |
| Net interest income   | 40,856                          | 29,394   | 11,462   |
| Provision for loan losses   | 441                             | 542      | (101)    |
| Net interest income after provision for loan losses                           | 40,415                          | 28,852   | 11,563   |
| Investment securities gains, net  | 284                             |          | 284      |
| Unrealized gains/losses on assets and liabilities measured at fair value, net | (13)                            |          | (13)     |
| Non-interest income, excluding gains/losses on securities                     | 5,590                           | 3,497    | 2,093    |
| Non-interest expense  | 28,921                          | 19,520   | 9,401    |
| Net income before income taxes  | 17,355                          | 12,829   | 4,526    |
| Income tax expense  | 5,952                           | 4,391    | 1,561    |
| Net income  | \$11,403                        | \$ 8,438 | \$ 2,965 |
| Diluted earnings per share  | \$ 0.39                         | \$ 0.33  | \$ 0.06  |

The 35.1% increase in net income in the three months ended March 31, 2007 compared to the same period in 2006 was attributable primarily to an increase in net interest income of \$11.5 million, a decrease in the provision for loan losses of \$0.1 million and an increase in non-interest income of \$2.4, offset by an increase of \$9.4 million in non-interest expense. The increase in net interest income for the three months ended March 31, 2007 over the same period 2006 was the result of an increase in the volume of and yield earned on interest-earning assets, primarily loans. *Net Interest Income and Net Interest Margin.* The 39.0% increase in net interest income for the three months ended March 31, 2007 compared to the same period in 2006 was due to an increase in interest income of \$11.5 million, reflecting the effect of an increase of \$992.0 million in average interest-bearing assets which was funded with an increase of \$965.6 million in average deposits, of which \$170.6 million were non-interest bearing.

The average yield on our interest-earning assets was 7.52% for the three months ended March 31, 2007, compared to 6.49% for the same period in 2006. The increase in the yield on our interest-earning assets is a result of an increase in market rates, repricing on our adjustable rate loans, and new loans originated with higher interest rates because of the higher interest rate environment. Also, loans which typically yield more than our other interest-bearing assets, increased as a percent of total interest-bearing assets from 73.1% for the three months ended March 31, 2006, to 83.1% for the same period in 2007.

The cost of our average interest-bearing liabilities increased to 4.12% in the three months ended March 31, 2007, from 2.99% in the three months ended March 31, 2006, which is a result of higher rates paid on deposit accounts and borrowings, partially offset by a reduction in interest expense related to the adoption of FAS 159.

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*Average Balances and Average Interest Rates.* The tables below set forth balance sheet items on a daily average basis for the three months ended March 31, 2007 and 2006 and present the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. Non-accrual loans have been included in the average loan balances. Securities include securities available for sale, securities held to maturity and securities carried at market value pursuant to the adoption of FAS 159. Securities available for sale are carried at amortized cost for purposes of calculating the average rate received on taxable securities above. Yields on tax-exempt securities and loans are computed on a tax equivalent basis.

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| (\$ in thousands)                           | Three Months Ended March 31, |          |                              |                     |          |                              |
|---|------------------------------|----------|------------------------------|---------------------|----------|------------------------------|
|   | 2007                         |          |                              | 2006                |          |                              |
|   | Average<br>Balance           | Interest | Average<br>Yield/Cost<br>(6) | Average<br>Balance  | Interest | Average<br>Yield/Cost<br>(6) |
| <b>Earning Assets</b>                       |                              |          |                              |                     |          |                              |
| <i>Securities:</i>                          |                              |          |                              |                     |          |                              |
| Taxable                                     | \$ 519,376                   | \$ 7,050 | 5.51%                        | \$ 617,188          | \$ 6,527 | 4.29%                        |
| Tax-exempt (1)                              | 37,914                       | 445      | 7.24%                        | 54,661              | 463      | 4.90%                        |
| Total securities                            | 557,290                      | 7,495    | 5.62%                        | 671,849             | 6,990    | 4.34%                        |
| Federal funds sold                          | 39,769                       | 533      | 5.44%                        | 27,900              | 283      | 4.11%                        |
| Loans (1) (2) (3)                           | 3,027,204                    | 59,020   | 7.91%                        | 1,935,418           | 34,754   | 7.28%                        |
| Investment in restricted<br>stock           | 17,327                       | 265      | 6.20%                        | 14,450              | 169      | 4.74%                        |
| Total earnings assets                       | 3,641,590                    | 67,313   | 7.52%                        | 2,649,617           | 42,196   | 6.49%                        |
| <b>Non-earning Assets</b>                   |                              |          |                              |                     |          |                              |
| Cash and due from banks                     | 99,123                       |          |                              | 83,040              |          |                              |
| Allowance for loan<br>losses                | (33,593)                     |          |                              | (21,778)            |          |                              |
| Bank-owned life<br>insurance                | 82,386                       |          |                              | 52,049              |          |                              |
| Other assets                                | 289,636                      |          |                              | 103,283             |          |                              |
| <b>Total assets</b>                         | <b>\$ 4,079,142</b>          |          |                              | <b>\$ 2,866,211</b> |          |                              |
| <b>Interest Bearing<br/>Liabilities</b>     |                              |          |                              |                     |          |                              |
| <i>Sources of Funds</i>                     |                              |          |                              |                     |          |                              |
| <i>Interest-bearing<br/>deposits:</i>       |                              |          |                              |                     |          |                              |
| Interest checking                           | 250,219                      | 1,612    | 2.61%                        | 120,922             | 216      | 0.72%                        |
| Savings and money<br>market                 | 1,383,863                    | 12,945   | 3.79%                        | 976,834             | 6,513    | 2.70%                        |
| Time deposits                               | 613,084                      | 7,316    | 4.84%                        | 354,352             | 3,195    | 3.66%                        |
| Total interest-bearing<br>deposits          | 2,247,166                    | 21,873   | 3.95%                        | 1,452,108           | 9,924    | 2.77%                        |
| Short-term borrowings                       | 209,490                      | 2,389    | 4.62%                        | 181,513             | 1,698    | 3.79%                        |
| Long-term debt                              | 46,257                       | 516      | 4.52%                        | 73,512              | 613      | 3.38%                        |
| Junior sub. &<br>subordinated debt          | 102,046                      | 1,679    | 6.67%                        | 30,928              | 567      | 7.44%                        |
| Total interest-bearing<br>liabilities       | 2,604,959                    | 26,457   | 4.12%                        | 1,738,061           | 12,802   | 2.99%                        |
| <b>Non-interest Bearing<br/>Liabilities</b> |                              |          |                              |                     |          |                              |

|   |                     |                     |
|---|---------------------|---------------------|
| Noninterest-bearing demand deposits       | 1,037,158           | 866,585             |
| Other liabilities                         | 22,990              | 12,641              |
| Stockholders' equity                      | 414,035             | 248,924             |
| <b>Total liabilities and stockholders</b> | <b>\$ 4,079,142</b> | <b>\$ 2,866,211</b> |

|                                    |           |       |           |       |
|------------------------------------|-----------|-------|-----------|-------|
| Net interest income and margin (4) | \$ 40,856 | 4.58% | \$ 29,394 | 4.53% |
| Net interest spread (5)            |           | 3.40% |           | 3.50% |

(1) Yields on loans and securities have been adjusted to a tax equivalent basis.

(2) Net loan fees of \$1.2 million and \$1.5 million are included in the yield computation for March 31, 2007 and 2006, respectively.

(3) Includes average non-accrual loans of \$1,276 in 2007 and \$52 in 2006.

(4) Net interest margin is computed by dividing net interest income by total average earning assets.

(5) Net interest spread represents average yield earned on interest-earning assets less the



average rate  
paid on  
interest-bearing  
liabilities.

(6) Annualized.

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*Net Interest Income.* The table below demonstrates the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by us on such assets and liabilities. For purposes of this table, non-accrual loans have been included in the average loan balances.

|                          | Three Months Ended March 31,<br>2007 v. 2006 |                        |           |
|--------------------------|--|------------------------|-----------|
|                          | Increase (Decrease)<br>Due to Changes in (1) |                        |           |
|                          | Volume                                       | Rate<br>(in thousands) | Total     |
| Interest on securities:  |  |                        |           |
| Taxable                  | \$ (1,328)                                   | \$ 1,849               | \$ 521    |
| Tax-exempt               | (197)  | 178                    | (19)      |
| Federal funds sold       | 159  | 91                     | 250       |
| Loans                    | 21,277                                       | 2,992                  | 24,269    |
| Other investment         | 44   | 52                     | 96        |
| <br>                     |  |                        |           |
| Total interest income    | 19,955                                       | 5,162                  | 25,117    |
| <br>                     |  |                        |           |
| Interest expense:        |  |                        |           |
| Interest checking        | 833  | 564                    | 1,397     |
| Savings and Money market | 3,799  | 2,634                  | 6,433     |
| Time deposits            | 3,087  | 1,031                  | 4,118     |
| Short-term borrowings    | 319  | 374                    | 693       |
| Long-term debt           | (304)  | 207                    | (97)      |
| Junior subordinated debt | 1,170  | (59)                   | 1,111     |
| <br>                     |  |                        |           |
| Total interest expense   | 8,904  | 4,751                  | 13,655    |
| <br>                     |  |                        |           |
| Net increase             | \$ 11,051                                    | \$ 411                 | \$ 11,462 |

(1) Changes due to both volume and rate have been allocated to volume changes.

*Provision for Loan Losses.* The provision for loan losses in each period is reflected as a charge against earnings in that period. The provision is equal to the amount required to maintain the allowance for loan losses at a level that, in our judgment, is adequate to absorb probable loan losses inherent in the loan portfolio.

Our provision for loan losses was \$441 for the three months ended March 31, 2007, compared to \$541 for the same period in 2006. Factors that impact the provision for loan losses are net charge-offs or recoveries, changes in the size and mix of the loan portfolio, and the recognition of changes in current risk factors. The decrease from 2006 to 2007 is due to slower loan growth.



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*Non-Interest Income.* We earn non-interest income primarily through fees related to:

Trust and investment advisory services,

Services provided to deposit customers, and

Services provided to current and potential loan customers.

The following tables present, for the periods indicated, the major categories of non-interest income:

|  | Three Months Ended |                                     | Increase<br>(Decrease) |
|--|--------------------|-------------------------------------|------------------------|
|  | 2007               | March 31,<br>2006<br>(in thousands) |                        |
| Trust and investment advisory services | \$2,105            | \$1,576                             | \$ 529                 |
| Service charges                        | 1,069              | 669                                 | 400                    |
| Income from bank owned life insurance  | 928                | 612                                 | 316                    |
| Other                                  | 1,488              | 640                                 | 848                    |
| Total non-interest income              | \$5,590            | \$3,497                             | \$2,093                |

The \$2,093, or 59.6%, increase in non-interest income from the three months ended March 31, 2006 to the same period in 2007 was due primarily to increases in Miller/Russell investment advisory revenues and income from bank owned life insurance. Assets under management at Miller/Russell were up 25.2% from March 31, 2006 to March 31, 2007, causing the increase in revenues. During 2006, we purchased \$25.0 million in bank owned life insurance to help offset employee benefit costs.

Service charges increased 59.8% or \$0.4 million from 2006 to 2007 due to higher deposit balances and the growth in our customer base.

Other income increased \$0.8 million, due to the growth of the Company and its operations and the sale of a branch facility.

*Non-Interest Expense.* The following table presents, for the periods indicated, the major categories of non-interest expense:

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|  | Three Months Ended<br>March 31, |                        | Increase<br>(Decrease) |
|--|---------------------------------|------------------------|------------------------|
|  | 2007                            | 2006<br>(in thousands) |                        |
| Salaries and employee benefits             | \$17,033                        | \$11,577               | \$5,456                |
| Occupancy                                  | 4,239                           | 2,450                  | 1,789                  |
| Advertising and other business development | 1,462                           | 1,039                  | 423                    |
| Customer service                           | 1,323                           | 1,249                  | 74                     |
| Legal, professional and director fees      | 1,044                           | 645                    | 399                    |
| Audits and exams                           | 531                             | 406                    | 125                    |
| Supplies                                   | 509                             | 285                    | 224                    |
| Data processing                            | 435                             | 346                    | 89                     |
| Correspondent and wire transfer costs      | 418                             | 401                    | 17                     |
| Telephone                                  | 340                             | 206                    | 134                    |
| Insurance                                  | 298                             | 226                    | 72                     |
| Travel and automobile                      | 287                             | 143                    | 144                    |
| Intangible amortization                    | 257                             | 56                     | 201                    |
| Other                                      | 745                             | 491                    | 254                    |
| <b>Total non-interest expense</b>          | <b>\$28,921</b>                 | <b>\$19,520</b>        | <b>\$9,401</b>         |

Non-interest expense grew \$9.4 million from the three months ended March 31, 2006 to the same period in 2007. This increase is attributable to our overall growth, and specifically to merger and acquisition activity, the opening of new branches and hiring of new relationship officers and other employees. At March 31, 2007, we had 959 full-time equivalent employees compared to 660 at March 31, 2006, including 95 employees added from FIB. During the twelve months ended March 31, 2007, 16 banking branches were opened or acquired and 2 were closed. The increase in salaries expense related to the above totaled \$5.5 million, which is 58.0% of the total increase in non-interest expenses.

Other non-interest expense increased, in general, as a result of the growth in assets and operations of our banking subsidiaries.

**Financial Condition***Total Assets*

On a consolidated basis, our total assets as of March 31, 2007 and December 31, 2006 were \$4.7 billion and \$4.2 billion, respectively. The overall increase from December 31, 2006 to March 31, 2007 of \$558.0 million, or 13.4%, was due primarily to the acquisition of First Independent Capital of Nevada on March 31, 2007. On that date, FICN had gross loans of \$292.8 million and total assets of \$530.7 million. Assets experienced organic growth during the same period of \$27.4 million, or 0.7%, including loan growth of \$40.0 million, or 1.3%.

*Loans*

Our gross loans including deferred loan fees on a consolidated basis as of March 31, 2007 and December 31, 2006 were \$3.3 billion and \$3.0 billion, respectively. Our overall growth in loans

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from December 31, 2006 to March 31, 2007 reflects our acquisition of FICN and is consistent with our focus and strategy to grow our loan portfolio by focusing on markets which we believe have attractive growth prospects. The following table shows the amounts of loans outstanding by type of loan at the end of each of the periods indicated.

|                                   | March 31,<br>2007 | December 31,<br>2006 |
|-----------------------------------|-------------------|----------------------|
| Construction and land development | \$ 757,498        | \$ 715,546           |
| Commercial real estate            | 1,419,477         | 1,232,260            |
| Residential real estate           | 403,798           | 384,082              |
| Commercial and industrial         | 722,574           | 645,469              |
| Consumer                          | 38,218            | 29,561               |
| Less: net deferred loan fees      | (5,528)           | (3,696)              |
|                                   | 3,336,037         | 3,003,222            |
| Less:                             |                   |                      |
| Allowance for loan losses         | (37,519)          | (33,551)             |
|                                   | \$3,298,518       | \$2,969,671          |

*Non-Performing Assets.*

Non-performing assets include loans past due 90 days or more and still accruing interest, non-accrual loans, restructured loans, and other real estate owned, or OREO. In general, loans are placed on non-accrual status when we determine timely recognition of interest to be in doubt due to the borrower's financial condition and collection efforts. Restructured loans have modified terms to reduce either principal or interest due to deterioration in the borrower's financial condition. OREO results from loans where we have received physical possession of the borrower's assets that collateralized the loan.

The following table summarizes the loans for which the accrual of interest has been discontinued, loans past due 90 days or more and still accruing interest, restructured loans, and OREO.

|   | March 31,<br>2007 | December<br>31,<br>2006 |
|---|-------------------|-------------------------|
|   | (\$ in thousands) |                         |
| Total non-accrual loans   | \$1,775           | \$ 1,417                |
| Other impaired loans  | 827               | 839                     |
| Loans past due 90 days or more and still accruing                                   | 2,544             | 794                     |
| Restructured loans  |                   |                         |
| Other real estate owned (OREO)  |                   |                         |
| Non-accrual loans to gross loans  | 0.05%             | 0.05%                   |
| Loans past due 90 days or more and still accruing to total loans                    | 0.08              | 0.03                    |
| Interest income received on nonaccrual loans  | \$ 11             | \$ 120                  |
| Interest income that would have been recorded under the original terms of the loans | 61                | 147                     |

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As of March 31, 2007 and December 31, 2006, non-accrual loans totaled \$1,775 and \$1,417, respectively. Non-accrual loans at March 31, 2007 consisted of 11 loans.

*Allowance for Loan Losses*

Like all financial institutions, we must maintain an adequate allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when we believe that collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that we believe will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluation of the collectibility of loans and prior credit loss experience, together with the other factors noted earlier.

Our allowance for loan loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for loan loss at each reporting date. Quantitative factors include our historical loss experience, peer group experience, delinquency and charge-off trends, collateral values, changes in non-performing loans, other factors, and information about individual loans including the borrower's sensitivity to interest rate movements. 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 terms. Statistics on local trends, peers, and an internal five-year loss history are also incorporated into the allowance. 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, the Federal Deposit Insurance Corporation, or FDIC, and state banking regulatory agencies, as an integral part of their examination processes, periodically review the Bank's allowance for loan 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 examinations. Management periodically 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 watch credits, criticized loans, and impaired loans. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan, pursuant to Financial Accounting Standards Board, or FASB, Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. The general allowance covers non-classified loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above, pursuant to FASB Statement No. 5, or FASB 5, *Accounting for Contingencies*. Loans graded Watch List/Special Mention and below are individually examined closely to determine the appropriate loan loss reserve.

The following table summarizes the activity in our allowance for loan losses for the period indicated.

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|   | Three months ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2007                            | 2006     |
|   | (\$ in thousands)               |          |
| Allowance for loan losses:                                |                                 |          |
| Balance at beginning of period                            | \$33,551                        | \$21,192 |
| Provisions charged to operating expenses                  | 441                             | 542      |
| Acquisitions  | 3,706                           | 5,877    |
| Reclassification  |                                 |          |
| <i>Recoveries of loans previously charged-off:</i>        |                                 |          |
| Construction and land development                         |                                 |          |
| Commercial real estate                                    |                                 |          |
| Residential real estate                                   |                                 | 5        |
| Commercial and industrial                                 | 71                              | 128      |
| Consumer  | 8                               | 30       |
| Total recoveries  | 79                              | 163      |
| <i>Loans charged-off:</i>                                 |                                 |          |
| Construction and land development                         |                                 |          |
| Commercial real estate                                    |                                 |          |
| Residential real estate                                   |                                 |          |
| Commercial and industrial                                 | 91                              | 83       |
| Consumer  | 167                             | 2        |
| Total charged-off   | 258                             | 85       |
| Net charge-offs (recoveries)                              | 179                             | (78)     |
| Balance at end of period                                  | \$37,519                        | \$27,689 |
| Net charge-offs (recoveries) to average loans outstanding | 0.02%                           | -0.02%   |
| Allowance for loan losses to gross loans                  | 1.12                            | 1.18     |

Net charge-offs totaled \$179 for the three months ended March 31, 2007, compared to net recoveries of \$78 during the same period in 2006. The provision for loan losses totaled \$441 for the three months ended March 31, 2007, compared to \$542 in the three months ended March 31, 2006. The decrease in the provision for loan losses is due to slower loan growth.

*Investments*

The Company elected early adoption of SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, effective January 1, 2007. Instruments for which the fair value option (FVO) was adopted and the reasons therefore are as follows:

## Junior subordinated debt

All investment securities previously classified as held-to-maturity, with the exception of tax-advantaged municipal bonds

All fixed-rate securities previously classified as available-for-sale



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The junior subordinated debt, with a balance of \$61.9 million at January 1, 2007, (before the application of SFAS 159) is the primary source of funding for the Company's held-to-maturity portfolio, which excluding tax-advantaged municipal obligations had an amortized cost of \$90.5 million at the same date. The held-to-maturity portfolio consists primarily of fixed rate and hybrid adjustable rate mortgage-backed securities and collateralized mortgage obligations. The junior subordinated debt includes \$20.0 million which carries a fixed rate through June 2011, with the remaining balances carrying rates which re-set at least semi-annually. This represents a natural hedge on the Company's balance sheet, with changes in fair value of the fixed rate securities and fixed rate junior subordinated debt moving inversely from one another as market rates move up and down. The early adoption of SFAS 159 on these instruments will more accurately reflect this hedge in the Company's consolidated financial statements and will allow the Company more flexibility to engage in active balance sheet management in future periods. The FVO was not elected for tax-advantaged securities since the tax benefit is based upon the contractual rate paid on the security at time of purchase and does not include changes in fair value or accretion or amortization of discounts or premiums. Fixed-rate available-for-sale securities had an amortized cost of \$215.6 million and an aggregate net unrealized loss of \$5.9 million at January 1, 2007. These securities represent some of the most volatile on the Company's balance sheet with long durations and low coupon rates relative to the market. While initially these investments were funded with relatively long duration non-interest bearing and administered rate money market deposits, as the liability structure of the company has shortened they are now preponderantly funded with overnight Federal Home Loan Bank borrowings, customer repurchase agreements and CDs. All of these sources of funding have pricing which moves with the market, and thus there is not an effective match for the fixed rate securities on the liability side of the balance sheet. This causes much volatility in reported earnings as interest rates move and the net interest margin contracts and expands. The Company's ability to hedge the market-value risk on the securities was historically limited by the complexities of accounting for derivative financial instruments. The adoption of SFAS 159 on these securities eases such accounting and will thus facilitate more active balance sheet management, and will provide more transparency in the consolidated financial statements as users will be more able to ascertain changes in the Company's net income caused by changes in market interest rates. Indeed, the Company expects greater earnings volatility from changes in market interest rates prospectively. The FVO was not elected for variable-rate available-for-sale securities since the liability funding match is more closely aligned with these shorter duration assets.

*Goodwill and other intangible assets*

As a result of the acquisition of FIB, we recorded goodwill of \$71.6 million and a core deposit intangible asset of \$17.8 million. These amounts are subject to change when the determination of the asset and liability values is finalized within one year from the merger date.

*Deposits*

Deposits have historically been the primary source for funding our asset growth. As of March 31, 2007, total deposits were \$3.8 billion, compared to \$3.4 billion as of December 31, 2006. Deposits acquired as a result of the acquisition of FIB totaled \$402.9 million. The remaining organic increase in total deposits is attributable to our ability to attract a stable base of low-cost deposits.

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The following table provides the average balances and weighted average rates paid on deposits for the three months ended March 31, 2007.

|                                      | Three months ended<br>March 31, 2007 |              | Three months ended<br>March 31, 2006 |              |
|--------------------------------------|--------------------------------------|--------------|--------------------------------------|--------------|
|                                      | Average Balance/Rate                 |              | Average Balance/Rate                 |              |
|                                      | (\$ in thousands)                    |              |                                      |              |
| Interest checking (NOW)              | \$ 250,219                           | 2.61%        | \$ 120,922                           | 0.72%        |
| Savings and money market             | 1,383,863                            | 3.79         | 976,834                              | 2.70         |
| Time                                 | 613,084                              | 4.84         | 354,352                              | 3.66         |
| <br>                                 |                                      |              |                                      |              |
| Total interest-bearing deposits      | 2,247,166                            | 3.95         | 1,452,108                            | 2.77         |
| Non-interest bearing demand deposits | 1,037,158                            |              | 866,585                              |              |
| <br>                                 |                                      |              |                                      |              |
| <b>Total deposits</b>                | <b>\$ 3,284,324</b>                  | <b>2.70%</b> | <b>\$ 2,318,693</b>                  | <b>1.74%</b> |

**Capital Resources**

Current risk-based regulatory capital standards generally require banks and bank holding companies to maintain three minimum capital ratios. Tier 1 risk-based capital ratio compares Tier 1 or core capital, which consists principally of common equity, and risk-weighted assets for a minimum ratio of at least 4%. Tier 1 capital ratio compares Tier 1 capital to adjusted total assets for a minimum ratio of at least 4%. Total risk-based capital ratio compares total capital, which consists of Tier 1 capital, certain forms of subordinated debt, a portion of the allowance for loan losses, and preferred stock, to risk-weighted assets for a minimum ratio of at least 8%. Risk-weighted assets are calculated by multiplying the balance in each category of assets by a risk factor, which ranges from zero for cash assets and certain government obligations to 100% for some types of loans, and adding the products together.

The following table provides a comparison of our risk-based capital ratios and leverage ratios to the minimum regulatory requirements as of March 31, 2007.

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|  | Actual    |       | Adequately-Capitalized Requirements<br>(\$ in thousands) |       | Minimum For Well-Capitalized Requirements |       |
|--|-----------|-------|--|-------|---|-------|
|  | Amount    | Ratio | Amount   | Ratio | Amount                                    | Ratio |
| <b>As of March 31, 2007</b>              |           |       |  |       |   |       |
| Total Capital (to Risk Weighted Assets)  |           |       |  |       |   |       |
| Bank of Nevada                           | \$273,432 | 11.0% | \$199,371  | 8.0%  | \$249,214                                 | 10.0% |
| First Independent Bank                   | 43,591    | 12.0  | 28,967   | 8.0   | 36,209                                    | 10.0  |
| Alliance Bank of Arizona                 | 68,792    | 11.1  | 49,776   | 8.0   | 62,220                                    | 10.0  |
| Torrey Pines Bank                        | 55,286    | 10.9  | 40,656   | 8.0   | 50,819                                    | 10.0  |
| Alta Alliance Bank                       | 23,775    | 74.9  | 2,538  | 8.0   | 3,173                                     | 10.0  |
| Company                                  | 432,459   | 10.8  | 319,713  | 8.0   | 399,642                                   | 10.0  |
| Tier I Capital (to Risk Weighted Assets) |           |       |  |       |   |       |
| Bank of Nevada                           | 209,903   | 8.4   | 99,685   | 4.0   | 149,528                                   | 6.0   |
| First Independent Bank                   | 39,714    | 11.0  | 14,484   | 4.0   | 21,725                                    | 6.0   |
| Alliance Bank of Arizona                 | 52,987    | 8.5   | 24,888   | 4.0   | 37,332                                    | 6.0   |
| Torrey Pines Bank                        | 40,614    | 8.0   | 20,328   | 4.0   | 30,492                                    | 6.0   |
| Alta Alliance Bank                       | 23,662    | 74.6  | 1,269  | 4.0   | 1,904                                     | 6.0   |
| Company                                  | 354,416   | 8.9   | 159,857  | 4.0   | 239,785                                   | 6.0   |
| Leverage ratio (to Average Assets)       |           |       |  |       |   |       |
| Bank of Nevada                           | 209,903   | 7.7   | 109,473  | 4.0   | 136,841                                   | 5.0   |
| First Independent Bank                   | 39,714    | 11.5  | 13,850   | 4.0   | 17,313                                    | 5.0   |
| Alliance Bank of Arizona                 | 52,987    | 8.2   | 25,957   | 4.0   | 32,446                                    | 5.0   |
| Torrey Pines Bank                        | 40,614    | 7.1   | 22,754   | 4.0   | 28,442                                    | 5.0   |
| Alta Alliance Bank                       | 23,662    | 41.4  | 2,283  | 4.0   | 2,854                                     | 5.0   |
| Company                                  | 354,416   | 9.2   | 154,136  | 4.0   | 192,670                                   | 5.0   |

The holding company and all of the banks were well capitalized as of March 31, 2007 and December 31, 2006.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Our market risk arises primarily from interest rate risk inherent in our lending, investing and deposit taking activities. To that end, management actively monitors and manages our interest rate risk exposure.

There have not been any material changes in the market risk disclosure contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

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**ITEM 4. Controls and Procedures**

**Evaluation of Disclosure Controls**

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Additionally, our disclosure controls and procedures were also effective in ensuring that information required to be disclosed in our Securities Exchange Act reports is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosures.

**Changes in Internal Control over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2007, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Part II. Other Information**

**Item 1. Legal Proceedings**

There are no material pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Western Alliance or any of its subsidiaries is a party or of which any of their property is the subject.

**Item 1A. Risk Factors**

See the discussion of our risk factors in the Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) There were no unregistered sales of equity securities during the period covered by this report.

(b) None.

(c) None.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

- 31.1 CEO Certification Pursuant Rule 13a-14(a)/15d-a4(a)
- 31.2 CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)
- 32 CEO and CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002

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Pursuant to the requirements of section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTERN ALLIANCE  
BANCORPORATION

Date: May 10, 2007

By: /s/ Robert Sarver  
Robert Sarver  
President and Chief Executive Officer

Date: May 10, 2007

By: /s/ Dale Gibbons  
Dale Gibbons  
Executive Vice President and  
Chief Financial Officer

Date: May 10, 2007

By: /s/ Terry A. Shirey  
Terry A. Shirey  
Controller  
Principal Accounting Officer

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EXHIBIT INDEX

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