WESTERN ALLIANCE BANCORPORATION
Form 10-K
March 01, 2019
Table of Contents

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
Commission file number: 001-32550

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

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

(602) 389-3500
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.0001 Par Value	New York Stock Exchange
6.25% Subordinated Debentures due 2056	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer,” "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The aggregate market value of the registrant’s voting stock held by non-affiliates was approximately $5.55 billion based on the June 30, 2018 closing price of said stock on the New York Stock Exchange ($56.61 per share).
As of February 22, 2019, Western Alliance Bancorporation had 105,296,854 shares of common stock outstanding.
Portions of the registrant’s definitive proxy statement for its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

Table of Contents

INDEX

Table of Contents

PART I

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (this “Form 10-K”) are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Reform Act”). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “aim,” “anticipate,” “believe,” “drive,” “estimate,” “expect,” “expressed confidence,” “forecast,” “future,” “goals,” “guidance,” “intend,” “may,” “opportunity,” “plan,” “position,” “potenti seek,” “should,” “strategy,” “target,” “will,” “would” or similar statements or variations of such words and other similar expressions. All statements other than historical fact are “forward-looking statements” within the meaning of the Reform Act, including statements that are related to or are dependent on estimates or assumptions relating to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions that are not historical facts. These forward-looking statements reflect the Company's current views about future events and financial performance and involve certain risks, uncertainties, assumptions, and changes in circumstances that may cause the Company's actual results to differ significantly from historical results and those expressed in any forward-looking statement. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to, those described in “Risk Factors” in Item 1A of this Form 10-K. Forward-looking statements speak only as of the date they are made and the Company undertakes no obligation to publicly update or revise any forward-looking statements included in this Form 10-K or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise, except to the extent required by federal securities laws. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Form 10-K might not occur, and you should not put undue reliance on any forward-looking statements.

Table of Contents

GLOSSARY OF ENTITIES AND TERMS

The acronyms and abbreviations identified below are used in various sections of this Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Item 7 and the Consolidated Financial Statements and the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

ENTITIES / DIVISIONS:

ABA	Alliance Bank of Arizona	HOA Services	Homeowner Associations Services
BON	Bank of Nevada	LVSP	Las Vegas Sunset Properties
Bridge	Bridge Bank	TPB	Torrey Pines Bank
Company	Western Alliance Bancorporation and subsidiaries	WA PWI	Western Alliance Public Welfare Investments, LLC
CSI	CS Insurance Company	WAB or Bank	Western Alliance Bank
FIB	First Independent Bank	WABT	Western Alliance Business Trust
HFF	Hotel Franchise Finance	WAL or Parent	Western Alliance Bancorporation

TERMS:

AFS	Available-for-Sale	FRA	Federal Reserve Act
ALCO	Asset and Liability Management Committee	FRB	Federal Reserve Bank
ALLL	Allowance for Loan and Lease Losses	FVO	Fair Value Option
AOCI	Accumulated Other Comprehensive Income	GAAP	U.S. Generally Accepted Accounting Principles
ASC	Accounting Standards Codification	GLBA	Gramm-Leach-Bliley Act
ASU	Accounting Standards Update	GSE	Government-Sponsored Enterprise
ATM	At-the-Market	HFI	Held for Investment
Basel Committee	Basel Committee on Banking Supervision	HTM	Held-to-Maturity
Basel III	Banking Supervision's December 2010 final capital framework	ICS	Insured Cash Sweep Service
BHCA	Bank Holding Company Act of 1956	IRC	Internal Revenue Code
BOD	Board of Directors	ISDA	International Swaps and Derivatives Association
BOLI	Bank Owned Life Insurance	LIBOR	London Interbank Offered Rate
CAMELS	Capital Adequacy, Assets, Management Capability, Earnings, Liquidity, Sensitivity	LIHTC	Low-Income Housing Tax Credit
Capital Rules	The FRB, the OCC, and the FDIC 2013 approved final rules	MBS	Mortgage-Backed Securities
CCO	Chief Credit Officer	MOU	Memorandum of Understanding
CDARS	Certificate Deposit Account Registry Service	NBL	National Business Lines
CDO	Collateralized Debt Obligation	NOL	Net Operating Loss
CECL	Current Expected Credit Loss	NPV	Net Present Value
CEO	Chief Executive Officer	NYSE	New York Stock Exchange
CET1	Common Equity Tier 1	OCC	Office of the Comptroller of the Currency
CFO	Chief Financial Officer	OCI	Other Comprehensive Income

CFPB	Consumer Financial Protection Bureau	OFAC	Office of Foreign Asset Control
CLO	Collateralized Loan Obligation	OREO	Other Real Estate Owned
CMO	Collateralized Mortgage Obligation	OTTI	Other-than-Temporary Impairment
COSO	Committee of Sponsoring Organizations of the Treadway Commission	PCI	Purchased Credit Impaired
CRA	Community Reinvestment Act	PPNR	Pre-Provision Net Revenue
CRE	Commercial Real Estate	SBA	Small Business Administration
DIF	FDIC's Deposit Insurance Fund	SBIC	Small Business Investment Company
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	SBLF	Small Business Lending Fund
EGRRCPA	The Economic Growth, Regulatory Relief, and Consumer Protection Act	SEC	Securities and Exchange Commission
EPS	Earnings per share	SERP	Supplemental Executive Retirement Plan
EVE	Economic Value of Equity	SLC	Senior Loan Committee
Exchange Act	Securities Exchange Act of 1934, as amended	SOFR	Secured Overnight Funding Rate
FASB	Financial Accounting Standards Board	SSAE	Statement on Standards for Attestation Engagements
FCRA	Fair Credit Reporting Act of 1971	TDR	Troubled Debt Restructuring
FDIA	Federal Deposit Insurance Act	TEB	Tax Equivalent Basis
FDIC	Federal Deposit Insurance Corporation	TSR	Total Shareholder Return
FHLB	Federal Home Loan Bank	USDA	United States Department of Agriculture
FICO	The Financing Corporation	XBRL	eXtensible Business Reporting Language

Table of Contents

Item 1. Business.

Organization Structure and Description of Services

WAL is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, international banking, and online banking products and services through its wholly-owned banking subsidiary, WAB.

WAB operates the following full-service banking divisions: ABA, BON, Bridge, FIB, and TPB. The Company also serves business customers through a national platform of specialized financial services. In addition, the Company has two non-bank subsidiaries, LVSP, which holds and manages certain OREO properties and a captive insurance company formed and licensed under the laws of the State of Arizona, CSI. CSI was established as part of the Company's overall enterprise risk management strategy.

WAL also has eight unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities as described in "Note 9. Qualifying Debt" in Item 8 of this Form 10-K.

Bank Subsidiary

At December 31, 2018, WAL has the following bank subsidiary:

Bank Name	Headquarters	Number of Locations	Location Cities	Total Assets	Net Loans	Deposits
				(in millions)		
Western Alliance Bank	Phoenix, Arizona	47	Arizona: Chandler, Flagstaff, Gilbert, Mesa, Phoenix, Scottsdale, and Tucson Nevada: Carson City, Fallon, Reno, Sparks, Henderson, Las Vegas, Mesquite, and North Las Vegas California: Beverly Hills, Carlsbad, Costa Mesa, La Mesa, Los Angeles, Menlo Park, Oakland, Palo Alto, Pleasanton, San Diego, San Francisco, and San Jose Other: Atlanta, Georgia; Boston, Massachusetts; and Reston, Virginia	$23,138.4	$17,557.9	$19,496.3

WAB also has the following significant wholly-owned subsidiaries:

- Western Alliance Business Trust holds certain investment securities, municipal and non-profit loans, and leases.
- WA PWI, LLC holds certain limited partnerships invested primarily in low income housing tax credits and small business investment corporations.
- BW Real Estate, Inc. operates as a real estate investment trust and holds certain real estate loans and related securities.
- Helios Prime, Inc. holds certain equity interests in solar tax credit transactions.

Market Segments

The Company’s reportable segments are aggregated based primarily on geographic location, services offered, and markets served. The Company's regional segments, which include Arizona, Nevada, Southern California, and Northern California, provide full service banking and related services to their respective markets. The Company's NBL segments provide specialized banking services to niche markets. These NBLs are managed centrally and are broader in geographic scope than the Company's other segments, though still predominately within the Company's core market areas. The Corporate & Other segment consists of the Company's investment portfolio, corporate borrowings and other related items, income and expense items not allocated to other reportable segments, and inter-segment eliminations.

The accounting policies of the reported segments are the same as those of the Company as described in "Note 1. Summary of Significant Accounting Policies" in Item 8. All intercompany transactions are eliminated for reporting consolidated results of operations. Loan and deposit accounts are assigned directly to the segments where these products are originated and/or serviced. Equity capital is assigned to each segment based on the risk profile of their assets and liabilities with a funds credit provided for the use of this equity as a funding source. Any excess equity not allocated to segments based on risk is assigned to the Corporate & Other segment.

Table of Contents

Net interest income, provision for credit losses, and non-interest expense amounts are recorded in their respective segments to the extent that the amounts are directly attributable to those segments. Net interest income of a reportable segment includes a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics. Using this funds transfer pricing methodology, liquidity is transferred between users and providers. Net income amounts for each reportable segment are further derived by the use of expense allocations. Certain expenses not directly attributable to a specific segment are allocated across all segments based on key metrics, such as number of employees, average loan balances, and average deposit balances. Income taxes are applied to each segment based on the effective tax rate for the geographic location of the segment. Any difference in the corporate tax rate and the aggregate effective tax rates in the segments are adjusted in the Corporate & Other segment.

Lending Activities

General

Through WAB and its banking divisions and operating subsidiaries, the Company provides a variety of financial services to customers, including CRE loans, construction and land development loans, commercial loans, and consumer loans. The Company’s lending has focused primarily on meeting the needs of business customers.

Commercial and Industrial: Commercial and industrial loans include working capital lines of credit, inventory and accounts receivable lines, mortgage warehouse lines, equipment loans and leases, and other commercial loans. Loans to technology companies, tax-exempt municipalities, and not-for-profit organizations are also categorized as commercial and industrial loans.

CRE: Loans to fund the purchase or refinancing of CRE for investors (non-owner occupied) or owner-occupants a significant portion of the Company's loan portfolio. These CRE loans are secured by multi-family residential properties, professional offices, industrial facilities, retail centers, hotels, and other commercial properties. As of December 31, 2018 and 2017, 36% of the Company's CRE loans were owner occupied. Owner occupied CRE loans are loans secured by owner occupied non-farm nonresidential properties for which the primary source of repayment (more than 50%) is the cash flow from the ongoing operations and activities conducted by the borrower who owns the property. Non-owner occupied CRE loans are CRE loans for which the primary source of repayment is rental income generated from the collateral property.

Construction and Land Development: Construction and land development loans include single family and multi-family residential projects, industrial/warehouse properties, office buildings, retail centers, medical office facilities, and residential lot developments. These loans are primarily originated to experienced local developers with whom the Company has a satisfactory lending history. An analysis of each construction project is performed as part of the underwriting process to determine whether the type of property, location, construction costs, and contingency funds are appropriate and adequate. Loans to finance commercial raw land are primarily to borrowers who plan to initiate active development of the property within two years.

Residential: The Company purchases residential mortgage loans originated by unaffiliated third parties, including related servicing rights and responsibilities.

Consumer: Limited types of consumer loans are offered to meet customer demand and to respond to community needs. Examples of these consumer loans include: home equity loans and lines of credit, home improvement loans, personal lines of credit, and loans to individuals for investment purposes.

Table of Contents

At December 31, 2018, the Company's loan portfolio totaled $17.71 billion, or approximately 77% of total assets. The following table sets forth the composition of the Company's HFI loan portfolio as of the periods presented:

	December 31,			
	2018		2017	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial and industrial	$7,762,642	43.8 %	$6,841,381	45.3 %
Commercial real estate - non-owner occupied	4,213,428	23.8	3,904,011	25.9
Commercial real estate - owner occupied	2,325,380	13.1	2,241,613	14.9
Construction and land development	2,134,753	12.1	1,632,204	10.8
Residential real estate	1,204,355	6.8	425,940	2.8
Consumer	70,071	0.4	48,786	0.3
Loans, net of deferred loan fees and costs	$17,710,629	100.0%	$15,093,935	100.0%
Allowance for credit losses	(152,717)		(140,050)	
Total loans HFI	$17,557,912		$14,953,885	

For additional information concerning loans, see "Note 3. Loans, Leases and Allowance for Credit Losses" of the Consolidated Financial Statements contained herein or "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition – Loans discussions" in Item 8 of this Form 10-K.

The Company adheres to a specific set of credit standards within its banking subsidiary that are intended to ensure the proper management of credit risk. Furthermore, the Bank's senior management team plays an active role in monitoring compliance with such standards.

Loan originations are subject to a process that includes the credit evaluation of borrowers, utilizing established lending limits, analysis of collateral, and procedures for continual monitoring and identification of credit deterioration. Loan officers actively monitor their individual credit relationships in order to report suspected risks and potential downgrades as early as possible. The BOD approves all material changes to loan policy, as well as lending limit authorities. The Bank's lending policies generally incorporate consistent underwriting standards across all geographic regions in which the Bank operates, customized as necessary to conform to state law and local market conditions. The Bank's credit culture emphasizes timely identification of troubled credits to allow management to take prompt corrective action, when necessary.

Loan Approval Procedures and Authority

The Company's loan approval procedures are executed through a tiered loan limit authorization process, which is structured as follows:

- Individual Credit Authorities. The credit approval levels for individual divisional and senior credit officers are set by policy and certain credit administration officers' approval authorities are established on a delegated basis.
- Management Loan Committees. Credits in excess of individual divisional or senior credit officer approval authority are submitted to the appropriate divisional or NBL loan committee. The divisional committees consist of members of the Bank's senior management team of each division and the NBL loan committees consist of the Bank's divisional or senior credit officers. These loan committees have approval authority up to $10.0 million.
- Credit Administration. Credits in excess of $10.0 million but less than $15.0 million require the additional approval of the Bank's CCO. Credits in excess of $15.0 million are submitted to the WAB SLC. The SLC reviews all other loan approvals to any one new borrower of $5.0 million or greater. The SLC is chaired by the WAB CCO and includes the Company’s CEO.

Loans to One Borrower. In addition to the limits set forth above, subject to certain exceptions, state banking laws generally limit the amount of funds that a bank may lend to a single borrower. Under Arizona law, the obligations of one borrower to a bank generally may not exceed 20% of the bank’s capital, plus an additional 10% of its capital if the additional amounts are fully secured by readily marketable collateral. Arizona law does not specifically require aggregation of loans to affiliated entities in determining compliance with the lending limit. As a matter of longstanding practice, the Arizona Department of Financial Institutions uses the same aggregation analysis as applied to national banks by the OCC.

Table of Contents

Concentrations of Credit Risk. The Company's lending policies also establish customer and product concentration limits, which are based on commitment amounts, to control single customer and product exposures. The Company's lending policies have several different measures to limit concentration exposures. Set forth below are the primary segmentation limits and actual measures as of December 31, 2018:

	Percent of Total Capital	
	Policy Limit	Actual
CRE	435 %	226 %
Commercial and industrial	400	268
Construction and land development	85	74
Residential real estate	100	42
Consumer	5	2

Asset Quality

General

To measure asset quality, the Company has instituted a loan grading system consisting of nine different categories. The first five are considered satisfactory "pass" ratings. The other four "non-pass" grades range from a “Special mention” category to a “Loss” category and are consistent with the grading systems used by federal banking regulators. All loans are assigned a credit risk grade at the time they are made, and each assigned loan officer reviews the credit with his or her immediate supervisor on a quarterly basis to determine whether a change in the credit risk grade is warranted. In addition, the grading of the Company's loan portfolio is reviewed on a regular basis by its internal Loan Review Department.

Collection Procedure

If a borrower fails to make a scheduled payment on a loan, Bank personnel attempt to remedy the deficiency by contacting the borrower and seeking payment. Contacts generally are made within 15 business days after the payment becomes past due. The Bank maintains regional Special Assets Departments, which generally service and collect loans rated Substandard or worse. Each division is responsible for monitoring activity that may indicate an increased risk rating, including, but not limited to, past-dues, overdrafts, and loan agreement covenant defaults. Loans deemed uncollectible are proposed for charge-off.

Nonperforming Assets

Nonperforming assets include loans past due 90 days or more and still accruing interest, non-accrual loans, TDR loans, and repossessed assets, including OREO. In general, loans are placed on non-accrual status when the Company determines that ultimate collection of principal and interest is in doubt due to the borrower’s financial condition, collateral value, and collection efforts. A TDR loan is a loan on which the Company, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. Other repossessed assets result from loans where the Company has received title or physical possession of the borrower’s assets. The Company generally re-appraises OREO and collateral dependent impaired loans every twelve months. The total net realized and unrealized gains and losses of repossessed and other assets was not significant during each of the years ended December 31, 2018, 2017, and 2016. However, losses may be experienced in future periods.

Criticized Assets

Federal bank regulators require banks to classify its assets on a regular basis. In addition, in connection with their examinations of the Bank, examiners have authority to identify problem assets and, if appropriate, re-classify them. A loan grade of "Special Mention" from the Company's internal loan grading system is utilized to identify potential problem assets and loan grades of "Substandard," "Doubtful," and "Loss" are utilized to identify actual problem assets.

Table of Contents

The following describes the potential and actual problem assets using the Company's internal loan grading system definitions:

- "Special Mention" (Grade 6): Generally these are assets that possess potential weaknesses that warrant management's close attention. These loans may involve borrowers with adverse financial trends, higher debt to equity ratios, or weaker liquidity positions, but not to the degree of being considered a "problem loan" where risk of loss may be apparent. Loans in this category are usually performing as agreed, although there may be non-compliance with financial covenants.
- "Substandard" (Grade 7): These assets are characterized by well-defined credit weaknesses and carry the distinct possibility that the Company will sustain some loss if such weakness or deficiency is not corrected. All loans 90 days or more past due and all loans on non-accrual status are considered at least "Substandard," unless extraordinary circumstances would suggest otherwise.
- "Doubtful" (Grade 8): These assets have all the weaknesses inherent in those classified as "Substandard" with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable, but because of certain known factors which may work to the advantage and strengthening of the asset (for example, capital injection, perfecting liens on additional collateral and refinancing plans), classification as an estimated loss is deferred until a more precise status may be determined.
- "Loss" (Grade 9): These assets are considered uncollectible and having such little recoverable value that it is not practical to defer writing off the asset. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practicable or desirable to defer writing off the asset, even though partial recovery may be achieved in the future.

Allowance for Credit Losses

The Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through a provision for credit losses and is reflected as a reduction in earnings. Loans are charged against the allowance for credit losses when management believes that collectability of the contractual principal or interest is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is reported at an amount believed adequate to absorb probable losses on existing loans that may become uncollectable, based on evaluation of the collectability of loans and prior credit loss experience, together with other factors. For a detailed discussion of the Company's methodology see "Management's Discussion and Analysis and Financial Condition – Critical Accounting Policies – Allowance for Credit Losses" in Item 7 of this Form 10-K.

Investment Activities

The Company has an investment policy, which was approved by the BOD. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements of the Bank and holding company, potential returns, cash flow targets, and consistency with the Company's interest rate risk management. The Bank's ALCO is responsible for making securities portfolio decisions in accordance with established policies. The CFO and Treasurer have the authority to purchase and sell securities within specified guidelines. All investment transactions for the Bank and for the holding company were reviewed by the ALCO and BOD.

Generally, the Company's investment policy limits new securities investments to the following: securities backed by the full faith and credit of the U.S. government, including U.S. treasury bills, notes, and bonds, direct obligations of Ginnie Mae, USDA and SBA loans; MBS or CMO issued by a GSE, such as Fannie Mae or Freddie Mac; debt securities issued by a GSE, such as Fannie Mae, Freddie Mac, and the FHLB; tax-exempt securities with a rating of "Single-A" or higher; preferred stock where the issuing company is rated "BBB" or higher; corporate debt with a rating of "Single-A" or better; investment grade corporate bond mutual funds; private label collateralized mortgage obligations with a single rating of "AA" or higher; commercial mortgage-backed securities with a rating of "AAA;" low income housing development bonds; and mandatory purchases of equity securities of the FRB and FHLB.

Table of Contents

Investment securities are further subject to the following quantitative limits of the Bank:

Securities Category	Basis Limit	Percentage or Dollar Limit	
Preferred stock	Common equity tier 1	10.0	%
Tax-exempt municipal securities	Total assets	5.0	%
Tax-exempt low income housing development bonds	Total capital	30.0	%
Investment grade corporate bond mutual funds	Tier 1 capital	5.0	%
Corporate debt holdings	Total assets	2.5	%
Commercial mortgage-backed securities	Aggregate purchases	$50.0 million	

The Company no longer purchases (although it may continue to hold previously acquired) CDOs. The Company's policies also govern the use of derivatives, and provide that the Company prudently use derivatives in accordance with applicable regulations as a risk management tool to reduce the overall exposure to interest rate risk, and not for speculative purposes.

As of December 31, 2018, the Company's investment securities portfolio includes debt and equity securities. Debt securities are classified as AFS or HTM pursuant to ASC Topic 320, Investments and ASC Topic 825, Financial Instruments. Equity securities are reported at fair value in accordance with Topic 321, Equity Securities. For further discussion of significant accounting policies related to the Company's investment securities portfolio refer to "Note 1. Summary of Significant Accounting Policies" in Item 8 of this Form 10-K.

As of December 31, 2018, the Company's investment securities portfolio totals $3.69 billion, representing approximately 16.0% of the Company's total assets, with the majority of the portfolio invested in AAA/AA+ rated securities. The average duration of the Company's investment securities is 5.03 years as of December 31, 2018.

The following table summarizes the carrying value of investment securities as of December 31, 2018 and 2017:

	December 31,					
	2018			2017		
	Amount	Percent		Amount	Percent	
	(dollars in thousands)					
CDO	$15,327	0.4	%	$21,857	0.6	%
Commercial MBS issued by GSEs	100,106	2.7		109,077	2.9	
Corporate debt securities	99,380	2.7		103,483	2.8	
CRA investments	51,142	1.4		50,616	1.3	
Preferred stock	63,919	1.7		53,196	1.4	
Private label residential MBS	924,594	25.0		868,524	23.1	
Residential MBS issued by GSEs	1,530,124	41.4		1,689,295	45.0	
Tax-exempt	841,573	22.8		765,960	20.4	
Trust preferred securities	28,617	0.8		28,617	0.8	
U.S. government sponsored agency securities	38,188	1.0		61,462	1.6	
U.S. treasury securities	1,984	0.1		2,482	0.1	
Total investment securities	$3,694,954	100.0	%	$3,754,569	100.0	%

As of December 31, 2018 and 2017, the Company had investments in BOLI of $170.1 million and $167.8 million, respectively. BOLI is used to help offset employee benefit costs. For additional information concerning investments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Investments” in Item 7 of this Form 10-K.

Deposit Products

The Company offers a variety of deposit products, including checking accounts, savings accounts, money market accounts, and other types of deposit accounts, including fixed-rate, fixed maturity certificates of deposit. The Company has historically focused on growing its lower cost core customer deposits. As of December 31, 2018, the deposit portfolio was comprised of 39% non-interest-bearing deposits and 61% interest-bearing deposits.

Table of Contents

The competition for deposits in the Company's markets is strong. The Company has historically been successful in attracting and retaining deposits due to several factors, including its:

- knowledgeable and empowered bankers committed to providing personalized and responsive service that translates into long-lasting relationships;
- broad selection of cash management services offered; and
- incentives to employees for business development and retention.

Deposit balances are generally influenced by national and local economic conditions, changes in prevailing interest rates, internal pricing decisions, perceived stability of financial institutions and competition. In order to attract and retain deposits, the Company relies on providing quality service and introducing new products and services that meet the needs of its customers.

The Bank's deposit rates are determined through an internal oversight process under the direction of its ALCO. The Bank considers a number of factors when determining deposit rates, including:

- current and projected national and local economic conditions and the outlook for interest rates;
- local competition;
- loan and deposit positions and forecasts, including any concentrations in either; and
- rates charged on FHLB advances and other funding sources.

The following table shows the Company's deposit composition:

	December 31,			
	2018		2017	
	Amount	Percent	Amount	Percent
	(in thousands)			
Non-interest-bearing demand deposits	$7,456,141	38.9 %	$7,433,962	43.9 %
Interest-bearing transaction accounts	2,555,609	13.3	1,586,209	9.3
Savings and money market accounts	7,330,709	38.2	6,330,977	37.3
Time certificates of deposit ($250,000 or more)	1,009,900	5.3	713,654	4.2
Other time deposits	825,088	4.3	907,730	5.3
Total deposits	$19,177,447	100.0%	$16,972,532	100.0%

Although the Company does not pay interest to depositors of non-interest-bearing accounts, earnings credits are awarded to some account holders, which offset charges incurred by account holders for other services. Earnings credits earned in excess of charges incurred by account holders are recorded in deposit costs as part of non-interest expense and fluctuate as a result of deposit balances eligible for earnings credits, along with the earnings credit rates on these deposit balances.

In addition to the Company's deposit base, it has access to other sources of funding, including FHLB and FRB advances, Federal funds purchased, repurchase agreements, and unsecured lines of credit with other financial institutions. Previously, the Company has also accessed the capital markets through trust preferred, subordinated debt, and Senior Note offerings. For additional information concerning the Company's deposits, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Balance Sheet Analysis – Deposits” in Item 7 of this Form 10-K.

Other Financial Products and Services

In addition to traditional commercial banking activities, the Company offers other financial services to its customers, including: internet banking, wire transfers, electronic bill payment and presentment, lock box services, courier, and cash management services.

Customer, Product, and Geographic Concentrations

Approximately 49% and 52% of the Company's loan portfolio at December 31, 2018 and 2017, respectively, was represented by CRE and construction and land development loans. The Company’s business is concentrated primarily in the Las Vegas, Los Angeles, Phoenix, Reno, San Francisco, San Jose, San Diego and Tucson metropolitan areas. Consequently, the Company is dependent on the trends of these regional economies.

Table of Contents

The Company's lending activities, including those within its NBLs, are driven in large part by the customers served in the market areas where the Company has offices in the states of Arizona, Nevada, and California. The following table presents a breakout of the in-footprint and out-of-footprint distribution of loans:

	December 31, 2018			December 31, 2017		
	In-Footprint	Out-of-Footprint	Total	In-Footprint	Out-of-Footprint	Total
Arizona	18.1 %	2.5 %	20.6 %	19.8 %	2.2 %	22.0 %
Nevada	11.1	0.2	11.3	12.1	0.1	12.2
Southern California	12.2	—	12.2	12.7	0.1	12.8
Northern California	6.8	0.5	7.3	7.8	0.6	8.4
HOA Services	0.3	0.9	1.2	0.2	0.9	1.1
Hotel Franchise Finance	1.5	6.9	8.4	0.8	8.0	8.8
Public & Nonprofit Finance	7.8	1.0	8.8	9.5	1.0	10.5
Technology & Innovation	2.4	4.4	6.8	2.7	4.6	7.3
Other NBLs	10.3	13.1	23.4	6.2	10.7	16.9
Total	70.5 %	29.5 %	100.0 %	71.8 %	28.2 %	100.0 %

The Company is not dependent upon any single or limited number of customers, the loss of which would have a material adverse effect on the Company. Neither the Company nor any of its reportable segments have customer relationships that individually account for 10% or more of consolidated or segment revenues. No material portion of the Company’s business is seasonal.

Competition

The financial services industry is highly competitive. Many of the Company's competitors are much larger in total assets and capitalization, have greater access to capital markets, and offer a broader range of financial services than the Company can offer, and may have lower cost structures.

This increasingly competitive environment is primarily a result of long-term changes in regulation that made mergers and geographic expansion easier; changes in technology and product delivery systems and web-based tools; and the accelerating pace of consolidation among financial services providers. The Company competes for loans, deposits, and customers with other banks, credit unions, brokerage companies, mortgage companies, insurance companies, finance companies, financial technology firms, and other non-bank financial services providers. This strong competition for deposit and loan products directly affects the interest rates on those products and the terms on which they are offered to customers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets.

Mergers between financial institutions have placed additional pressure on banks to consolidate their operations, reduce expenses, and increase revenues to remain competitive. The competitive environment is also significantly impacted by federal and state legislation that makes it easier for non-bank financial institutions to compete with the Company.

Employees

As of December 31, 2018, the Company has 1,787 full-time equivalent employees. The Company’s employees are not represented by a union or covered by a collective bargaining agreement. Management believes that its employee relations are good.

Supervision and Regulation

The Company and its subsidiaries are extensively regulated and supervised under both federal and state laws. A summary description of the laws and regulations which relate to the Company’s operations are discussed in Item 7 of this Form 10-K.

Additional Available Information

The Company maintains an internet website at http://www.westernalliancebancorporation.com. The Company makes available its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act and other information related to the Company free of charge, through this site as soon as reasonably practicable after it electronically files those documents with, or otherwise furnishes them to the SEC. The SEC maintains an internet site at http://www.sec.gov, in which all forms filed electronically may be accessed. The Company’s internet website and the information contained therein are not incorporated in this Form 10-K.

In addition, copies of the Company’s annual report will be made available, free of charge, upon written request.

Table of Contents

Item 1A. Risk Factors.

Investing in the Company's common stock involves various risks, many of which are specific to the Company's business. The discussion below addresses the material risks and uncertainties, of which the Company is currently aware, that could have a material adverse effect on the Company's business, results of operations, and financial condition. Other risks that the Company does not know about now, or that the Company does not currently believe are significant, could negatively impact the Company's business or the trading price of the Company's securities. See additional discussions about credit, interest rate, market, and litigation risks in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Relating to the Company's Business

The Company's financial performance may be adversely affected by conditions in the financial markets and economic conditions generally.

The Company's financial performance is highly dependent upon the business environment in the markets where the Company operates and in the U.S. as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, government shutdowns, natural disasters, terrorist attacks, acts of war, or a combination of these or other factors. A worsening of business and economic conditions generally or specifically in the principal markets in which the Company conducts business could have adverse effects, including the following:

- a decrease in deposit balances or the demand for loans and other products and services the Company offers;
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Company, which could lead to higher levels of nonperforming assets, net charge-offs, and provisions for credit losses;
- a decrease in the value of loans and other assets secured by real estate;
- a decrease in net interest income from the Company's lending and deposit gathering activities;
- an impairment of certain intangible assets such as goodwill; and
- an increase in competition resulting from increasing consolidation within the financial services industry.

In the U.S. financial services industry, the commercial soundness of financial institutions is closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, and exchanges, with which the Company interacts on a daily basis, and therefore could adversely affect the Company.

It is possible that the business environment in the U.S. will experience volatility in the future. There can be no assurance that these conditions will improve in the near term or that conditions will not worsen. Such conditions could adversely affect the Company's business, results of operations, and financial condition.

The Company is highly dependent on real estate and events that negatively impact the real estate market will hurt the Company's business and earnings.

The Company is located in areas in which economic growth is largely dependent on the real estate market, and a majority of the Company's loan portfolio is secured by or otherwise dependent on real estate. The market for real estate is cyclical and the outlook for this sector is uncertain. A decline in real estate activity would likely cause a decline in asset and deposit growth and negatively impact the Company's earnings and financial condition.

Table of Contents

The Company’s loan portfolio consists primarily of CRE and commercial and industrial loans, which contain concentrations in specialty business lines that have unique risk characteristics and may expose the Company to increased lending risks.

The Company’s loan portfolio consists primarily of CRE and commercial and industrial loans, which contain concentrations in specialty business lines, such as mortgage warehouse, corporate finance, municipal and nonprofit loans, as well as loans in other business sectors such as technology and innovation. These loan concentrations present unique risks and involve specialized underwriting and management as they often involve large loan balances to a single borrower or group of related borrowers. Consequently, an adverse development with respect to one commercial loan or one credit relationship may adversely affect the Company. In addition, based on the nature of lending to these specialty markets, repayment of loans may be dependent upon borrowers receiving additional equity financing or, in some cases, a successful sale to a third party, public offering, or other form of liquidity event. Although each specialty business has dedicated teams in place with specialized skills, tools, and resources available to monitor and evaluate risk specific to the industry, unforeseen adverse events, changes in regulatory policy, or a general decline in the borrower's industry may have a material adverse effect on the Company’s financial condition and results of operations.

Due to the inherent risk associated with accounting estimates, the Company’s allowance for loan losses may be insufficient, which could require the Company to raise additional capital or otherwise adversely affect the Company’s financial condition and results of operations.

Credit losses are inherent in the business of making loans. Management makes various assumptions and judgments about the collectability of the Company’s consolidated loan portfolio and maintains an allowance for estimated credit losses based on a number of factors, including the size of the portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management’s assessment of the credit risk inherent in the portfolio, historical loan loss experience, and loan underwriting policies. In addition, the Company evaluates all loans identified as problem loans and augments the allowance based upon its estimation of the potential loss associated with those problem loans. Additions to the allowance for credit losses recorded through the Company’s provision for credit losses decreases the Company’s net income. If such assumptions and judgments are incorrect, the Company’s actual credit losses may exceed the Company’s allowance for credit losses.

At December 31, 2018, the Company's allowance for credit losses is $152.7 million. Deterioration in the real estate market or general economic conditions could affect the ability of the Company’s loan customers to service their debt, which could result in additional loan provisions and increases in the Company’s allowance for credit losses. In addition, the Company may be required to record additional loan provisions or increase the Company’s allowance for credit losses based on new information regarding existing loans, input from regulators in connection with their review of the Company’s allowance, changes in regulatory guidance, regulations or accounting standards, identification of additional problem loans, and other factors, both within and outside of the Company’s management’s control. Moreover, because future events are uncertain and because the Company may not successfully identify all deteriorating loans in a timely manner, there may be loans that deteriorate in an accelerated time frame.

Any increases in the provision or allowance for credit losses will result in a decrease in the Company’s net income and, potentially, capital, and may have a material adverse effect on the Company’s financial condition and results of operations. If actual credit losses materially exceed the Company’s allowance for credit losses, the Company may be required to raise additional capital, which may not be available to the Company on acceptable terms or at all. The Company’s inability to raise additional capital on acceptable terms when needed could materially and adversely affect the Company’s financial condition, results of operations, and capital.

Recent changes to the FASB accounting standards will result in a significant change to the Company’s recognition of credit losses and may materially impact the Company’s financial condition or results of operations.

In June 2016, the FASB issued ASU, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current incurred loss model for recognizing credit losses with an expected loss model referred to as the CECL model, and which goes into effect for the Company on January 1, 2020. Under the incurred loss model, the Company delays recognition of losses until it is probable that a loss has been incurred. The CECL model represents a dramatic departure from the incurred loss model. The CECL model will require the Company to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. Additionally, the measurement of expected credit losses will take place at the time the financial asset is first added to the balance sheet (with periodic updates thereafter) and will be based on current conditions, information about past events, including historical experience, and reasonable and supportable forecasts that impact the collectability of the reported amount. As such, the CECL model will materially impact how the Company determines its ALLL and may require the Company to significantly increase its ALLL. Furthermore, the Company's ALLL may experience more fluctuations under the CECL model, some of which may be significant. Were the Company required to significantly increase its ALLL, it may negatively impact the Company's business, earnings, financial condition, and results of operations. The Company is currently preparing for the new CECL model and evaluating its

Table of Contents

impact on the Company’s accounting. While the Company cannot yet determine how significantly transitioning to the CECL model will impact its ALLL, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016, the Company expects the new CECL model will require the Company to recognize a one-time cumulative adjustment to the Company’s ALLL in order to fully transition from the incurred loss model to the CECL model.

The Company could be subject to tax audits, challenges to its tax positions, or adverse changes or interpretations of tax laws.

The Company is subject to federal and applicable state income tax laws and regulations. Income tax laws and regulations are often complex and require significant judgment in determining the Company’s effective tax rate and in evaluating its tax positions. The Company’s determination of its tax liability is subject to review by applicable tax authorities. Any audits or challenges of such determinations may adversely affect the Company’s effective tax rate, tax payments or financial condition.

U.S. tax legislation enacted in late 2017 made significant changes to federal tax law, including the taxation of corporations, by, among other things, reducing the corporate income tax rate, disallowing certain deductions that had previously been allowed, and altering the expensing of capital expenditures. The implementation and evaluation of these changes may require significant judgment and substantial planning on behalf of the Company. These judgments and plans may require the Company to take new and different tax positions that if challenged could adversely affect the Company’s effective tax rate, tax payments or financial condition.

In addition, the new tax legislation remains subject to potential amendments, technical corrections, and further regulatory guidance and interpretation, any of which could lessen or increase certain adverse impacts on the Company. Furthermore, as the new tax legislation goes into effect, future changes may occur at the federal or state level that could result in unfavorable adjustments to the Company’s tax liability.

Because of the geographic concentration of the Company’s assets, changes in local economic conditions could adversely affect the Company’s business and results of operations.

The Company’s business is primarily concentrated in selected markets in Arizona, California, and Nevada. As a result of this geographic concentration, the Company’s financial condition and results of operations depend largely upon economic conditions in these market areas. Deterioration in economic conditions in these markets could result in one or more of the following: an increase in loan delinquencies and charge-offs; an increase in problem assets and foreclosures; a decrease in the demand for the Company’s products and services; or a decrease in the value of collateral for loans, especially real estate.

The Company’s financial instruments expose the Company to certain market risks and may increase the volatility of earnings and AOCI.

The Company holds certain financial instruments measured at fair value. For those financial instruments measured at fair value, the Company is required to recognize the changes in the fair value of such instruments in earnings or AOCI each quarter. Therefore, any increases or decreases in the fair value of these financial instruments have a corresponding impact on reported earnings or AOCI. Fair value can be affected by a variety of factors, many of which are beyond the Company’s control, including the Company’s credit position, interest rate volatility, capital markets volatility, and other economic factors. Accordingly, the Company is subject to mark-to-market risk and the application of fair value accounting may cause the Company’s earnings and AOCI to be more volatile than would be suggested by the Company’s underlying performance.

If the Company loses a significant portion of its core deposits or its cost of funding deposits increases significantly, the Company's liquidity and/or profitability would be adversely impacted.

The Company’s profitability depends in part on successfully attracting and retaining a stable base of relatively low-cost deposits. The competition for these deposits in the Company's markets is strong and customers may demand higher interest rates on their deposits or seek other investments offering higher rates of return. The Company is a participant in the Promontory Interfinancial Network, and offers its reciprocal deposit products, such as CDARS and ICS, to customers seeking federal insurance for deposit amounts that exceed the applicable deposit insurance limit at a single institution. The Company also from time to time offers other credit enhancements to depositors, such as FHLB letters of credit and, for certain deposits of public monies, pledges of collateral in the form of readily marketable securities.

Any event or circumstance that interferes with or limits the Company's ability to offer these products to customers that require greater security for their deposits, such as a significant regulatory enforcement action or a significant decline in capital levels at the Company's bank subsidiary, could negatively impact the Company's ability to attract and retain deposits. If the Company were to lose a significant portion of its low-cost deposits, the Company would be required to borrow from other sources at higher rates and the Company's liquidity and profitability would be adversely impacted.

From time to time, the Company has utilized borrowings from the FHLB and the FRB, and there can be no assurance these programs will be available as needed.

As of December 31, 2018, the Company has borrowings from the FHLB of San Francisco of $491.0 million and none from the FRB. In the past, the Company has utilized borrowings from the FHLB of San Francisco and the FRB to satisfy its short-term liquidity needs. The Company's borrowing capacity is generally dependent on the value of its collateral pledged to these entities. These lenders could reduce the Company's borrowing capacity or eliminate certain types of collateral and could otherwise modify or even terminate their loan programs. Any change or termination could have an adverse effect on the Company's liquidity and profitability.

The Company's business may be adversely affected by fraud.

As a financial institution, the Company is inherently exposed to operational risk in the form of theft and other fraudulent activity by employees, customers, and other third parties targeting the Company and/or the Company's customers or data. Such activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts.

Although the Company devotes substantial resources to maintaining effective policies and internal controls to identify and prevent such incidents, given the increasing sophistication of possible perpetrators, the Company may experience financial losses or reputational harm as a result of fraud.

A failure in or breach of the Company's operational or security systems or infrastructure, or those of the Company's third party vendors and other service providers, including as a result of cyber-attacks, could disrupt the Company's businesses, result in the disclosure or misuse of confidential or proprietary information, damage the Company's reputation, increase the Company's costs, and cause losses.

The Company's operations rely on the secure processing, storage, and transmission of confidential and other information. Although the Company takes numerous protective measures to maintain the confidentiality, integrity, and availability of the Company's and its customers' information across all geographies and product lines, and endeavors to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, the Company's computer systems, software, and networks and those of the Company's customers and third party vendors may be vulnerable to unauthorized payments and account access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks, and other events that could have an adverse security impact and result in significant losses to the Company and/or its customers. These threats may originate externally from third parties, including foreign governments, organized criminal groups, and other hackers, and outsourced or infrastructure-support providers and application developers, or the threats may originate from within the Company's organization.

The Company also faces the risk of operational disruption, failure, termination, or capacity constraints of any of the third parties that facilitate the Company's business activities, including vendors, exchanges, clearing agents, clearing houses, or other financial intermediaries. Such parties could also be the source or cause of an attack on, or breach of, the Company's operational systems, data or infrastructure. In addition, the Company may be at risk of an operational failure with respect to its customers' systems. The Company's risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the outsourcing of many of the Company's business operations, and the continued uncertain global economic environment. As cyber threats continue to evolve, the Company may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities.

The Company maintains insurance policies that it believes provide reasonable coverage at a manageable expense for an institution of the Company's size and scope with similar technological systems. However, the Company cannot assure that these policies will afford coverage for all possible losses or would be sufficient to cover all financial losses, damages, penalties, including lost revenues, should the Company experience any one or more of its or a third party's systems failing or experiencing an attack.

Table of Contents

The Company relies on third parties to provide key components of its business infrastructure.

The Company relies on third parties to provide key components for its business operations, such as data processing and storage, recording and monitoring transactions, online banking interfaces and services, internet connections, and network access. While the Company selects these third-party vendors carefully, it does not control their actions. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason, or poor performance by a vendor, could adversely affect the Company's ability to deliver products and services to its customers and otherwise conduct its business. Financial or operational difficulties of a third-party vendor could also hurt the Company's operations if those difficulties interfere with the vendor's ability to serve the Company. Replacing these third party vendors also could create significant delays and expense. Any of these things could adversely affect the Company's business and financial performance.

A change in the Company's creditworthiness could increase the Company's cost of funding or adversely affect its liquidity.

Market participants regularly evaluate the Company's creditworthiness and the creditworthiness of the Company's long-term debt based on a number of factors, some of which are not entirely within the Company's control, including the Company's financial strength and the financial services industry generally. There can be no assurance that the Company's perceived creditworthiness will remain the same. Changes could adversely affect the cost and other terms upon which the Company is able to obtain funding and its access to the capital markets, and could increase the Company's cost of capital. Likewise, any loss of or decline in the credit rating assigned to WAB could impair its ability to attract deposits or to obtain other funding sources, or increase its cost of funding.

The Company's controls and processes, and its reporting systems and procedures, may not be able to keep pace with its growth, which could cause it to experience compliance and operational problems or lose customers, or incur additional expenditures beyond current projections, any one of which could adversely affect the Company's financial results.

The Company's future success will depend on the ability of officers and other key employees to continue to implement and improve operational, credit, financial, management and other internal risk controls and processes, and improve reporting systems and procedures, while at the same time maintaining and growing existing businesses and client relationships. The Company may not successfully implement such changes or improvements in an efficient or timely manner, or it may discover deficiencies in its existing systems and controls that adversely affect the Company's ability to grow its existing businesses and client relationships and could require the Company to incur additional expenditures to expand its administrative and operational infrastructure. If the Company is unable to maintain and implement improvements to its controls, processes, and reporting systems and procedures, the Company may lose customers, experience compliance and operational problems or incur additional expenditures beyond current projections, any one of which could adversely affect the Company's financial results.

The Company's expansion strategy may not prove to be successful and its market value and profitability may suffer.

The Company continually evaluates expansion through acquisitions of banks and other financial businesses. Like previous acquisitions by the Company, any future acquisitions will be accompanied by risks commonly encountered in such transactions, including, among other things:

- time and expense incurred while identifying, evaluating and negotiating potential acquisitions and transactions;
- difficulty in accurately estimating the value of target companies or assets and in evaluating target companies or assets' credit, operations, management, and market risks;
- potential payment of a premium over book and market values that may cause dilution of the Company's tangible book value or earnings per share;
- exposure to unknown or contingent liabilities of the target company;
- potential exposure to asset quality issues of the target company;
- difficulty of integrating the operations and personnel;
- potential disruption of the Company's ongoing business;
- failure to retain key personnel at the acquired business;

Table of Contents

- inability of the Company's management to maximize its financial and strategic position by the successful implementation of uniform product offerings and the incorporation of uniform technology into the Company's product offerings and control systems; and
- failure to realize any expected revenue increases, cost savings, and other projected benefits from an acquisition.

The Company expects that competition for suitable acquisition candidates may be significant. The Company may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. The Company cannot assure that it will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions, or that it will be able to obtain the regulatory approvals needed to complete any such transactions.

The Company cannot provide any assurance that it will be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Potential regulatory enforcement actions could also adversely affect the Company's ability to engage in certain acquisition activities. The Company's inability to overcome the risks inherent in the successful completion and integration of acquisitions could have an adverse effect on the achievement of the Company's business strategy.

There are substantial risks and uncertainties associated with the introduction or expansion of lines of business or new products and services within existing lines of business.

From time to time, the Company may implement new lines of business, offer new products and services within existing lines of business, or offer existing products or services to new industries or market segments. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed or industries are heavily regulated. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove attainable. External factors, such as compliance with laws and regulations, competitive alternatives, and shifting market preferences or government policies, may also impact the successful implementation of a new line of business, product or service or the offering of existing products and services to an emerging industry. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations, and financial condition.

The Company's future success depends on its ability to compete effectively in a highly competitive and rapidly evolving market.

The Company faces substantial competition in all phases of its operations from a variety of different competitors. The Company's competitors, including large commercial banks, community banks, thrift institutions, mutual savings banks, credit unions, finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds, and other financial institutions, compete with lending and deposit-gathering services offered by the Company. Increased competition in the Company's markets may result in reduced loans and deposits or less favorable pricing.

There is competition for financial services in the markets in which the Company conduct its businesses, including from many local commercial banks, as well as numerous national and regionally based commercial banks. In particular, the Company has experienced intense price and terms competition in some of the lending lines of business and deposits in recent years. Many of these competing institutions have much greater financial and marketing resources than the Company has. Due to their size, larger competitors can achieve economies of scale and may offer a broader range of products and services or more attractive pricing than the Company. In addition, some of the financial services organizations with which the Company competes are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured depository institutions. As a result, these non-bank competitors have certain advantages over the Company in accessing funding and in providing various services.

The banking business in the Company's primary market areas is very competitive, and the level of competition facing the Company may increase further, which may limit its asset growth and financial results. In particular, the Company's predominate source of revenue is net interest income from its loan portfolio. Therefore, if the Company is unable to compete effectively, including sustaining loan and deposit growth at its historical levels, its business and results of operations may be adversely affected.

The financial services industry also is facing increasing competitive pressure from the introduction of disruptive new technologies, often by non-traditional competitors and so-called “FinTech” companies. Among other things, technology and other changes are allowing customers to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, customers can now pay bills and transfer funds directly without going through a bank. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits.

Table of Contents

The Company’s success is dependent upon its ability to recruit and retain qualified employees, including members of its divisional and business line leadership and management teams.

The Company’s business plan includes and is dependent upon hiring and retaining highly qualified and motivated executives and employees at every level. In particular, the Company’s relative success to date has been partly the result of its management’s ability to identify and retain highly qualified employees in administrative support roles, as well as those with expertise in certain specialty areas or that have long-standing relationships in their communities or markets. These professionals bring with them valuable knowledge, specialized skills and expertise, and customer relationships and have been an integral part of the Company’s ability to attract deposits and to expand its market share. Additionally, as part of the Company's strategy, the Company depends on divisional and business line leadership and management teams in each of its significant geographic locations. In addition to their skills and experience as bankers, these persons provide the Company with extensive ties within markets upon which the Company’s competitive strategy is based.

The Company’s ability to retain these highly qualified and motivated persons may be hindered by the fact that it has not entered into employment agreements with most of them. The Company incentivizes employee retention through its equity incentive plans; however, the Company cannot guarantee the effectiveness of its equity incentive plans in retaining these key employees and executives. Were the Company to lose key employees, it may not be able to replace them with equally qualified persons who bring the same knowledge of and ties to the communities and markets within which the Company operates. If the Company is unable to hire or retain qualified employees, it may not be able to successfully execute its business strategy or may incur additional costs to achieve its objectives.

The Company could be harmed if its succession planning is inadequate to mitigate the loss of key members of its senior management team.

The Company believes that its senior management team, including, but not limited to, Robert Sarver, its Chairman and former CEO, have contributed greatly to its performance. Mr. Sarver recently transitioned to a new role as Executive Chairman, and Kenneth Vecchione became the CEO on April 1, 2018. In addition, the Company from time to time experiences retirements and other changes to its senior management team, including the recent appointment of James Haught as President of the Company effective April 1, 2018. The Company's future performance depends on a smooth transition of its senior management, including finding and training highly qualified replacements who are properly equipped to lead the Company. The Company has adopted retention strategies, including equity awards, from which its senior management team benefits in order to achieve its goals, and entered into employment agreements with each of Messrs. Vecchione and Haught. However, the Company cannot assure its succession planning and retention strategies will be effective. The loss of senior management, particularly during this transition period, could have an adverse effect on the Company’s business.

The Company's risk management practices may prove to be inadequate or not fully effective.

The Company's risk management framework seeks to mitigate risk and appropriately balance risk and return. The Company has established policies and procedures intended to identify, monitor, and manage the types of risk to which it is subject, including, but not limited to, credit risk, market risk, liquidity risk, operational risk, legal and compliance risk, and reputational risk. A BOD level risk committee approves and reviews the Company's risk management policies and oversees operation of the Company's risk management framework. Although the Company has devoted significant resources to developing its risk management policies and procedures and expects to continue to do so in the future, these policies and procedures, as well as the Company's risk management techniques, may not be fully effective. In addition, as regulations and the markets in which the Company operates continue to evolve, the Company's risk management framework may not always keep sufficient pace with those changes. If the Company's risk management framework does not effectively identify or mitigate its risks, the Company could suffer unexpected losses or other material adverse impact. Management of the Company's risks in some cases depends upon the use of analytical and/or forecasting models. If the models the Company uses to mitigate these risks are inadequate, or are subject to ineffective governance, the Company may incur increased losses. In addition, there may be risks that exist, or that develop in the future, that the Company has not appropriately anticipated, identified, or mitigated.

Table of Contents

The Company's internal controls and procedures may fail or be circumvented and the accuracy of the Company's judgments and estimates about financial and accounting matters may impact operating results and financial condition.

The Company's management regularly reviews and updates its internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures, or failure to comply with regulations related to controls and procedures, could result in materially inaccurate reported financial statements and/or have a material adverse effect on the Company's business, results of operations, and financial condition. Similarly, the Company's management makes certain estimates and judgments in preparing the Company's financial statements. The quality and accuracy of those estimates and judgments will impact the Company's operating results and financial condition.

If the Company is unable to understand and adapt to technological change, the Company’s business could be adversely affected.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology can increase efficiency and enable financial institutions to better serve customers and to reduce costs. However, some new technologies needed to compete effectively result in incremental operating costs. The Company’s future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in operations. Many of the Company’s competitors, because of their larger size and available capital, have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company’s business and, in turn, its financial condition and results of operations.

The markets in which the Company operates are subject to the risk of both natural and manmade disasters.

Many of the real and personal properties securing the Company's loans are located in California. Much of California recently experienced wildfires causing significant damage throughout the state. While these wildfires did not significantly damage the Company's own properties, it is possible that its borrowers may experience losses as a result, which may materially impair their ability to meet the terms of their obligations. California is also prone to other natural disasters, including, but not limited to, drought, earthquakes, flooding, and mudslides. Additional significant natural or manmade disasters in the state of California or in the Company's other markets could lead to damage or injury to the Company's own properties and/or employees, and could increase the risk that many of its borrowers may experience losses or sustained job interruption, which may materially impair their ability to maintain deposits or meet the terms of their loan obligations. Therefore, additional natural disasters, a manmade disaster or a catastrophic event, or a combination of these or other factors, in any of the Company's markets could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Risks Related to the Banking Industry

The Company operates in a highly regulated environment and the laws and regulations that govern the Company’s operations, corporate governance, executive compensation, and accounting principles, or changes in them, or the Company’s failure to comply with them, may adversely affect the Company.

The Company is subject to extensive regulation, supervision, and legislation that govern almost all aspects of its operations. Intended to protect customers, depositors, and the DIF, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which the Company can engage, require monitoring and reporting of suspicious activity and of customers who are perceived to present a heightened risk of money laundering or other illegal activity, limit the dividends or distributions that WAB can pay to the Company or that the Company can pay to its stockholders, restrict the ability of affiliates to guarantee the Company’s debt, impose certain specific accounting requirements on the Company that may be more restrictive and may result in greater or earlier charges to earnings or reductions in the Company’s capital than GAAP, among other things. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose significant additional compliance costs. To the extent the Company continues to grow larger and become more complex, regulatory oversight and risk and the cost of compliance will likely increase, which may adversely affect the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Supervision and Regulation" included in this Form 10-K for a more detailed summary of the regulations and supervision to which the Company are subject.

Changes to the legal and regulatory framework governing the Company's operations, including the passage and continued implementation of the Dodd-Frank Act and EGRRCPA, have drastically revised the laws and regulations under which the Company operates. In general, bank regulators have increased their focus on risk management and regulatory compliance, and the Company expects this focus to continue. Additional compliance requirements may be costly to implement, may require additional compliance personnel, and may limit the Company's ability to offer competitive products to its customers. The Company is also subject to changes in federal and state law, as well as regulations and governmental policies, income tax laws, and accounting principles. Regulations affecting banks and other financial institutions are undergoing continuous review and frequently change, and the ultimate effect of such changes cannot be predicted. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect the Company, WAB, and the Company's other subsidiaries. Any changes in federal and state law, as well as regulations and governmental policies, income tax laws, and accounting principles, could affect the Company in substantial and unpredictable ways, including ways that may adversely affect the Company's business, financial condition, or results of operations. Failure to appropriately comply with any such laws, regulations or principles or an alleged failure to comply, even if the Company acted in good faith or the alleged failure reflects a difference in interpretation, could result in sanctions by regulatory agencies, civil money penalties or damage to the Company's reputation, all of which could adversely affect the Company's business, financial condition, or results of operations.

State and federal banking agencies periodically conduct examinations of the Company's business, including for compliance with laws and regulations, and the Company's failure to comply with any supervisory actions to which the Company is or becomes subject as a result of such examinations may adversely affect the Company.

State and federal banking agencies periodically conduct examinations of the Company's business, including for compliance with laws and regulations. If, as a result of an examination, an agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of any of the Company's operations had become unsatisfactory, or that the Company or its management was in violation of any law or regulation, federal banking agencies may take a number of different remedial or enforcement actions it deems appropriate to remedy such a deficiency. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the Company's capital, to restrict the Company's growth, and to assess civil monetary penalties against the Company and/or officers or directors, and to remove officers and directors. If the FDIC concludes that such conditions cannot be corrected or there is an imminent risk of loss to depositors, it may terminate WAB's deposit insurance. Under Arizona law, the state banking supervisory authority has many of the same enforcement powers with respect to its state-chartered banks. Finally, the CFPB has the authority to examine the Company and has authority to take enforcement actions, including the issuance of cease-and-desist orders or civil monetary penalties against the Company if it finds that the Company offers consumer financial products and services in violation of federal consumer financial protection laws or in an unfair, deceptive, or abusive manner.

If the Company were unable to comply with regulatory directives in the future, or if the Company were unable to comply with the terms of any future supervisory requirements to which the Company may become subject, then it could become subject to a variety of supervisory actions and orders, including cease and desist orders, prompt corrective actions, MOUs, and/or other regulatory enforcement actions. If the Company's regulators were to take such supervisory actions, then the Company could, among other things, become subject to restrictions on its ability to enter into acquisitions and develop any new business, as well as restrictions on its existing business. The Company also could be required to raise additional capital, dispose of certain assets and liabilities within a prescribed period of time, or both. Failure to implement the measures in the time frames provided, or at all, could result in additional orders or penalties from federal and state regulators, which could result in one or more of the remedial actions described above. In the event the Company was ultimately unable to comply with the terms of a regulatory enforcement action, it could fail and be placed into receivership by the FDIC or the chartering agency. The terms of any such supervisory action and the consequences associated with any failure to comply therewith could have a material negative effect on the Company's business, operating flexibility, and financial condition.

Uncertainty about the future of LIBOR, and its accepted alternatives, may adversely affect our business.

LIBOR is the reference rate for many transactions in which the Company lends and borrows money, issues, purchases and sells securities and enters into derivative contracts to manage its or its customers' risk related to these transactions. LIBOR has been the subject of recent national and international regulatory guidance and proposals for reform. The United Kingdom Financial Conduct Authority, which regulates the process for establishing LIBOR, announced in July

2017 that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021.
In June 2017, the Alternative Reference Rate Committee, a committee of private-market derivative participants and their regulators convened by the Federal Reserve to identity alternative reference interest rates, announced an SOFR, a broad Treasuries overnight repurchase agreement financing rate, as its preferred alternative to U.S. dollar LIBOR. In December 2017, the Federal Reserve announced final plans for the production of SOFR. The SOFR is published each business day by the Federal Reserve Bank of New York, in cooperation with the Office of Financial Research. Plans for alternative reference rates for other currencies have also been announced.

Table of Contents

Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and interest rates indexed to LIBOR, as well as other interest rates. At this time, it is not possible to predict how markets will respond to these alternative reference rates, and the effect of any changes or reforms to LIBOR or discontinuation of LIBOR on new or existing financial instruments to which the Company has exposure. If LIBOR ceases to exist, or if the methods of calculating LIBOR change from current methods for any reason, interest rates on financial instruments whose value is tied to LIBOR may be adversely affected. The manner and impact of this transition and related developments, as well as the effect of these developments on the Company's funding costs, investment and trading securities portfolios, and business, is uncertain and may be materially adverse to the Company's profitability.

Changes in interest rates and increased rate competition could adversely affect the Company’s profitability, business, and prospects.

Most of the Company’s assets and liabilities are monetary in nature, which subjects the Company to significant risks from changes in interest rates and can impact the Company’s net income and the valuation of its assets and liabilities. Increases or decreases in prevailing interest rates could have an adverse effect on the Company’s business, asset quality, and prospects. The Company’s operating income and net income depend to a great extent on its net interest margin. Net interest margin is the difference between the interest yields the Company receives on loans, securities, and other earning assets and the interest rates the Company pays on interest-bearing deposits, borrowings, and other liabilities. These rates are highly sensitive to many factors beyond the Company’s control, including competition, general economic conditions, and monetary and fiscal policies of various governmental and regulatory authorities, including the FRB. If the rate of interest the Company pays on its interest-bearing deposits, borrowings, and other liabilities increases more than the rate of interest the Company receives on loans, securities, and other earning assets increases, the Company’s net interest income, and therefore its earnings, would be adversely affected. The Company’s earnings also could be adversely affected if the rates on the Company’s loans and other investments fall more quickly than those on its deposits and other liabilities. The Company has recently experienced increased competition on the basis of interest rates for both loans and deposits.

In addition, loan volumes are affected by market interest rates on loans. Rising interest rates generally are associated with a lower volume of loan originations, while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates will decline and in falling interest rate environments, loan repayment rates will increase. The Company cannot guarantee that it will be able to minimize interest rate risk. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations.

Interest rates also affect how much money the Company can lend. When interest rates rise, the cost of borrowing increases. Accordingly, changes in market interest rates could materially and adversely affect the Company’s net interest spread, asset quality, loan origination volume, business, financial condition, results of operations, and cash flows.

The Company is exposed to risk of environmental liabilities with respect to properties to which the Company obtains title.

Approximately 56% of the Company’s loan portfolio at December 31, 2018 was secured by real estate. In the course of the Company’s business, the Company may foreclose on and take title to real estate, and could be subject to environmental liabilities with respect to these properties. The Company may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if the Company is the owner or former owner of a contaminated site, the Company may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could be substantial and adversely affect the Company’s business and prospects.

Table of Contents

Risks Related to the Company's Common Stock

The price of the Company’s common stock may fluctuate significantly in the future.

The price of the Company’s common stock on the New York Stock Exchange constantly changes. The Company expects that the market price of its common stock will continue to fluctuate and there can be no assurances about the market price for its common stock.

The Company’s stock price may fluctuate as a result of a variety of factors, many of which are beyond the Company’s control. These factors include:

- actual or anticipated changes in the political climate or public policy, including international trade policy;
- sales of the Company’s equity securities;
- the Company’s financial condition, performance, creditworthiness, and prospects;
- quarterly variations in the Company’s operating results or the quality of its assets;
- operating results that vary from the expectations of management, securities analysts, and investors;
- changes in expectations as to the Company’s future financial performance;
- announcements of strategic developments, acquisitions, and other material events by the Company or its competitors;
- the operating and securities price performance of other companies that investors believe are comparable to the Company;
- the credit, mortgage, and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally;
- changes in national and global financial markets and economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events; and
- the Company’s past and future dividend and share repurchase practices.

There may be future sales or other dilution of the Company’s equity, which may adversely affect the market price of the Company’s common stock.

The Company is not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The Company also grants a significant number of shares of common stock to employees and directors under the Company’s Incentive Plan each year. The issuance of any additional shares of the Company’s common stock or preferred stock or securities convertible into, exchangeable for or that represent the right to receive common stock, or the exercise of such securities could be substantially dilutive to stockholders of the Company’s common stock. Holders of the Company’s common stock have no preemptive rights that entitle such holders to purchase their pro rata share of any offering of shares of any class or series. Because the Company’s decision to issue securities in any future offering will depend on market conditions, its acquisition activity, and other factors, the Company cannot predict or estimate the amount, timing, or nature of its future offerings. Thus, the Company’s stockholders bear the risk of the Company’s future offerings reducing the market price of the Company’s common stock and diluting their stock holdings in the Company.

Offerings of debt, which would be senior to the Company’s common stock upon liquidation, and/or preferred equity securities which may be senior to the Company’s common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of the Company’s common stock.

The Company may from time to time issue debt securities, borrow money through other means, or issue preferred stock. From time to time the Company borrows money from the FRB, the FHLB, other financial institutions, and other lenders. At December 31, 2018, the Company had outstanding $175,000,000 of 6.25% subordinated debentures with a maturity date of July 1, 2056, and WAB had outstanding $150,000,000 aggregate principal amount of 5.00% Fixed-to-Floating Rate Subordinated Notes due July 15, 2025. All of these securities or borrowings have priority over the common stock in a liquidation, which could affect the market price of the Company’s stock.

Table of Contents

The Company’s BOD is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. The Company’s BOD also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over the Company’s common stock with respect to dividends or upon the Company’s dissolution, winding-up, and liquidation and other terms. If the Company issues preferred stock in the future that has a preference over its common stock, with respect to the payment of dividends or upon the Company’s liquidation, dissolution, or winding up, or if the Company issues preferred stock with voting rights that dilute the voting power of its common stock, the rights of holders of its common stock, the market price of its common stock could be adversely affected.

Anti-takeover provisions could negatively impact the Company’s stockholders.

Provisions of Delaware law and provisions of the Company’s Certificate of Incorporation, as amended, and its Amended and Restated Bylaws could make it more difficult for a third party to acquire control of the Company or have the effect of discouraging a third party from attempting to acquire control of the Company. Additionally, the Company’s Certificate of Incorporation, as amended, authorizes the Company’s BOD to issue additional series of preferred stock and such preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third party to acquire the Company even if an acquisition might be in the best interest of the Company’s stockholders.

Table of Contents

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company and WAB are headquartered at One E. Washington Street in Phoenix, Arizona. WAB operates 38 domestic branch locations, which includes 6 executive and administrative offices, 20 of these locations are owned and 18 are leased. The Company also has 11 loan production offices. In addition, WAB owns and occupies a 36,000 square foot operations facility in Las Vegas, Nevada. See "Item 1. Business" for location cities. For information regarding rental payments, see "Note 4. Premises and Equipment" of the Consolidated Financial Statements included in this Form 10-K.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or to which any of its properties are subject. There are no material proceedings known to the Company to be contemplated by any governmental authority. See the "Supervision and Regulation" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K for additional information. From time to time, the Company is involved in a variety of litigation matters in the ordinary course of its business and anticipates that it will become involved in new litigation matters in the future.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The Company’s common stock began trading on the New York Stock Exchange under the symbol “WAL” on June 30, 2005. The Company has filed, without qualifications, its 2018 Domestic Company Section 303A CEO Certification regarding its compliance with the NYSE’s corporate governance listing standards.

Holders

At December 31, 2018, there were approximately 1,542 stockholders of record. This number does not include stockholders who hold shares in the name of brokerage firms or other financial institutions. The Company is not provided the exact number of or identities of these stockholders. There are no other classes of common equity outstanding.

Dividends

WAL has never paid a cash dividend on its common stock and currently has no plans to pay dividends in the future.

Share Repurchases

The following table provides information about the Company's purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act for the periods indicated. These share repurchases consist of those made pursuant to the Company's publicly announced repurchase plan, as well as those made to satisfy minimum tax withholding obligations associated with the vesting of employee stock awards.

	(a) Total Number of Shares Purchased (1)(2)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Approximate Dollar Value of Shares That May Yet to be Purchased Under the Plans or Programs
10/1/2018 through 10/31/2018	21,555	$ 48.32	—	$—
11/1/2018 through 11/30/2018	—	—	—	—
12/1/2018 through 12/31/2018	901,050	39.58	900,883	214,339,618
Total	922,605	$ 39.78	900,883	$214,339,618

(1) Shares purchased during the period were transferred to the Company from employees in satisfaction of minimum tax withholding obligations associated with the vesting of stock awards during the period.

(2) On December 12, 2018, the Company announced that it had adopted a common stock repurchase program, pursuant to which the Company is authorized to repurchase up to $250 million of its shares of common stock. The repurchase program will expire on December 31, 2019.

Table of Contents

Performance Graph

The following graph summarizes a five year comparison of the cumulative total returns for the Company’s common stock, the Standard & Poor’s 500 stock index and the KBW Regional Banking Total Return Index, each of which assumes an initial value of $100.00 on December 31, 2013 and reinvestment of dividends.

Table of Contents

Item 6. Selected Financial Data.

The following selected financial data have been derived from the Company's consolidated financial condition and results of operations, as of and for the years ended December 31, 2018, 2017, 2016, 2015, and 2014, and should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere in this report:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Results of Operations:					
Interest income	$1,033,483	$845,513	$700,506	$525,144	$416,379
Interest expense	117,604	60,849	43,293	32,568	31,486
Net interest income	915,879	784,664	657,213	492,576	384,893
Provision for credit losses	23,000	17,250	8,000	3,200	4,726
Net interest income after provision for credit losses	892,879	767,414	649,213	489,376	380,167
Non-interest income	43,116	45,344	42,915	29,768	24,651
Non-interest expense	425,667	360,941	330,949	260,606	207,319
Income from continuing operations before provision for income taxes	510,328	451,817	361,179	258,538	197,499
Income tax expense	74,540	126,325	101,381	64,294	48,390
Income from continuing operations	435,788	325,492	259,798	194,244	149,109
Loss from discontinued operations, net of tax	—	—	—	—	(1,158)
Net income	$435,788	$325,492	$259,798	$194,244	$147,951

Table of Contents

	As of and for the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands, except per share data)				
Per Share Data:					
Earnings per share available to common stockholders - basic	$4.16	$3.12	$2.52	$2.05	$1.69
Earnings per share available to common stockholders - diluted	4.14	3.10	2.50	2.03	1.67
Earnings per share from continuing operations - basic	4.16	3.12	2.52	2.05	1.70
Earnings per share from continuing operations - diluted	4.14	3.10	2.50	2.03	1.69
Book value per common share	24.90	21.14	18.00	15.44	10.49
Tangible book value per share[1]	22.07	18.31	15.17	12.54	10.21
Shares outstanding at period end	104,949	105,487	105,071	103,087	88,691
Weighted average shares outstanding - basic	104,669	104,179	103,042	94,570	86,693
Weighted average shares outstanding - diluted	105,370	104,997	103,843	95,219	87,506
Selected Balance Sheet Data:					
Cash and cash equivalents	$498,572	$416,768	$284,491	$224,640	$164,396
Investment securities and money market investments	3,694,961	3,754,569	2,702,512	1,984,126	1,522,546
Loans, net of deferred loan fees and costs	17,710,629	15,093,935	13,208,436	11,136,663	8,398,265
Allowance for credit losses	152,717	140,050	124,704	119,068	110,216
Total assets	23,109,486	20,329,085	17,200,842	14,275,089	10,600,498
Total deposits	19,177,447	16,972,532	14,549,863	12,030,624	8,931,043
Other borrowings	491,000	390,000	80,000	150,000	390,263
Qualifying debt	360,458	376,905	367,937	210,328	40,437
Total stockholders' equity	2,613,734	2,229,698	1,891,529	1,591,502	1,000,928
Selected Other Balance Sheet Data:					
Average assets	$21,246,315	$18,869,553	$16,134,263	$12,420,803	$9,891,109
Average earning assets	20,064,545	17,770,939	15,117,364	11,621,977	9,270,465
Average stockholders' equity	2,411,709	2,079,287	1,770,914	1,323,952	964,131
Selected Financial and Liquidity Ratios:					
Return on average assets	2.05 %	1.72 %	1.61 %	1.56 %	1.50 %
Return on average tangible common equity[1]	20.64	18.31	17.71	17.83	18.52
Net interest margin	4.68	4.65	4.58	4.51	4.42
Loan to deposit ratio	92.35	88.93	90.78	92.57	94.03
Capital Ratios:					
Tier 1 leverage ratio	10.9 %	10.3 %	9.9 %	9.8 %	9.7 %
Tier 1 capital ratio	11.1	10.8	10.5	10.2	10.5
Total capital ratio	13.2	13.3	13.2	12.2	11.7
Selected Asset Quality Ratios:					
Net charge-offs (recoveries) to average loans outstanding	0.06 %	0.01 %	0.02 %	(0.06)%	(0.07)%

Non-accrual loans to gross organic loans	0.16	0.29	0.31	0.44	0.81
Non-accrual loans and repossessed assets to total assets	0.20	0.36	0.51	0.65	1.18
Loans past due 90 days or more and still accruing to gross loans	0.00	0.00	0.01	0.03	0.06
Allowance for credit losses to gross loans	0.86	0.93	0.95	1.07	1.31
Allowance for credit losses to non-accrual loans	550.41	318.84	309.65	246.10	162.90

[1] See Non-GAAP Financial Measures section beginning on page 32.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis is designed to provide insight on the financial condition and results of operations of Western Alliance Bancorporation and its subsidiaries and should be read in conjunction with "Item 8. Financial Statements and Supplementary Data." This discussion and analysis contains forward-looking statements that involve risk, uncertainties, and assumptions. Certain risks, uncertainties, and other factors, including, but not limited to, those set forth under "Forward-Looking Statements" at the beginning of Part I of this Form 10-K and those discussed in Part I, Item 1A of this Form 10-K under the heading "Risk Factors," may cause actual results to differ materially from those projected in the forward-looking statements.

Financial Overview and Highlights

WAL is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, international banking, and online banking products and services through its wholly-owned banking subsidiary, WAB.

WAB operates the following full-service banking divisions: ABA, BON and FIB, Bridge, and TPB. The Company also serves business customers through a national platform of specialized financial services.

Financial Result Highlights of 2018

- Net income of $435.8 million for 2018, compared to $325.5 million for 2017
- Diluted earnings per share of $4.14 for 2018, compared to $3.10 per share for 2017
- Net operating revenue of $970.3 million, constituting year-over-year growth of 17.2%, or $142.6 million, compared to an increase in operating non-interest expenses of 15.4%, or $55.8 million[1]
- Operating PPNR increased $86.8 million to $553.5 million, compared to $466.6 million in 2017[1]
- Income tax expense decreased $51.8 million to $74.5 million, compared to $126.3 million in 2017
- Total loans of $17.71 billion, up $2.62 billion from December 31, 2017
- Total deposits of $19.18 billion, up $2.20 billion from December 31, 2017
- Stockholders' equity of $2.61 billion, an increase of $384.0 million from December 31, 2017
- Nonperforming assets (nonaccrual loans and repossessed assets) decreased to 0.20% of total assets, from 0.36% at December 31, 2017
- Net loan charge-offs to average loans outstanding of 0.06% for 2018, compared to 0.01% for 2017
- Net interest margin of 4.68% in 2018, compared to 4.65% in 2017
- Return on average assets of 2.05% for 2018, compared to 1.72% for 2017
- Tangible common equity ratio of 10.2%, compared to 9.6% at December 31, 2017[1]
- Tangible book value per share, net of tax, of $22.07, an increase of 20.5% from $18.31 at December 31, 2017[1]
- Operating efficiency ratio of 41.9% in 2018, compared to 41.5% in 2017[1]

The impact to the Company from these items, and others of both a positive and negative nature, are discussed in more detail below as they pertain to the Company's overall comparative performance for the year ended December 31, 2018.

[1] See Non-GAAP Financial Measures section beginning on page 32.

Table of Contents

As a bank holding company, management focuses on key ratios in evaluating the Company's financial condition and results of operations.

Results of Operations and Financial Condition

A summary of the Company's results of operations, financial condition, and selected metrics are included in the following tables:

	Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands, except per share amounts)		
Net income	$435,788	$325,492	$259,798
Earnings per share - basic	4.16	3.12	2.52
Earnings per share - diluted	4.14	3.10	2.50
Return on average assets	2.05 %	1.72 %	1.61 %
Return on average tangible common equity[1]	20.64	18.31	17.71
Net interest margin	4.68	4.65	4.58
Operating efficiency ratio[1]	41.93	41.51	43.42

	December 31,	
	2018	2017
	(in thousands)	
Total assets	$23,109,486	$20,329,085
Total loans, net of deferred loan fees and costs	17,710,629	15,093,935
Securities and money market investments	3,694,961	3,754,569
Total deposits	19,177,447	16,972,532
Borrowings	491,000	390,000
Qualifying debt	360,458	376,905
Stockholders' equity	2,613,734	2,229,698
Tangible common equity, net of tax[1]	2,316,464	1,931,648

[1] See Non-GAAP Financial Measures section beginning on page 32.

Asset Quality

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

	At or for the Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Non-accrual loans	$27,746	$43,925	$40,272
Repossessed assets	17,924	28,540	47,815
Non-performing assets	82,722	114,939	142,791
Loans past due 90 days and still accruing	594	43	1,067
Non-accrual loans to gross loans	0.16 %	0.29 %	0.31 %
Nonaccrual and repossessed assets to total assets	0.20	0.36	0.51
Loans past due 90 days and still accruing to gross loans	0.00	0.00	0.01
Allowance for credit losses to gross loans	0.86	0.93	0.94
Allowance for credit losses to non-accrual loans	550.41	318.84	309.65
Net charge-offs to average loans outstanding	0.06	0.01	0.02

31

Table of Contents

Asset and Liability Growth

The Company’s assets and liabilities are comprised primarily of loans and deposits. Therefore, the ability to originate new loans and attract new deposits is fundamental to the Company’s growth.

Total assets increased to $23.11 billion at December 31, 2018 from $20.33 billion at December 31, 2017. The increase in total assets of $2.78 billion, or 13.7% relates primarily to organic loan growth of $2.62 billion or 17.3%, to $17.71 billion as of December 31, 2018, compared to $15.09 billion as of December 31, 2017. The increase in loans from December 31, 2017 was driven by commercial and industrial loans of $921.3 million, residential real estate loans of $778.4 million, and construction and land development loans of $502.5 million. Total deposits increased $2.20 billion, or 13.0%, to $19.18 billion as of December 31, 2018 from $16.97 billion as of December 31, 2017. The increase in deposits from December 31, 2017 was driven by an increase in savings and money market deposits of $1.00 billion and interest-bearing demand deposits of $969.4 million from December 31, 2017.

RESULTS OF OPERATIONS

The following table sets forth a summary financial overview for the comparable periods:

	Year Ended December 31,		Increase	Year Ended December 31,		Increase
	2018	2017	(Decrease)	2017	2016	(Decrease)
	(in thousands, except per share amounts)					
Consolidated Income Statement Data:						
Interest income	$1,033,483	$845,513	$187,970	$845,513	$700,506	$145,007
Interest expense	117,604	60,849	56,755	60,849	43,293	17,556
Net interest income	915,879	784,664	131,215	784,664	657,213	127,451
Provision for credit losses	23,000	17,250	5,750	17,250	8,000	9,250
Net interest income after provision for credit losses	892,879	767,414	125,465	767,414	649,213	118,201
Non-interest income	43,116	45,344	(2,228)	45,344	42,915	2,429
Non-interest expense	425,667	360,941	64,726	360,941	330,949	29,992
Income before provision for income taxes	510,328	451,817	58,511	451,817	361,179	90,638
Income tax expense	74,540	126,325	(51,785)	126,325	101,381	24,944
Net income	$435,788	$325,492	$110,296	$325,492	$259,798	$65,694
Earnings per share - basic	$4.16	$3.12	$1.04	$3.12	$2.52	$0.60
Earnings per share - diluted	$4.14	$3.10	$1.04	$3.10	$2.50	$0.60

Non-GAAP Financial Measures

The following discussion and analysis contains financial information determined by methods other than those prescribed by GAAP. The Company's management uses these non-GAAP financial measures in their analysis of the Company's performance. These measurements typically adjust GAAP performance measures to exclude the effects of certain significant activities or transactions that, in management's opinion, do not reflect recurring period-to-period comparisons of the Company's performance. Management believes presentation of these non-GAAP financial measures provides useful supplemental information that is essential to a complete understanding of the operating results of the Company's core businesses. Since the presentation of these non-GAAP performance measures and their impact differ between companies, these non-GAAP disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Operating Pre-Provision Net Revenue

Operating PPNR is defined by the Federal Reserve in SR 14-3, which requires companies subject to the rule to project PPNR over the planning horizon for each of the economic scenarios defined annually by the regulators. Banking regulations define PPNR as net interest income plus non-interest income less non-interest expense. Management has further adjusted this metric to exclude any non-recurring or non-operational elements of non-interest income or non-interest expense, which are outlined in the table below. Management believes that this is an important metric as it illustrates the underlying performance of the Company, it enables investors and others to assess the Company's ability to generate capital to cover credit losses through the credit cycle, and provides consistent reporting with a key metric used by bank regulatory agencies.

Table of Contents

The following table shows the components of operating PPNR for the years ended December 31, 2018, 2017, and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Total non-interest income	$43,116	$45,344	$42,915
Less:			
(Loss) gain on sales of investment securities, net (1)	(7,656)	2,343	1,059
Unrealized (losses) gains on assets measured at fair value, net (1)	(3,611)	(1)	8
Total operating non-interest income	54,383	43,002	41,848
Plus: net interest income	915,879	784,664	657,213
Net operating revenue	$970,262	$827,666	$699,061
Total non-interest expense	$425,667	$360,941	$330,949
Less:			
Contribution to charitable foundation (2)	7,645	—	—
401(k) plan change and other miscellaneous items (2)	1,218	—	—
Net loss (gain) on sales / valuations of repossessed and other assets (1)	9	(80)	(125)
Acquisition / restructure expense (1)	—	—	12,412
Total operating non-interest expense	$416,795	$361,021	$318,662
Operating pre-provision net revenue	$553,467	$466,645	$380,399
Plus:			
Revenue adjustments	(11,267)	2,342	1,067
Less:			
Provision for credit losses	23,000	17,250	8,000
Expense adjustments	8,872	(80)	12,287
Income before provision for income taxes	510,328	451,817	361,179
Income tax expense	74,540	126,325	101,381
Net income	$435,788	$325,492	$259,798

(1) The operating PPNR non-GAAP performance metric is adjusted to exclude the effects of this non-operational item.

(2) The operating PPNR non-GAAP performance metric is adjusted to exclude the effects of these non-recurring items. See "Note 19. Related Party Transactions" for further information regarding the charitable contribution.

Table of Contents

Tangible Common Equity

The following table presents financial measures related to tangible common equity. Tangible common equity represents total stockholders' equity, less identifiable intangible assets and goodwill. Management believes that tangible common equity financial measures are useful in evaluating the Company's capital strength, financial condition, and ability to manage potential losses. In addition, management believes that these measures improve comparability to other institutions that have not engaged in acquisitions that resulted in recorded goodwill and other intangible assets.

	December 31	
	2018	2017
	(dollars and shares in thousands)	
Total stockholders' equity	$2,613,734	$2,229,698
Less: goodwill and intangible assets	299,155	300,748
Total tangible stockholders' equity	2,314,579	1,928,950
Plus: deferred tax - attributed to intangible assets	1,885	2,698
Total tangible common equity, net of tax	$2,316,464	$1,931,648
Total assets	$23,109,486	$20,329,085
Less: goodwill and intangible assets, net	299,155	300,748
Tangible assets	22,810,331	20,028,337
Plus: deferred tax - attributed to intangible assets	1,885	2,698
Total tangible assets, net of tax	$22,812,216	$20,031,035
Tangible common equity ratio	10.2 %	9.6 %
Common shares outstanding	104,949	105,487
Book value per share	$24.90	$21.14
Tangible book value per share, net of tax	22.07	18.31

Operating Efficiency Ratio

The following table shows the components used in the calculation of the operating efficiency ratio, which management uses as a metric for assessing cost efficiency:

	Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Total operating non-interest expense	$416,795	$361,021	$318,662
Divided by:			
Total net interest income	$915,879	$784,664	$657,213
Plus:			
Tax equivalent interest adjustment	23,809	41,989	34,902
Operating non-interest income	54,383	43,002	41,848
Net operating revenue - TEB	$994,071	$869,655	$733,963
Operating efficiency ratio - TEB	41.9 %	41.5 %	43.4 %

Table of Contents

Regulatory Capital

The following table presents certain financial measures related to regulatory capital under Basel III, which includes Common Equity Tier 1 and total capital. The FRB and other banking regulators use Common Equity Tier 1 and total capital as a basis for assessing a bank's capital adequacy; therefore, management believes it is useful to assess financial condition and capital adequacy using this same basis. Specifically, the total capital ratio takes into consideration the risk levels of assets and off-balance sheet financial instruments. In addition, management believes that the classified assets to Common Equity Tier 1 plus allowance measure is an important regulatory metric for assessing asset quality.

	December 31,	
	2018	2017
	(dollars in thousands)	
Common Equity Tier 1:		
Common Equity	$2,613,734	$2,229,698
Less:		
Non-qualifying goodwill and intangibles	296,769	296,421
Disallowed deferred tax asset	768	638
AOCI related adjustments	(47,055)	(9,496)
Unrealized gain on changes in fair value liabilities	13,432	7,785
Common Equity Tier 1	$2,349,820	$1,934,350
Divided by: Risk-weighted assets	$21,983,976	$18,569,608
Common Equity Tier 1 ratio	10.7 %	10.4 %
Common Equity Tier 1	$2,349,820	$1,934,350
Plus:		
Trust preferred securities	81,500	81,500
Less:		
Disallowed deferred tax asset	—	159
Unrealized gain on changes in fair value liabilities	—	1,947
Tier 1 capital	$2,431,320	$2,013,744
Divided by: Tangible average assets	$22,204,799	$19,624,517
Tier 1 leverage ratio	10.9 %	10.3 %
Total Capital:		
Tier 1 capital	$2,431,320	$2,013,744
Plus:		
Subordinated debt	305,131	301,020
Qualifying allowance for credit losses	152,717	140,050
Other	8,188	6,174
Less: Tier 2 qualifying capital deductions	—	—
Tier 2 capital	$466,036	$447,244
Total capital	$2,897,356	$2,460,988
Total capital ratio	13.2 %	13.3 %
Classified assets to Tier 1 capital plus allowance for credit losses:		
Classified assets	$242,101	$222,004
Divided by:		
Tier 1 capital	2,431,320	2,013,744

Plus: Allowance for credit losses	152,717	140,050
Total Tier 1 capital plus allowance for credit losses	$2,584,037	$2,153,794
Classified assets to Tier 1 capital plus allowance	9.4 %	10.3 %

Table of Contents

Net Interest Margin

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

	Year Ended December 31,					
	2018			2017		
	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
	(dollars in thousands)					
Interest earning assets						
Loans:						
Commercial and industrial	$7,039,090	$387,422	5.68 %	$6,188,473	$311,375	5.42 %
CRE - non-owner occupied	3,952,702	234,753	5.95	3,629,644	216,423	5.99
CRE - owner occupied	2,263,112	118,351	5.34	2,033,767	101,976	5.27
Construction and land development	1,975,587	137,227	6.96	1,603,328	99,427	6.22
Residential real estate	616,159	29,681	4.82	339,285	16,066	4.74
Consumer	54,078	3,143	5.81	46,033	2,243	4.87
Total loans (1), (2), (3)	15,900,728	910,577	5.82	13,840,530	747,510	5.62
Securities:						
Securities - taxable	2,803,350	78,630	2.80	2,579,585	64,043	2.48
Securities - tax-exempt	879,888	33,042	4.69	670,321	24,596	5.45
Total securities (1)	3,683,238	111,672	3.26	3,249,906	88,639	3.10
Other	480,579	11,234	2.34	680,503	9,364	1.38
Total interest earning assets	20,064,545	1,033,483	5.27	17,770,939	845,513	4.99
Non-interest earning assets						
Cash and due from banks	145,246			137,537		
Allowance for credit losses	(146,288)			(131,954)		
Bank owned life insurance	168,685			166,054		
Other assets	1,014,127			926,977		
Total assets	$21,246,315			$18,869,553		
Interest-bearing liabilities						
Interest-bearing deposits:						
Interest-bearing transaction accounts	$1,891,160	$11,584	0.61 %	$1,467,231	$3,974	0.27 %
Savings and money market accounts	6,501,241	54,962	0.85	6,208,057	26,086	0.42
Time certificates of deposit	1,748,675	23,918	1.37	1,560,896	11,905	0.76
Total interest-bearing deposits	10,141,076	90,464	0.89	9,236,184	41,965	0.45
Short-term borrowings	260,662	4,853	1.86	63,623	611	0.96
Qualifying debt	362,410	22,287	6.15	371,311	18,273	4.92
Total interest-bearing liabilities	10,764,148	117,604	1.09	9,671,118	60,849	0.63
Non-interest-bearing liabilities						
Non-interest-bearing demand deposits	7,712,791			6,788,783		
Other liabilities	357,667			330,365		
Stockholders’ equity	2,411,709			2,079,287		
Total liabilities and stockholders' equity	$21,246,315			$18,869,553		
Net interest income and margin (4)		$915,879	4.68 %		$784,664	4.65 %
TCJA adjusted net interest margin (5)						4.53 %

(1) Yields on loans and securities have been adjusted to a TEB. The taxable-equivalent adjustment was $23.8 million and $42.0 million for 2018 and 2017, respectively.

(2) Included in the yield computation are net loan fees of $44.8 million and accretion on acquired loans of $18.6 million for 2018, compared to $37.0 million and $28.2 million for 2017, respectively.
(3) Includes non-accrual loans.
(4) Net interest margin is computed by dividing net interest income by total average earning assets.
(5) Prior period net interest margin is adjusted to include the effects from the TCJA of the lower statutory corporate federal tax rate on the calculation of the taxable-equivalent adjustment, which reduced the taxable-equivalent adjustment to $20.7 million.

Table of Contents

	Year Ended December 31, 2017			2016		
	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
	(dollars in thousands)					
Interest earning assets						
Loans:						
Commercial and industrial	$6,188,473	$311,375	5.42 %	$5,426,053	$252,209	5.14 %
CRE - non-owner occupied	3,629,644	216,423	5.99	3,212,359	182,731	5.69
CRE - owner occupied	2,033,767	101,976	5.27	2,016,585	103,418	5.13
Construction and land development	1,603,328	99,427	6.22	1,307,895	83,206	6.36
Residential real estate	339,285	16,066	4.74	289,181	13,374	4.62
Consumer	46,033	2,243	4.87	35,821	1,658	4.63
Total loans (1), (2), (3)	13,840,530	747,510	5.62	12,287,894	636,596	5.40
Securities:						
Securities - taxable	2,579,585	64,043	2.48	1,789,806	39,772	2.22
Securities - tax-exempt	670,321	24,596	5.45	507,103	18,768	5.34
Total securities (1)	3,249,906	88,639	3.10	2,296,909	58,540	2.91
Other	680,503	9,364	1.38	532,561	5,370	1.01
Total interest earning assets	17,770,939	845,513	4.99	15,117,364	700,506	4.86
Non-interest earning assets						
Cash and due from banks	137,537			141,789		
Allowance for credit losses	(131,954)			(122,048)		
Bank owned life insurance	166,054			163,596		
Other assets	926,977			833,562		
Total assets	$18,869,553			$16,134,263		
Interest-bearing liabilities						
Interest-bearing deposits:						
Interest-bearing transaction accounts	$1,467,231	$3,974	0.27 %	$1,217,344	$2,231	0.18 %
Savings and money market accounts	6,208,057	26,086	0.42	5,827,549	19,368	0.33
Time certificates of deposit	1,560,896	11,905	0.76	1,615,502	8,123	0.50
Total interest-bearing deposits	9,236,184	41,965	0.45	8,660,395	29,722	0.34
Short-term borrowings	63,623	611	0.96	80,727	573	0.71
Qualifying debt	371,311	18,273	4.92	290,779	12,998	4.47
Total interest-bearing liabilities	9,671,118	60,849	0.63	9,031,901	43,293	0.48
Non-interest-bearing liabilities						
Non-interest-bearing demand deposits	6,788,783			5,062,319		
Other liabilities	330,365			269,129		
Stockholders’ equity	2,079,287			1,770,914		
Total liabilities and stockholders' equity	$18,869,553			$16,134,263		
Net interest income and margin (4)		$784,664	4.65 %		$657,213	4.58 %
TCJA adjusted net interest margin (5)			4.53 %			4.47 %

(1) Yields on loans and securities have been adjusted to a TEB. The taxable-equivalent adjustment was $42.0 million and $34.9 million for 2017 and 2016, respectively.

(2) Included in the yield computation are net loan fees of $37.0 million and accretion on acquired loans of $28.2 million for 2017, compared to $28.5 million and $29.2 million for 2016, respectively.

(3) Includes non-accrual loans.

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

(5) Prior period net interest margin is adjusted to include the effects from the TCJA of the lower statutory corporate federal tax rate on the calculation of the taxable-equivalent adjustment, which reduced the taxable-equivalent adjustments to $20.7 million and $18.1 million for 2017 and 2016, respectively.

	Year Ended December 31, 2018 versus 2017 Increase (Decrease) Due to Changes in (1)			Year Ended December 31, 2017 versus 2016 Increase (Decrease) Due to Changes in (1)		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Interest income:						
Loans:						
Commercial and industrial	$46,817	$29,230	$76,047	$38,362	$20,804	$59,166
CRE - non-owner occupied	19,187	(857)	18,330	24,881	8,811	33,692
CRE - owner occupied	11,994	4,381	16,375	862	(2,304)	(1,442)
Construction and land development	25,858	11,942	37,800	18,320	(2,099)	16,221
Residential real estate	13,337	278	13,615	2,373	319	2,692
Consumer	468	432	900	498	87	585
Total loans	117,661	45,406	163,067	85,296	25,618	110,914
Securities:						
Securities - taxable	6,276	8,311	14,587	19,608	4,663	24,271
Securities - tax-exempt	7,870	576	8,446	5,989	(161)	5,828
Total securities	14,146	8,887	23,033	25,597	4,502	30,099
Other	(4,673)	6,543	1,870	2,036	1,958	3,994
Total interest income	127,134	60,836	187,970	112,929	32,078	145,007
Interest expense:						
Interest-bearing transaction accounts	$2,597	$5,013	$7,610	$677	$1,066	$1,743
Savings and money market	2,479	26,397	28,876	1,600	5,118	6,718
Time certificates of deposit	2,568	9,445	12,013	(416)	4,198	3,782
Short-term borrowings	3,668	574	4,242	(165)	203	38
Qualifying debt	(547)	4,561	4,014	3,963	1,312	5,275
Total interest expense	10,765	45,990	56,755	5,659	11,897	17,556
Net increase	$116,369	$14,846	$131,215	$107,270	$20,181	$127,451

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

Comparison of interest income, interest expense and net interest margin

The Company's primary source of revenue is interest income. For the year ended December 31, 2018, interest income was $1.03 billion, an increase of $188.0 million, or 22.2%, compared to $845.5 million for the year ended December 31, 2017. This increase was primarily the result of a $2.06 billion increase in the average loan balance which, together with the effect of the rising rate environment, drove a $163.1 million increase in loan interest income for the year ended December 31, 2018. Interest income from investment securities increased by $23.0 million for the comparable period primarily due to an increase in the average investment balance of $433.3 million from December 31, 2017 as well as an increase in interest rates. Average yield on interest earning assets increased to 5.27% for the year ended December 31, 2018, compared to 4.99% in 2017, which was the result of the growing loan portfolio and increased yields on loans and investment securities resulting from rising interest rates.

For the year ended December 31, 2018, interest expense was $117.6 million, compared to $60.8 million for the year ended December 31, 2017. Interest expense on deposits increased $48.5 million for the same period as average interest-bearing deposits increased $904.9 million which, together with the effect of the rising rate environment, drove a 44 basis point increase in average cost of interest-bearing deposits. Interest expense on short-term borrowings increased by $4.2 million as a result of a $197.0 million increase in average short-term borrowings for the year ended December 31, 2018 compared to the same period in 2017. Interest expense on qualifying debt increased by $4.0

million as a result of a 1.12% increase in the weighted average interest rate on junior subordinated debt during the year ended December 31, 2018 compared to the same period in 2017 due to increases in three-month LIBOR.
For the year ended December 31, 2018, net interest income was $915.9 million, compared to $784.7 million for the year ended December 31, 2017. The increase in net interest income reflects a $2.29 billion increase in average interest earning assets, offset by a $1.09 billion increase in average interest-bearing liabilities. The increase in net interest margin of 3 basis points compared to 2017 is the result of increased yields on loans and investment securities attributable to the rising interest rate environment,

Table of Contents

partially offset by higher deposit and funding costs and a decrease in the tax-equivalent adjustment on tax-exempt loans and investment securities.

Interest income for the year ended December 31, 2017 was $845.5 million, an increase of 20.7%, compared to $700.5 million for the year ended December 31, 2016. This increase was primarily the result of a $1.55 billion increase in the average loan balance, which together with the effect of the rising rate environment and inclusion of a full year of HFF results, drove a $110.9 million increase in loan interest income for the year ended December 31, 2017. Interest income from investment securities increased by $30.1 million for the comparable period primarily due to an increase in the average investment balance of $953.0 million from December 31, 2016 as well as increase in interest rates. Average yield on interest earning assets increased to 4.99% for the year ended December 31, 2017, compared to 4.86% for the same period in 2016, which was primarily the result of increased yields on loans and investment securities resulting from rising interest rates during 2017.

Interest expense for the year ended December 31, 2017 was $60.8 million, compared to $43.3 million for the year ended December 31, 2016, an increase of $17.6 million, or 40.6%. Interest expense on deposits increased $12.2 million for the same period as average interest-bearing deposits increased $575.8 million which, together with the effect of the rising rate environment, drove an 11 basis point increase in average cost of interest-bearing deposits. Interest expense on qualifying debt increased by $5.3 million as a result of an $80.5 million increase in average qualifying debt for the year ended December 31, 2017 compared to the same period in 2016. The increase in interest expense on qualifying debt is the result of inclusion of a full year of interest expense on the Parent's $175.0 million of subordinated debentures in 2017 results, compared to only six months in 2016.

Net interest income was $784.7 million for the year ended December 31, 2017, compared to $657.2 million for the year ended December 31, 2016, an increase of $127.5 million, or 19.4%. The increase in net interest income reflects a $2.65 billion increase in average interest earning assets, offset by a $639.2 million increase in average interest-bearing liabilities. The increase in net interest margin of 7 basis points compared to 2016, is also the result of an increase in average yield on loans and securities due to the rising interest rate environment, partially offset by higher deposit and funding costs.

Provision for Credit Losses

The provision for credit losses in each period is reflected as a reduction in earnings for that period. The provision is equal to the amount required to maintain the allowance for credit losses at a level that is adequate to absorb probable credit losses inherent in the loan portfolio. For the year ended December 31, 2018, the provision for credit losses was $23.0 million, compared to $17.3 million for the year ended December 31, 2017. The increase in the provision was primarily due to higher organic loan growth as loan growth totaled $2.62 billion in 2018, compared to $1.89 billion in 2017. Also contributing to the increase in the provision for credit losses were increased net charge-offs in 2018 compared to 2017.

For the year ended December 31, 2017, the provision for credit losses was $17.3 million, compared to $8.0 million for the year ended December 31, 2016. The provision increase was primarily due to an increase in total organic loans, as well as increased net charge-offs for 2017 compared to 2016.

The Company may also establish an additional allowance for credit losses on PCI and non-PCI loans through provision for credit losses. For PCI loans, an additional allowance for credit losses is established when impairment is determined as a result of lower than expected cash flows. As of December 31, 2018 and 2017, the allowance for credit losses on PCI loans was $0.1 million and $1.6 million, respectively. For non-PCI loans, an additional allowance for credit losses is established when the remaining credit marks on these loans are lower than Company's calculated allowance for similar types of organic loans. As of December 31, 2018 and 2017, the allowance for credit losses on non-PCI loans was $3.4 million and $2.6 million, respectively.

Table of Contents

Non-interest Income

The following table presents a summary of non-interest income for the periods presented:

	Year Ended December 31,					
	2018	2017	Increase (Decrease)	2017	2016	Increase (Decrease)
	(in thousands)					
Service charges and fees	$22,295	$20,346	$ 1,949	$20,346	$18,824	$ 1,522
Income from equity investments	8,595	4,496	4,099	4,496	2,664	1,832
Card income	8,009	6,313	1,696	6,313	5,226	1,087
Foreign currency income	4,760	3,536	1,224	3,536	3,419	117
Lending related income and gains (losses) on sale of loans, net	4,340	2,212	2,128	2,212	5,295	(3,083)
Income from bank owned life insurance	3,946	3,861	85	3,861	3,762	99
(Loss) gain on sales of investment securities, net	(7,656)	2,343	(9,999)	2,343	1,059	1,284
Unrealized (losses) gains on assets measured at fair value, net	(3,611)	—	(3,611)	—	—	—
Other income	2,438	2,237	201	2,237	2,666	(429)
Total non-interest income	$43,116	$45,344	$ (2,228)	$45,344	$42,915	$ 2,429

Total non-interest income for the year ended December 31, 2018 compared to 2017, decreased by $2.2 million, or 4.9%. The decrease is due to a net loss on sales of investment securities and unrealized losses on assets measured at fair value. The net loss on sales of investment securities of $7.7 million relates to losses on sales of low yielding AFS debt investment securities, which were replaced with investment securities with shorter durations and higher yields, as well as losses on sales of equity securities. These losses were partially offset by gains on sales of other AFS debt securities. Unrealized losses on assets measured at fair value of $3.6 million relate to fair value changes in the Company's equity securities. Due to adoption of ASU 2016-01, effective January 1, 2018, changes in the fair value of equity securities are recognized in net income rather than accumulated other comprehensive income. These decreases were partially offset by an increase in income from equity investments, lending related income, and service charges and fees. The increase in income from equity investments of $4.1 million is attributable to an increase in both warrant and SBIC income. The increase in lending income of $2.1 million is mainly due to net gains on sale of loans. The increase in service charges and fees of $1.9 million is due to continued growth in the Company's deposit base, which increased $2.20 billion during the year ended December 31, 2018.

Total non-interest income for the year ended December 31, 2017 compared to 2016, increased by $2.4 million, or 5.7%. The increase is primarily due to income from equity investments and service charges and fees. The increase in income from equity investments is attributable to an increase in both warrant and SBIC income. The increase in service charges and fees is due to continued growth in the Company's deposit base, which increased $2.42 billion from December 31, 2016. These increases were offset by a decrease in lending related income and net gains on sale of loans largely as a result of decreased net gains on sale of loans in 2017.

Table of Contents

Non-interest Expense

The following table presents a summary of non-interest expense for the periods presented:

	Year Ended December 31,					
	2018	2017	Increase (Decrease)	2017	2016	Increase (Decrease)
	(in thousands)					
Salaries and employee benefits	$253,238	$214,344	$ 38,894	$214,344	$188,810	$ 25,534
Occupancy	29,404	27,860	1,544	27,860	27,303	557
Legal, professional, and directors' fees	28,722	29,814	(1,092)	29,814	24,610	5,204
Data processing	22,716	19,225	3,491	19,225	19,657	(432)
Deposit costs	18,900	9,731	9,169	9,731	4,983	4,748
Insurance	14,005	14,042	(37)	14,042	12,898	1,144
Business development	5,960	6,128	(168)	6,128	5,902	226
Loan and repossessed asset expenses	4,578	4,617	(39)	4,617	2,999	1,618
Card expense	4,301	3,413	888	3,413	1,939	1,474
Marketing	3,770	3,804	(34)	3,804	3,596	208
Intangible amortization	1,594	2,074	(480)	2,074	2,788	(714)
Net loss (gain) on sales / valuations of repossessed and other assets	9	(80)	89	(80)	(125)	45
Acquisition / restructure expense	—	—	—	—	12,412	(12,412)
Other expense	38,470	25,969	12,501	25,969	23,177	2,792
Total non-interest expense	$425,667	$360,941	$ 64,726	$360,941	$330,949	$ 29,992

Total non-interest expense for the year ended December 31, 2018 compared to 2017, increased $64.7 million, or 17.9%. This increase primarily relates to salaries and employee benefits, deposit costs, and other expense. Salaries and employee benefits have increased as the Company supports its continued growth. Full-time equivalent employees increased 3.6% to 1,787 during the year ended December 31, 2018. Deposit costs consist of earnings credits on select non-interest-bearing deposits and fees to Promontory Interfinancial Network and others for reciprocal deposits. The increase in deposit costs for 2018 compared to 2017 relates to both an increase in deposits eligible for earnings credits, along with higher average earnings credits paid, driven by a rising rate environment. The increase in other non-interest expense primarily relates to a $7.6 million donation to the Company's charitable foundation, which is further discussed in "Note 19. Related Party Transactions."

Total non-interest expense for the year ended December 31, 2017 compared to 2016, increased $30.0 million, or 9.1%. This increase primarily relates to salaries and employee benefits, legal, professional, and directors' fees, and deposit costs. Salaries and employee benefits and legal, professional, and directors' fees have increased as the Company continues to build out its infrastructure to support its continued growth. Full-time equivalent employees increased 13.9% from 1,514 at December 31, 2016 compared to 1,725 at December 31, 2017. The increase in deposit costs for 2017 compared to 2016 primarily relates to an increase in deposit earnings credits paid to account holders. These increases to non-interest expense were offset by a decrease of $12.4 million in acquisition / restructure expense related to the HFF acquisition and restructure costs for the system conversion that occurred in the fourth quarter of 2016.

Income Taxes

For the years ended December 31, 2018, 2017, and 2016 the Company's effective tax rate was 14.61%, 27.96%, and 28.07%, respectively. The decrease in the effective tax rate from 2017 to 2018 is due primarily to the decrease in the federal statutory rate effective in 2018, a reduction in excise taxes, and management's decision during the third quarter 2018 to carryback its 2017 federal NOLs. The reduction in excise taxes from 2017 to 2018 resulted from not deferring WAB's 2018 dividend from BW Real Estate as was the case in 2017. The Company's 2017 federal NOLs resulted from the acceleration of deductions into and deferral of revenue from 2017. As the federal income tax rate was higher in the years to which the carryback is applicable, a larger tax benefit results from the decision to carryback the 2017 federal NOLs, rather than carryforward these losses to future taxable years. There was not a significant change in the effective tax rate from 2016 compared to 2017.

41

Table of Contents

Business Segment Results

The Company's reportable segments are aggregated primarily based on geographic location, services offered, and markets served. The Company's regional segments, which include Arizona, Nevada, Southern California, and Northern California, provide full service banking and related services to their respective markets. The Company's NBL segments, which include HOA services, Public & Nonprofit Finance, Technology & Innovation, HFF, and Other NBLs, provide specialized banking services to niche markets. These NBLs are managed centrally and are broader in geographic scope than the Company's other segments, though still predominately located within the Company's core market areas. The Corporate & Other segment consists of the Company's investment portfolio, Corporate borrowings and other related items, income and expense items not allocated to the Company's other reportable segments, and inter-segment eliminations.

The following tables present selected operating segment information for the periods presented:

		Regional Segments			
	Consolidated Company	Arizona	Nevada	Southern California	Northern California
December 31, 2018	(in millions)				
Loans, net of deferred loan fees and costs	$17,710.6	$3,647.9	$2,003.5	$ 2,161.1	$ 1,300.2
Deposits	19,177.4	5,090.2	3,996.4	2,347.5	1,839.1
December 31, 2017					
Loans, net of deferred loan fees and costs	$15,093.9	$3,323.7	$1,844.8	$ 1,934.7	$ 1,275.5
Deposits	16,972.5	4,841.3	3,951.4	2,461.1	1,681.7
Year Ended December 31, 2018	(in thousands)				
Income (loss) before income taxes	$510,328	$139,047	$99,322	$59,334	$48,132
Year Ended December 31, 2017					
Income (loss) before income taxes	$451,817	$126,108	$97,794	$60,665	$42,398

	National Business Lines					
	HOA Services	Public & Nonprofit Finance	Technology & Innovation	Hotel Franchise Finance	Other NBL	Corporate & Other
December 31, 2018	(in millions)					
Loans, net of deferred loan fees and costs	$210.0	$ 1,547.5	$ 1,200.9	$ 1,479.9	$4,154.9	$ 4.7
Deposits	2,607.2	—	2,559.0	—	—	738.0
December 31, 2017						
Loans, net of deferred loan fees and costs	$162.1	$ 1,580.4	$ 1,097.9	$ 1,327.7	$2,543.0	$ 4.1
Deposits	2,230.4	—	1,737.6	—	—	69.0
Year Ended December 31, 2018	(in thousands)					
Income (loss) before income taxes	$35,097	$8,288	$72,334	42,467	$44,281	$(37,974)
Year Ended December 31, 2017						
Income (loss) before income taxes	$26,030	$19,370	$51,348	42,354	$37,401	$(51,651)

42

BALANCE SHEET ANALYSIS

Total assets increased $2.78 billion, or 13.7%, to $23.11 billion at December 31, 2018 compared to $20.33 billion at December 31, 2017. The increase in total assets relates primarily to organic loan growth. Loans increased $2.62 billion, or 17.3%, to $17.71 billion at December 31, 2018, compared to $15.09 billion at December 31, 2017. The increase in loans from December 31, 2017 was driven by commercial and industrial loans of $921.3 million, residential real estate loans of $778.4 million, and construction and land development loans of $502.5 million.

Total liabilities increased $2.40 billion, or 13.2%, to $20.50 billion at December 31, 2018 compared to $18.10 billion at December 31, 2017. The increase in liabilities is due primarily to an increase in total deposits. Total deposits increased $2.20 billion, or 13.0%, to $19.18 billion at December 31, 2018, all of which is attributable to organic deposit growth.

Total stockholders’ equity increased by $384.0 million, or 17.2%, to $2.61 billion at December 31, 2018 compared to $2.23 billion at December 31, 2017. The increase in stockholders' equity relates primarily to net income for the year ended December 31, 2018, partially offset by share repurchases and net unrealized losses on AFS securities.

Investment securities

Debt securities are classified at the time of acquisition as either HTM, AFS, or trading based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. HTM securities are carried at amortized cost, adjusted for amortization of premiums or accretion of discounts. AFS securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Investment securities classified as AFS are carried at fair value. Unrealized gains or losses on AFS securities are recorded as part of AOCI in stockholders’ equity. Amortization of premiums or accretion of discounts on MBS is periodically adjusted for estimated prepayments. Trading securities are reported at fair value, with unrealized gains and losses included in current period earnings.

For periods prior to January 1, 2018, equity securities were classified as AFS and reported at fair value with unrealized gains and losses included as a separate component of AOCI, net of tax. Upon adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, equity securities are no longer reported as part of AFS securities and changes in fair value are recognized as part of non-interest income.

The Company's investment securities portfolio is utilized as collateral for borrowings, required collateral for public deposits and customer repurchase agreements, and to manage liquidity, capital, and interest rate risk. The following table summarizes the carrying value of the investment securities portfolio for each of the periods below:

	At December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Debt securities					
CDO	$15,327	$21,857	$13,490	$10,060	$11,445
Commercial MBS issued by GSEs	100,106	109,077	117,792	19,114	2,147
Corporate debt securities	99,380	103,483	64,144	13,251	52,489
Private label commercial MBS	—	—	—	4,691	5,149
Private label residential MBS	924,594	868,524	433,685	257,128	70,243
Residential MBS issued by GSEs	1,530,124	1,689,295	1,356,258	1,171,702	893,047
Tax-exempt	841,573	765,960	500,312	334,830	299,037
Trust preferred securities	28,617	28,617	26,532	24,314	25,546
U.S. government sponsored agency securities	38,188	61,462	56,022	—	18,346
U.S. treasury securities	1,984	2,482	2,502	2,993	—
Total debt securities	$3,579,893	$3,650,757	$2,570,737	$1,838,083	$1,377,449
Equity securities					
CRA investments	$51,142	$50,616	$37,113	$34,685	$24,332
Mutual funds	—	—	—	—	37,702
Preferred stock	63,919	53,196	94,662	111,236	82,612

Total equity securities	$115,061	$103,812	$131,775	$145,921	$144,646

Table of Contents

Weighted average yield on investment securities is calculated by dividing income within each maturity range by the outstanding amount of the related investment and has not been tax-effected on tax-exempt obligations. For purposes of calculating the weighted average yield, AFS securities are carried at amortized cost in the table below. The maturity distribution and weighted average yield of the Company's investment security portfolios at December 31, 2018 are summarized in the table below:

	December 31, 2018									
	Due Under 1 Year		Due 1-5 Years		Due 5-10 Years		Due Over 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)									
Held-to-maturity										
Tax-exempt	$11,300	4.48%	$—	— %	$14,493	3.80%	$277,112	4.78%	$302,905	4.73%
Available-for-sale										
CDO	$—	— %	$—	— %	$—	— %	$50	— %	$50	— %
Commercial MBS issued by GSEs (1)	—	—	—	—	—	—	106,385	2.23	106,385	2.23
Corporate debt securities	—	—	5,029	4.31	100,000	3.90	—	—	105,029	3.92
Private label residential MBS (1)	—	—	—	—	—	—	948,161	3.33	948,161	3.33
Residential MBS issued by GSEs (1)	—	—	—	—	—	—	1,564,181	2.72	1,564,181	2.72
Tax-exempt	2,306	3.14	6,038	3.40	76,197	3.50	457,545	3.02	542,086	3.10
Trust preferred securities	—	—	—	—	—	—	32,000	3.51	32,000	3.51
U.S. government sponsored agency securities	—	—	—	—	40,000	2.51	—	—	40,000	2.51
U.S. treasury securities	1,000	1.31	996	1.68	—	—	—	—	1,996	1.49
Total AFS securities	$3,306	2.59%	$12,063	3.64%	$216,197	3.50%	$3,108,322	2.94%	$3,339,888	2.98%
Equity										
CRA investments	$31,943	2.24%	$17,262	4.01%	$3,005	3.00%	$—	— %	$52,210	2.87%
Preferred stock	—	—	—	—	—	—	65,954	6.75	65,954	6.75
Total equity securities	$31,943	2.24%	$17,262	4.01%	$3,005	3.00%	$65,954	3.15%	$118,164	3.02%

(1) MBS are comprised of pools of loans with varying maturities, the majority of which are due after 10 years.

The Company does not own any subprime MBS in its investment portfolio. The majority of its MBS are GSE issued. The remaining MBS that are not GSE issued consist of $887.5 million rated AAA, $34.3 million rated AA, $0.3 million rated A, $0.9 million rated BBB, and $1.4 million non-investment grade.

Gross unrealized losses at December 31, 2018 relate primarily to market interest rate increases since the securities' original purchase date. The Company has reviewed securities on which there is an unrealized loss in accordance with its accounting policy for OTTI securities described in "Note 2. Investment Securities" to the Consolidated Financial Statements contained herein. There were no impairment charges recorded during the years ended December 31, 2018, 2017, and 2016.

The Company does not consider any securities to be other-than-temporarily impaired as of December 31, 2018, 2017, and 2016. However, the Company cannot guarantee that OTTI will not occur in future periods. At December 31, 2018, the Company has the intent and ability to retain its investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Table of Contents

Loans

The table below summarizes the distribution of the Company’s held for investment loan portfolio at the end of each of the periods indicated:

	December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Loans, held for investment					
Commercial and industrial	$7,765,100	$6,841,247	$5,859,446	$5,264,856	$3,531,899
Commercial real estate - non-owner occupied	4,223,427	3,911,313	3,549,876	2,289,480	2,058,620
Commercial real estate - owner occupied	2,329,205	2,245,060	2,015,671	2,085,738	1,734,617
Construction and land development	2,155,625	1,647,726	1,489,488	1,143,228	754,154
Residential real estate	1,203,613	425,291	258,734	322,265	298,872
Consumer	69,995	48,583	38,572	26,474	32,633
Deferred loan fees and costs	(36,336)	(25,285)	(22,260)	(19,187)	(12,530)
Loans, net of deferred loan fees and costs	17,710,629	15,093,935	13,189,527	11,112,854	8,398,265
Allowance for credit losses	(152,717)	(140,050)	(124,704)	(119,068)	(110,216)
Total loans HFI	$17,557,912	$14,953,885	$13,064,823	$10,993,786	$8,288,049

Net deferred loan fees and costs as of December 31, 2018 and 2017 total $36.3 million and $25.3 million, respectively, which is a reduction in the carrying value of loans. Net unamortized purchase discounts on secondary market loan purchases total $2.0 million and $8.5 million as of December 31, 2018 and 2017, respectively. Total loans held for investment are also net of interest rate and credit marks on acquired loans, which are a net reduction in the carrying value of loans. Interest rate marks were $7.1 million and $14.1 million as of December 31, 2018 and 2017, respectively. Credit marks were $14.6 million and $27.0 million as of December 31, 2018 and 2017, respectively.

Table of Contents

The following table sets forth the amount of loans outstanding by type of loan as of December 31, 2018 that were contractually due in one year or less, more than one year and less than five years, and more than five years based on remaining scheduled repayments of principal. Lines of credit or other loans having no stated final maturity and no stated schedule of repayments are reported as due in one year or less. The table also presents an analysis of the rate structure for loans within the same maturity time periods. Actual cash flows from these loans may differ materially from contractual maturities due to prepayment, refinancing, or other factors.

	Due in one year or less	Due after one year to five years	Due after five years	Total
	(in thousands)			
Commercial and industrial				
Floating rate	$1,425,954	$3,233,634	$899,241	$5,558,829
Fixed rate	74,027	635,561	1,494,225	2,203,813
Commercial real estate — non-owner occupied				
Floating rate	340,231	1,771,352	547,881	2,659,464
Fixed rate	184,166	923,746	446,052	1,553,964
Commercial real estate — owner occupied				
Floating rate	42,537	182,211	946,675	1,171,423
Fixed rate	52,129	280,020	821,808	1,153,957
Construction and land development				
Floating rate	840,181	1,059,753	132,191	2,032,125
Fixed rate	24,714	48,664	29,250	102,628
Residential real estate				
Floating rate	15,387	51,010	382,975	449,372
Fixed rate	3,138	10,440	741,405	754,983
Consumer				
Floating rate	42,248	10,639	3,492	56,379
Fixed rate	2,796	1,690	9,206	13,692
Total	$3,047,508	$8,208,720	$6,454,401	$17,710,629

As of December 31, 2018, approximately $8.27 billion, or 69.3%, of total variable rate loans were subject to rate floors with a weighted average interest rate of 4.8%. At December 31, 2017, approximately $6.88 billion, or 68.4% of total variable rate loans were subject to rate floors with a weighted average interest rate of 4.7%. At December 31, 2018, total loans consisted of 67.3% with floating rates and 32.7% with fixed rates, compared to 66.6% with floating rates and 33.4% with fixed rates at December 31, 2017.

Concentrations of Lending Activities

The Company monitors concentrations within four broad categories: product, collateral, geography, and industry. The Company’s loan portfolio includes significant credit exposure to the CRE market. At December 31, 2018 and 2017, CRE related loans accounted for approximately 49% and 52% of total loans, respectively. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 36% of these CRE loans, excluding construction and land loans, were owner occupied at each of the periods ended December 31, 2018 and 2017.

Impaired loans

A loan is identified as impaired when it is no longer probable that interest and principal will be collected according to the contractual terms of the original loan agreement. Impaired loans are measured for reserve requirements in accordance with ASC 310 based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral less applicable disposition costs if the loan is collateral dependent. The amount of an impairment reserve, if any, and any subsequent changes are charged against the allowance for credit losses.

In addition to the Company's own internal loan review process, regulators may from time to time direct the Company to modify loan grades, loan impairment calculations, or loan impairment methodology.

Table of Contents

Total non-performing loans decreased by $21.6 million, or 25.0%, at December 31, 2018 to $64.8 million from $86.4 million at December 31, 2017.

	December, 31				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Total non-accrual loans (1)	$27,746	$43,925	$40,272	$48,381	$67,659
Loans past due 90 days or more on accrual status (2)	594	43	1,067	3,028	5,132
Accruing troubled debt restructured loans	36,458	42,431	53,637	70,707	84,720
Total nonperforming loans, excluding loans acquired with deteriorated credit quality	64,798	86,399	94,976	122,116	157,511
Other impaired loans	47,454	12,155	4,233	6,758	9,239
Total impaired loans	$112,252	$98,554	$99,209	$128,874	$166,750
Other assets acquired through foreclosure, net	$17,924	$28,540	$47,815	$43,942	$57,150
Non-accrual loans to gross loans held for investment	0.16 %	0.29 %	0.31 %	0.44 %	0.81 %
Loans past due 90 days or more on accrual status to gross loans held for investment	0.00	0.00	0.01	0.03	0.06
Interest income received on non-accrual loans	$1,745	$1,614	$1,254	$1,634	$2,536
Interest income that would have been recorded under the original terms of non-accrual loans	2,268	2,444	2,045	2,549	3,758

(1) Includes non-accrual TDR loans of $8.0 million and $10.1 million at December 31, 2018 and 2017, respectively.
(2) Includes less than $0.1 million from loans acquired with deteriorated credit quality at December 31, 2017.

The composition of non-accrual loans by loan type and by segment were as follows:

	December 31, 2018			December 31, 2017		
	Non-accrual Balance	Percent of Non-Accrual Balance	Percent of Total Loans	Non-accrual Balance	Percent of Non-Accrual Balance	Percent of Total Loans
	(dollars in thousands)					
Commercial and industrial	$15,090	54.39 %	0.09 %	$22,026	50.14 %	0.15 %
Commercial real estate	—	—	—	7,721	17.58	0.05
Construction and land development	476	1.71	0.00	5,979	13.61	0.04
Residential real estate	11,939	43.03	0.07	8,117	18.48	0.05
Consumer	241	0.87	0.00	82	0.19	0.00
Total non-accrual loans	$27,746	100.00 %	0.16 %	$43,925	100.00 %	0.29 %

	December 31, 2018		December 31, 2017	
	Nonaccrual Loans	Percent of Segment's Total Loans	Nonaccrual Loans	Percent of Segment's Total Loans
	(dollars in thousands)			
Arizona	$8,312	0.23 %	$4,520	0.14 %
Nevada	6,374	0.32	8,189	0.44
Southern California	8,564	0.40	8,140	0.42
Northern California	4,255	0.33	14,489	1.14
Technology and Innovation	—	—	7,389	0.67
Other NBLS	241	0.00	51	0.00
Corporate & Other (1)	—	—	1,147	28.09
Total non-accrual loans	$27,746	0.16 %	$43,925	0.29 %

(1) The Corporate & Other segment manages certain legacy non-performing loans and OREO.

Table of Contents

Troubled Debt Restructured Loans

A TDR loan is a loan that is granted a concession, for reasons related to a borrower's financial difficulties, that the lender would not otherwise consider. The loan terms that have been modified or restructured due to a borrower's financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in accrued interest, extensions, deferrals, renewals, and rewrites. A TDR loan is also considered impaired. Generally, a loan that is modified at an effective market rate of interest is no longer disclosed as a TDR in years subsequent to the restructuring if it is performing based on the terms specified by the restructuring agreement. However, such loans continue to be considered impaired.

As of December 31, 2018 and 2017, the aggregate amount of loans classified as impaired was $112.3 million and $98.6 million, respectively, a net increase of 13.9%. The total specific allowance for credit losses related to these loans was $0.7 million and $5.6 million at December 31, 2018 and 2017, respectively. The Company had $36.5 million and $42.4 million in loans classified as accruing restructured loans at December 31, 2018 and 2017, respectively.

The following tables present a breakdown of total impaired loans and the related specific reserves for the periods indicated:

	December 31, 2018					
	Impaired Balance	Percent of Impaired Balance	Percent of Total Loans	Reserve Balance	Percent of Reserve Balance	Percent of Total Allowance
	(dollars in thousands)					
Commercial and industrial	$63,896	56.92 %	0.36 %	$ 621	91.19 %	0.41 %
Commercial real estate	18,937	16.87	0.11	—	—	—
Construction and land development	9,403	8.38	0.05	—	—	—
Residential real estate	19,744	17.59	0.11	60	8.81	0.04
Consumer	272	0.24	0.00	—	—	—
Total impaired loans	$112,252	100.00 %	0.63 %	$ 681	100.00 %	0.45 %

	December 31, 2017					
	Impaired Balance	Percent of Impaired Balance	Percent of Total Loans	Reserve Balance	Percent of Reserve Balance	Percent of Total Allowance
	(dollars in thousands)					
Commercial and industrial	$34,156	34.66 %	0.23 %	$ 5,606	100.00 %	4.00 %
Commercial real estate	31,681	32.15	0.21	—	—	—
Construction and land development	15,426	15.65	0.10	—	—	—
Residential real estate	17,170	17.42	0.11	—	—	—
Consumer	121	0.12	0.00	—	—	0.00
Total impaired loans	$98,554	100.00 %	0.65 %	$ 5,606	100.00 %	4.00 %

Impaired loans by segment at December 31, 2018 and 2017 were as follows:

	December 31,	
	2018	2017
	(in thousands)	
Arizona	$34,899	$10,468
Nevada	33,860	46,730
Southern California	8,576	8,465
Northern California	4,928	14,489

Technology & Innovation	29,748	16,449
Other NBLs	241	51
Corporate & Other	—	1,902
Total impaired loans	$112,252	$98,554

The amount of interest income recognized on impaired loans for the years ended December 31, 2018, 2017, and 2016 was approximately $4.5 million, $4.0 million, and $4.2 million, respectively.

Table of Contents

Allowance for Credit Losses

The following table summarizes the activity in the Company's allowance for credit losses for the period indicated:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Allowance for credit losses:					
Balance at beginning of period	$140,050	$124,704	$119,068	$110,216	$100,050
Provision charged to operating expense:					
Commercial and industrial	13,198	14,268	10,638	18,411	14,551
Commercial real estate	2,177	5,347	(2,449)	(9,762)	(6,176)
Construction and land development	1,482	(2,805)	1,732	(1,454)	1,966
Residential real estate	5,867	318	(2,137)	(3,539)	(4,352)
Consumer	276	122	216	(456)	(1,263)
Total Provision	23,000	17,250	8,000	3,200	4,726
Recoveries of loans previously charged-off:					
Commercial and industrial	(2,427)	(3,112)	(3,991)	(3,754)	(4,728)
Commercial real estate	(1,237)	(2,897)	(5,690)	(4,139)	(3,859)
Construction and land development	(1,433)	(1,229)	(485)	(1,872)	(2,160)
Residential real estate	(947)	(1,778)	(875)	(2,181)	(1,896)
Consumer	(43)	(84)	(144)	(203)	(459)
Total recoveries	(6,087)	(9,100)	(11,185)	(12,149)	(13,102)
Loans charged-off:					
Commercial and industrial	15,034	8,186	12,477	5,550	4,370
Commercial real estate	233	2,269	728	—	964
Construction and land development	1	—	18	—	87
Residential real estate	1,038	447	165	820	1,728
Consumer	114	102	161	127	513
Total charged-off	16,420	11,004	13,549	6,497	7,662
Net charge-offs	10,333	1,904	2,364	(5,652)	(5,440)
Balance at end of period	$152,717	$140,050	$124,704	$119,068	$110,216
Net charge-offs (recoveries) to average loans outstanding	0.06 %	0.01 %	0.02 %	(0.06)%	(0.07)%
Allowance for credit losses to gross loans	0.86	0.93	0.95	1.07	1.31
Allowance for credit losses to gross organic loans	0.92	1.03	1.11	1.23	1.36

Table of Contents

The following table summarizes the allocation of the allowance for credit losses by loan type. However, the allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
	(dollars in thousands)					
December 31, 2018						
Allowance for credit losses	$ 83,118	$ 34,829	$ 22,513	$ 11,276	$ 981	$ 152,717
Percent of total allowance for credit losses	54.4 %	22.8 %	14.8 %	7.4 %	0.6 %	100.0 %
Percent of loan type to total loans	43.8	36.9	12.1	6.8	0.4	100.0
December 31, 2017						
Allowance for credit losses	$ 82,527	$ 31,648	$ 19,599	$ 5,500	$ 776	$ 140,050
Percent of total allowance for credit losses	58.9 %	22.6 %	14.0 %	3.9 %	0.6 %	100.0 %
Percent of loan type to total loans	45.2	40.8	10.9	2.8	0.3	100.0
December 31, 2016						
Allowance for credit losses	$ 73,333	$ 25,673	$ 21,175	$ 3,851	$ 672	$ 124,704
Percent of total allowance for credit losses	58.8 %	20.6 %	17.0 %	3.1 %	0.5 %	100.0 %
Percent of loan type to total loans	44.3	42.1	11.3	2.0	0.3	100.0
December 31, 2015						
Allowance for credit losses	$ 71,181	$ 23,160	$ 18,976	$ 5,278	$ 473	$ 119,068
Percent of total allowance for credit losses	59.8 %	19.5 %	15.9 %	4.4 %	0.4 %	100.0 %
Percent of loan type to total loans	47.4	39.3	10.2	2.9	0.2	100.0
December 31, 2014						
Allowance for Credit Losses	$ 54,566	$ 28,783	$ 18,558	$ 7,456	$ 853	$ 110,216
Percent of Total Allowance for Credit Losses	49.5 %	26.1 %	16.8 %	6.8 %	0.8 %	100.0 %
Percent of loan type to total loans	42.0	45.0	9.0	3.6	0.4	100.0

Problem Loans

The Company classifies loans consistent with federal banking regulations using a nine category grading system. These loan grades are described in further detail in "Item 1. Business" of this Form 10-K. The following table presents information regarding potential and actual problem loans, consisting of loans graded Special Mention, Substandard, Doubtful, and Loss, but still performing, and excluding acquired loans:

	December 31, 2018			
	Number of Loans	Loan Balance	Percent of Loan Balance	Percent of Total Loans
	(dollars in thousands)			
Commercial and industrial	107	$ 125,585	62.37 %	0.71 %
Commercial real estate	42	71,116	35.32	0.40
Construction and land development	3	4,040	2.01	0.02
Residential real estate	1	527	0.26	0.00
Consumer	2	75	0.04	0.00
Total	155	$ 201,343	100.00 %	1.13 %

	December 31, 2017			
	Number of Loans	Loan Balance	Percent of Loan Balance	Percent of Total

				Loans
	(dollars in thousands)			
Commercial and industrial	166	$127,015	51.63 %	0.84 %
Commercial real estate	48	90,653	36.85	0.60
Construction and land development	5	18,471	7.51	0.12
Residential real estate	3	8,971	3.65	0.06
Consumer	10	880	0.36	0.01
Total	232	$245,990	100.00 %	1.63 %

50

Table of Contents

Other Assets Acquired Through Foreclosure

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

	Year Ended December 31,		
	2018		
	Gross Balance	Valuation Allowance	Net Balance
	(in thousands)		
Balance, beginning of period	$32,552	$ (4,012)	$28,540
Transfers to other assets acquired through foreclosure, net	5,744	—	5,744
Proceeds from sale of other real estate owned and repossessed assets, net	(12,636)	3,224	(9,412)
Charitable contribution (1)	(6,895)	—	(6,895)
Valuation adjustments, net	—	(1,267)	(1,267)
Gains (losses), net (2)	1,214	—	1,214
Balance, end of period	$19,979	$ (2,055)	$17,924
	2017		
Balance, beginning of period	$54,138	$ (6,323)	$47,815
Transfers to other assets acquired through foreclosure, net	1,812	—	1,812
Proceeds from sale of other real estate owned and repossessed assets, net	(23,626)	2,431	(21,195)
Valuation adjustments, net	—	(120)	(120)
Gains (losses), net (2)	228	—	228
Balance, end of period	$32,552	$ (4,012)	$28,540
	2016		
Balance, beginning of period	$52,984	$ (9,042)	$43,942
Transfers to other assets acquired through foreclosure, net	13,110	—	13,110
Proceeds from sale of other real estate owned and repossessed assets, net	(11,584)	2,451	(9,133)
Valuation adjustments, net	—	268	268
(Losses) gains, net (2)	(372)	—	(372)
Balance, end of period	$54,138	$ (6,323)	$47,815

(1) Represents a contribution of OREO property to the Company's charitable foundation. See "Note 19. Related Party Transactions" for further discussion.

(2) Includes net gains related to initial transfers to other assets of $1.0 million, $0.1 million, and $0.4 million during the years ended December 31, 2018, 2017, and 2016, respectively.

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. OREO and other repossessed property are reported at the lower of carrying value or fair value less estimated costs to sell the property. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to expense. The Company has $17.9 million, $28.5 million, and $47.8 million of such assets at December 31, 2018, 2017, and 2016 respectively.

At December 31, 2018, the Company held 11 OREO properties, compared to 19 at December 31, 2017.

Goodwill and Other Intangible Assets

Goodwill represents the excess consideration paid for net assets acquired in a business combination over their fair value. Goodwill and other intangible assets acquired in a business combination that are determined to have an indefinite useful life are not subject to amortization, but are subsequently evaluated for impairment at least annually. The Company has goodwill of $289.9 million and intangible assets totaling $9.3 million as of December 31, 2018, which have been allocated to the Nevada, Northern California, Technology & Innovation, and HFF operating segments.

The Company performs its annual goodwill and intangibles impairment tests as of October 1 each year, or more often if events or circumstances indicate that the carrying value may not be recoverable. During the years ended

December 31, 2018, 2017, and 2016, there were no events or circumstances that indicated an interim impairment test of goodwill or other intangible assets was necessary and, based on the Company's annual goodwill and intangibles impairment tests as of October 1 of each of these years, it was determined that goodwill and intangible assets are not impaired.

Table of Contents

The following is a summary of acquired intangible assets:

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Subject to amortization						
Core deposit intangibles	$ 14,647	$ 5,737	$ 8,910	$ 14,647	$ 4,144	$ 10,503

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Impairment	Net Carrying Amount	Gross Carrying Amount	Impairment	Net Carrying Amount
	(in thousands)					
Not subject to amortization						
Trade name	$ 350	$ —	$ 350	$ 350	$ —	$ 350

Deferred Tax Assets

Net deferred tax assets increased $26.2 million to $32.0 million from December 31, 2017. This overall increase in net deferred tax assets was primarily the result of the deferral of WAB's dividend from BW Real Estate from 2017 to 2018, which resulted in a $68.8 million deferred tax liability as of December 31, 2017 that was fully utilized during the year ended December 31, 2018. Decreases in the fair market value of AFS securities, which were not fully offset by the utilization of NOL and credit carryovers, also contributed to the increase in net deferred tax assets.

As of December 31, 2018, the Company's deferred tax valuation allowance of $2.4 million related to net capital loss carryovers. As of December 31, 2017, the Company had no deferred tax valuation allowance.

Deposits

Deposits are the primary source for funding the Company's asset growth. Total deposits increased to $19.18 billion at December 31, 2018 from $16.97 billion at December 31, 2017, an increase of $2.20 billion, or 13.0%. The increase in deposits is attributable to an increase across all deposit types, with the largest increases in savings and money market deposits of $1.00 billion and interest-bearing demand deposits of $969.4 million from December 31, 2017.

WAB is a participant in the Promontory Interfinancial Network, a network that offers deposit placement services such as CDARS and ICS, which offer products that qualify large deposits for FDIC insurance. At December 31, 2018, the Company has $322.9 million of CDARS deposits and $706.9 million of ICS deposits, compared to $401.4 million of CDARS deposits and $617.9 million of ICS deposits at December 31, 2017. At December 31, 2018 and 2017, the Company also has $718.2 million and $67.3 million, respectively, of wholesale brokered deposits.

In addition, non-interest-bearing deposits for which the Company provides account holders with earnings credits totaled $2.29 billion and $1.85 billion at December 31, 2018 and 2017, respectively. The Company incurred $18.0 million and $8.7 million in deposit related costs on these deposits during the year ended December 31, 2018 and 2017, respectively. These costs are reported in deposit costs as part of non-interest expense. The increase in these costs relates to both an increase in deposits eligible for earnings credits, along with higher average earnings credits paid, driven by a rising rate environment.

Table of Contents

The average balances and weighted average rates paid on deposits are presented below:

	Year Ended December 31,					
	2018		2017		2016	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
	(dollars in thousands)					
Interest-bearing transaction accounts	$1,891,160	0.61%	$1,467,231	0.27%	$1,217,344	0.18%
Savings and money market accounts	6,501,241	0.85	6,208,057	0.42	5,827,549	0.33
Time certificates of deposit	1,748,675	1.37	1,560,896	0.76	1,615,502	0.50
Total interest-bearing deposits	10,141,076	0.89	9,236,184	0.45	8,660,395	0.34
Non-interest-bearing demand deposits	7,712,791	—	6,788,783	—	5,062,319	—
Total deposits	$17,853,867	0.51%	$16,024,967	0.26%	$13,722,714	0.22%

Although the Company does not pay interest to depositors of non-interest-bearing accounts, earnings credits are awarded to some account holders, which offset charges incurred by account holders for other services. Earnings credits earned in excess of charges incurred by account holders are recorded in deposit costs as part of non-interest expense.

Certificates of Deposit of $100,000 or More

The table below discloses the remaining maturity for certificates of deposit of $100,000 or more:

	December 31,	
	2018	2017
	(in thousands)	
3 months or less	$682,549	$536,116
3 to 6 months	446,847	440,732
6 to 12 months	409,736	329,026
Over 12 months	99,211	142,161
Total	$1,638,343	$1,448,035

Other Borrowings

The Company from time to time utilizes short-term borrowed funds to support short-term liquidity needs generally created by increased loan demand. The majority of these short-term borrowed funds consist of advances from the FHLB, Federal funds purchased, and customer repurchase agreements. The Company’s borrowing capacity with the FHLB is determined based on collateral pledged, generally consisting of securities and loans. In addition, the Company has borrowing capacity from other sources, including Federal funds purchased and securities sold under agreements to repurchase. Federal funds purchased are unsecured borrowings with other banks. Securities sold under agreements to repurchase are collateralized by securities and are reflected at the amount of cash received in connection with the transaction, and may require additional collateral based on the fair value of the underlying securities. At December 31, 2018, total short-term borrowed funds consist of FHLB overnight advances of $235.0 million, Federal fund purchased of $256.0 million, and customer repurchase agreements of $22.4 million. At December 31, 2017, total short-term borrowed funds consisted of FHLB overnight advances of $390.0 million and customer repurchase agreements of $26.0 million.

At December 31, 2018 and 2017, the Company does not have any borrowings classified as long-term.

Table of Contents

Qualifying Debt

Qualifying debt consists of subordinated debt and junior subordinated debt, inclusive of issuance costs and fair market value adjustments. At December 31, 2018, the carrying value of all subordinated debt issuances, which includes the fair value of related hedges, was $299.4 million, compared to $308.6 million at December 31, 2017.

The junior subordinated debt has contractual balances and maturity dates as follows:

		December 31,	
Name of Trust	Maturity	2018	2017
At fair value		(in thousands)	
BankWest Nevada Capital Trust II	2033	$15,464	$15,464
Intermountain First Statutory Trust I	2034	10,310	10,310
First Independent Statutory Trust I	2035	7,217	7,217
WAL Trust No. 1	2036	20,619	20,619
WAL Statutory Trust No. 2	2037	5,155	5,155
WAL Statutory Trust No. 3	2037	7,732	7,732
Total contractual balance		66,497	66,497
FVO on junior subordinated debt		(17,812)	(10,263)
Junior subordinated debt, at fair value		$48,685	$56,234
At amortized cost			
Bridge Capital Holdings Trust I	2035	$12,372	$12,372
Bridge Capital Holdings Trust II	2036	5,155	5,155
Total contractual balance		17,527	17,527
Purchase accounting adjustment, net of accretion (1)		(5,155)	(5,465)
Junior subordinated debt, at amortized cost		$12,372	$12,062
Total junior subordinated debt		$61,057	$68,296

(1) The purchase accounting adjustment is being amortized over the remaining life of the trusts, pursuant to accounting guidance.

The weighted average interest rate of all junior subordinated debt as of December 31, 2018 was 5.15%, which is three-month LIBOR plus the contractual spread of 2.34%, compared to a weighted average interest rate of 4.03% at December 31, 2017.

Table of Contents

Capital Resources

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements could trigger certain mandatory or discretionary actions that, if undertaken, could have a direct material effect on the Company's business and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items (discussed in "Note 15. Commitments and Contingencies" to the Consolidated Financial Statements) as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Under the Basel III final rules, a capital conservation buffer, comprised of Common Equity Tier 1 capital, was established above the regulatory minimum capital requirements. This capital conservation buffer began being phased in on January 1, 2016 at 0.625% of risk-weighted assets and increased each subsequent year by an additional 0.625%. The capital conservation buffer reached its final level of 2.5% on January 1, 2019 and is now fully phased-in.

As of December 31, 2018 and 2017, the Company and the Bank exceeded the capital levels necessary to be classified as well-capitalized, as defined by the banking agencies. The actual capital amounts and ratios for the Company and the Bank are presented in the following tables as of the periods indicated:

	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Tangible Average Assets	Total Capital Ratio	Tier 1 Capital Ratio	Tier 1 Leverage Ratio	Common Equity Tier 1
	(dollars in thousands)							
December 31, 2018								
WAL	$2,897,356	$2,431,320	$ 21,983,976	$22,204,799	13.2 %	11.1 %	10.9 %	10.7 %
WAB	2,628,650	2,317,745	22,040,765	22,209,700	11.9	10.5	10.4	10.5
Well-capitalized ratios					10.0	8.0	5.0	6.5
Minimum capital ratios					8.0	6.0	4.0	4.5
December 31, 2017								
WAL	$2,460,988	$2,013,744	$ 18,569,608	$19,624,517	13.3 %	10.8 %	10.3 %	10.4 %
WAB	2,299,919	2,003,745	18,664,200	19,541,990	12.3	10.7	10.3	10.7
Well-capitalized ratios					10.0	8.0	5.0	6.5
Minimum capital ratios					8.0	6.0	4.0	4.5

Contractual Obligations and Off-Balance Sheet Arrangements

The Company enters into contracts for services in the ordinary course of business that may require payment for services to be provided in the future and may contain penalty clauses for early termination of the contracts. To meet the financing needs of customers, the Company has financial instruments with off-balance sheet risk, including commitments to extend credit and standby letters of credit. The Company has also committed to irrevocably and unconditionally guarantee the payments or distributions with respect to the holders of preferred securities of the Company's eight statutory business trusts to the extent that the trusts have not made such payments or distributions: 1) accrued and unpaid distributions; 2) the redemption price; and 3) upon a dissolution or termination of the trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the trust remaining available for distribution. The Company does not believe that these off-balance sheet arrangements have or are reasonably likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. However, there can be no assurance that such arrangements will not have a future effect.

Table of Contents

The following table sets forth the Company's significant contractual obligations as of December 31, 2018:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(in thousands)				
Time deposit maturities	$1,834,988	$1,707,065	$122,908	$5,015	$—
Qualifying debt	409,024	—	—	—	409,024
Other borrowings	491,000	491,000	—	—	—
Operating lease obligations	56,891	11,370	17,740	12,364	15,417
Purchase obligations	78,692	32,343	20,572	16,877	8,900
Total	$2,870,595	$2,241,778	$161,220	$34,256	$433,341

Purchase obligations primarily relate to contracts for software licensing, maintenance, and outsourced service providers.

Off-balance sheet commitments associated with outstanding letters of credit, commitments to extend credit, and credit card guarantees as of December 31, 2018 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

		Amount of Commitment Expiration per Period			
	Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(in thousands)				
Commitments to extend credit	$7,556,741	$2,650,999	$2,959,595	$851,520	$1,094,627
Credit card commitments and financial guarantees	237,312	237,312	—	—	—
Standby letters of credit	390,161	276,633	98,774	14,754	—
Total	$8,184,214	$3,164,944	$3,058,369	$866,274	$1,094,627

The following table sets forth certain information regarding short-term borrowings as of December 31, 2018 and the respective prior year end balances for customer repurchase agreements, lines of credit, FHLB advances, and Federal funds purchased:

	December 31,		
	2018	2017	2016
	(dollars in thousands)		
Customer Repurchase Accounts:			
Maximum month-end balance	$30,559	$41,153	$50,332
Balance at end of year	22,411	26,017	41,728
Average balance	24,421	33,842	41,623
Lines of Credit:			
Maximum month-end balance	—	—	5,000
Balance at end of year	—	—	—
Average balance	—	—	562
Federal funds purchased			
Maximum month-end balance	256,000	—	—
Balance at end of year	256,000	—	—
Average balance	20,542	—	—
FHLB Advances:			
Maximum month-end balance	625,000	440,000	490,000
Balance at end of year	235,000	390,000	80,000
Average balance	215,699	29,781	58,750
Total Short-Term Borrowed Funds	$513,411	$416,017	$121,728

Weighted average interest rate at end of year	2.46 %	1.33 %	0.42 %
Weighted average interest rate during year	1.73	0.53	0.44

56

Critical Accounting Policies

The Notes to the Consolidated Financial Statements contain a discussion of the Company's significant accounting policies, including information regarding recently issued accounting pronouncements, adoption of such policies, and the related impact of their adoption. The Company believes that certain of these policies, along with various estimates that it is required to make in recording its financial transactions, are important to have a complete understanding of the Company's financial position. In addition, these estimates require management to make complex and subjective judgments, many of which include matters with a high degree of uncertainty. The following is a summary of these critical accounting policies and significant estimates.

Allowance for credit losses

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

The allowance consists of specific and general components. The specific allowance relates to impaired loans. For impaired collateral dependent loans, the reserve is calculated based on the collateral value, net of estimated disposition costs. Generally, the Company obtains independent collateral valuation analysis for each loan every twelve months. Loans not collateral dependent are evaluated based on the expected future cash flows discounted at the original contractual interest rate.

The general allowance covers all non-impaired loans and incorporates several quantitative and qualitative factors, which are used for all of the Company's portfolio segments. Quantitative factors include company-specific, ten-year historical net charge-offs stratified by loans with similar characteristics. Qualitative factors include: 1) levels of and trends in delinquencies and impaired loans; 2) levels of and trends in charge-offs and recoveries; 3) trends in volume and terms of loans; 4) changes in underwriting standards or lending policies; 5) experience, ability, depth of lending staff; 6) national and local economic trends and conditions; 7) changes in credit concentrations; 8) out-of-market exposures; 9) changes in quality of loan review system; and 10) changes in the value of underlying collateral.

Due to the credit concentration of the Company's loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Arizona, Nevada, and California. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, regulators, as an integral part of their examination processes, periodically review the Bank's allowances for credit losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examination. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

Loans acquired with deteriorated credit quality

ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, applies to a loan with evidence of deterioration of credit quality since its origination, and for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. For these loans accounted for under ASC 310-30, management determines the value of the loan portfolio based, in part, on work provided by an appraiser. Factors considered in the valuation are projected cash flows for the loans, type of loan and related collateral, loan grade, delinquency, and loan to value. Loans are grouped together according to similar characteristics and are treated in the aggregate when applying various valuation techniques. Loans are first evaluated individually to determine if there has been credit deterioration since origination. Once acquired loans are determined to have deteriorated credit quality, the Company evaluates such loans for common risk characteristics and aggregation into one or more pools. Common risk characteristics for pooling acquired loans may include credit ratings, loan type, collateral type, delinquency status, geographic location, loan to value, or combinations thereof. Management also estimates the amount of credit losses that are expected to be realized for individual loans by estimating the probability of default and the loss given default. These estimates are subjective. The accretion of the fair value adjustments attributable to interest rates on loans acquired with deteriorated credit quality is recorded in interest income in the Consolidated Income Statements over the estimated life of the pool. The fair value adjustment attributable to credit losses on these loans is non-accretable. When a loan is sold, paid off or transferred to OREO and liquidated, any remaining non-accretable yield is recorded in interest income.

Adjustments to these loan values in future periods may occur based on management's expectation of future cash flows to be collected over the lives of the loans. Estimating cash flows is performed at a pool level and incorporates analysis of historical cash flows, delinquencies, and charge-offs, as well as assumptions about future cash flows. Performance can vary from period to period,

Table of Contents

causing changes in estimates of the expected cash flows. If, based on the review of a pool of loans, it is probable that a significant increase or improvement in cash flows previously expected to be collected, any valuation allowance established for the pool of loans is first reduced for the increase in the present value of cash flows expected to be collected, and any remaining increase in estimated cash flows increases the accretable yield and is recognized over the remaining estimated life of the loan pool. If based on the review of a pool of loans, it is probable that a decrease or impairment in cash flows previously expected to be collected or if actual cash flows are less than cash flows previously expected, the allowance for credit losses is increased for the decrease in the present value of the cash flows expected to be collected.

Income taxes

The Company’s income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management’s best estimate of current and future taxes to be paid. The Company is subject to federal and state income taxes in the United States. Significant judgments and estimates are required in the determination of the consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating the Company's ability to recover its deferred tax assets in the jurisdictions from which they arise, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, tax planning strategies, projected future taxable income, and recent operating results. The assumptions about future taxable income require the use of significant judgment and are consistent with the plans and estimates used to manage the underlying business.

Liquidity

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in the Company's business operations or unanticipated events.

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors, and regulators. The Company's liquidity, represented by cash and amounts due from banks, federal funds sold, and non-pledged marketable securities, is a result of the Company's operating, investing, and financing activities and related cash flows. In order to ensure funds are available when necessary, on at least a quarterly basis, the Company projects the amount of funds that will be required over a twelve month period and it also strives to maintain relationships with a diversified customer base. Liquidity requirements can also be met through short-term borrowings or the disposition of short-term assets.

The following table presents the available and outstanding balances of the Company's lines of credit:

	December 31, 2018	
	Available Balance	Outstanding Balance
	(in millions)	
Unsecured fed funds credit lines at correspondent banks		
Committed amounts	$261.0	$ 126.0
Uncommitted amounts	409.0	130.0
Other lines with correspondent banks:		
Secured other lines	—	—
Unsecured other lines	45.0	—
Total other lines with correspondent banks	$715.0	$ 256.0

Table of Contents

In addition to lines of credit, the Company has borrowing capacity with the FHLB and FRB from pledged loans and securities. The borrowing capacity, outstanding borrowings, and available credit as of December 31, 2018 are presented in the following table:

	December 31, 2018
	(in millions)
FHLB:	
Borrowing capacity	$ 2,964.3
Outstanding borrowings	235.0
Letters of credit	206.0
Total available credit	$ 2,523.3
FRB:	
Borrowing capacity	$ 1,308.6
Outstanding borrowings	—
Total available credit	$ 1,308.6

The Company has a formal liquidity policy and, in the opinion of management, its liquid assets are considered adequate to meet cash flow needs for loan funding and deposit cash withdrawals for the next 90-120 days. At December 31, 2018, there is $3.03 billion in liquid assets, comprised of $498.6 million in cash, cash equivalents, and money market investments and $2.53 billion in unpledged marketable securities. At December 31, 2017, the Company maintained $2.89 billion in liquid assets, comprised of $416.8 million of cash, cash equivalents, and money market investments, and $2.48 billion of unpledged marketable securities.

The Parent maintains liquidity that would be sufficient to fund its operations and certain non-bank affiliate operations for an extended period should funding from normal sources be disrupted. Since deposits are taken by WAB and not by the Parent, Parent liquidity is not dependent on the Bank's deposit balances. In the Company's analysis of Parent liquidity, it is assumed that the Parent is unable to generate funds from additional debt or equity issuances, receives no dividend income from subsidiaries and does not pay dividends to stockholders, while continuing to make nondiscretionary payments needed to maintain operations and repayment of contractual principal and interest payments owed by the Parent and affiliated companies. Under this scenario, the amount of time the Parent and its non-bank subsidiaries can operate and meet all obligations before the current liquid assets are exhausted is considered as part of the Parent liquidity analysis. Management believes the Parent maintains adequate liquidity capacity to operate without additional funding from new sources for over twelve months.

WAB maintains sufficient funding capacity to address large increases in funding requirements, such as deposit outflows. This capacity is comprised of liquidity derived from a reduction in asset levels and various secured funding sources. On a long-term basis, the Company’s liquidity will be met by changing the relative distribution of its asset portfolios (for example, by reducing investment or loan volumes, or selling or encumbering assets). Further, the Company can increase liquidity by soliciting higher levels of deposit accounts through promotional activities and/or borrowing from correspondent banks, the FHLB of San Francisco, and the FRB. At December 31, 2018, the Company's long-term liquidity needs primarily relate to funds required to support loan originations, commitments, and deposit withdrawals, which can be met by cash flows from investment payments and maturities, and investment sales, if necessary.

The Company’s liquidity is comprised of three primary classifications: 1) cash flows provided by operating activities; 2) cash flows used in investing activities; and 3) cash flows provided by financing activities. Net cash provided by or used in operating activities consists primarily of net income, adjusted for changes in certain other asset and liability accounts and certain non-cash income and expense items, such as the provision for credit losses, investment and other amortization and depreciation. For the years ended December 31, 2018, 2017, and 2016, net cash provided by operating activities was $541.0 million, $383.8 million, and $280.6 million, respectively.

The Company's primary investing activities are the origination of real estate and commercial loans, the collection of repayments of these loans, and the purchase and sale of securities. The Company's net cash provided by and used in investing activities has been primarily influenced by its loan and securities activities. The net increase in loans for the years ended December 31, 2018, 2017, and 2016, was $2.59 billion, $1.87 billion, and $810.5 million, respectively. There was a net increase in investment securities for the year ended December 31, 2018 of $60.5 million, compared to a net increase of $1.05 billion for the year ended December 31, 2017, and net increase of $771.9 million for the year ended December 31, 2016.

Net cash provided by financing activities has been impacted significantly by increased deposit levels. During the years ended December 31, 2018, 2017, and 2016, net deposits increased $2.20 billion, $2.42 billion, and $2.52 billion, respectively.

Table of Contents

Fluctuations in core deposit levels may increase the Company's need for liquidity as certificates of deposit mature or are withdrawn before maturity, and as non-maturity deposits, such as checking and savings account balances, are withdrawn. Additionally, the Company is exposed to the risk that customers with large deposit balances will withdraw all or a portion of such deposits, due in part to the FDIC limitations on the amount of insurance coverage provided to depositors. To mitigate the uninsured deposit risk, the Company participates in the CDARS and ICS programs, which allow an individual customer to invest up to $50.0 million and $110.0 million, respectively, through one participating financial institution or, a combined total of $150.0 million per individual customer, with the entire amount being covered by FDIC insurance. As of December 31, 2018, the Company has $322.9 million of CDARS and $706.9 million of ICS deposits.

As of December 31, 2018, the Company has $718.2 million of wholesale brokered deposits outstanding. Brokered deposits are generally considered to be deposits that have been received from a third party who is engaged in the business of placing deposits on behalf of others. A traditional deposit broker will direct deposits to the banking institution offering the highest interest rate available. Federal banking laws and regulations place restrictions on depository institutions regarding brokered deposits because of the general concern that these deposits are not relationship based and are at a greater risk of being withdrawn and placed on deposit at another institution offering a higher interest rate, thus posing liquidity risk for institutions that gather brokered deposits in significant amounts.

Federal and state banking regulations place certain restrictions on dividends paid. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the bank. Dividends paid by WAB to the Parent would be prohibited if the effect thereof would cause the Bank’s capital to be reduced below applicable minimum capital requirements. During the year ended December 31, 2018, the Parent contributed $1.1 million to WAB; WAB and LVSP paid dividends to the Parent of $150.0 million and $2.1 million, respectively. Subsequent to December 31, 2018, WAB paid dividends to the Parent of $40.0 million.

On December 12, 2018, the Company announced that it had adopted a common stock repurchase program, pursuant to which the Company is authorized to repurchase up to $250 million of its shares of common stock. The repurchase program will expire on December 31, 2019 and all shares repurchased under the plan are retired upon settlement. In addition, the Company periodically acquires shares of its common stock outside of the repurchase program related to stock compensation plan activity.

Recent accounting pronouncements

See "Note 1. Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data for information on recent and recently adopted accounting pronouncements and their expected impact, if any, on the Company's consolidated financial statements.

Table of Contents

SUPERVISION AND REGULATION
WAL, WAB, and certain of its non-banking subsidiaries are subject to comprehensive regulation under federal and state laws. The regulatory framework applicable to bank holding companies and their subsidiary banks is intended to protect depositors, the DIF, and the U.S. banking system as a whole. This system is not designed to protect equity investors in bank holding companies such as WAL.
Set forth below is a summary of the significant laws and regulations applicable to WAL and its subsidiaries. The description that follows is qualified in its entirety by reference to the full text of the statutes, regulations, and policies that are described. Such statutes, regulations, and policies are subject to ongoing review by Congress and state legislatures and federal and state regulatory agencies. A change in any of the statutes, regulations, or regulatory policies applicable to WAL and its subsidiaries could have a material effect on the results of the Company.
Overview
WAL is a separate and distinct legal entity from WAB and its other subsidiaries. As a registered bank holding company, WAL is subject to inspection, examination, and supervision by the FRB, and is regulated under the BHCA. WAL is also under the jurisdiction of the SEC and is subject to the disclosure and other regulatory requirements of the Securities Act of 1933, as amended, and the Exchange Act, as administered by the SEC. The Company's common stock is listed on the NYSE under the trading symbol "WAL" and the Company is subject to the rules of the NYSE for listed companies. The Company is a financial institution holding company within the meaning of Arizona law. WAL provides a full spectrum of deposit, lending, treasury management, and online banking products and services through WAB, its wholly-owned banking subsidiary. WAB is an Arizona chartered bank and a member of the Federal Reserve System. WAB operates the following full-service banking divisions: ABA, BON, Bridge, FIB, and TPB. WAB is subject to the supervision of, and to regular examination by, the Arizona Department of Financial Institutions, the FRB as its primary federal regulator, as well as by the FDIC as its deposit insurer. WAB's deposits are insured by the FDIC up to the applicable deposit insurance limits in accordance with FDIC laws and regulations. The Company also serves business customers through a national platform of specialized financial services providers.
WAL and WAB are also supervised by the CFPB for compliance with federal consumer financial protection laws. The Company's non-bank subsidiaries are subject to federal and state laws and regulations, including regulations of the FRB.
The Dodd-Frank Act significantly changed the financial regulatory regime in the United States. Since the enactment of the Dodd-Frank Act, U.S. banks and financial services firms have been subject to enhanced regulation and oversight. Several provisions of the Dodd-Frank Act are subject to further rulemaking, guidance, and interpretation by the federal banking agencies. While the current administration and its appointees to the federal banking agencies have expressed interest in reviewing, revising, and perhaps repealing portions of the Dodd-Frank Act and certain of its implementing regulations, is not clear whether any such legislation or regulatory changes will be enacted or, if enacted, what the effect on the Company would be.
EGRRCPA
On May 24, 2018, the President signed into law the EGRRCPA which, among other things, amended certain provisions of the Dodd-Frank Act. The EGRRCPA provides limited regulatory relief to certain financial institutions while preserving the existing framework under which U.S. financial institutions are regulated. The EGRRCPA relieves bank holding companies with less than $100 billion in assets, such as the Company, from the enhanced prudential standards imposed under Section 165 of the Dodd-Frank Act (including, but not limited to, resolution planning and enhanced liquidity and risk management requirements). In addition to amending the Dodd Frank Act, the EGRRCPA also includes certain additional banking-related provisions, consumer protection provisions and securities law-related provisions. Many of the EGRRCPA's changes must be implemented through rules adopted by federal agencies, and certain changes remain subject to their substantial regulatory discretion. As a result, the full impact of the EGRRCPA will remain unclear for the immediate future. The Company expects to continue to evaluate the potential impact of the EGRRCPA as it is further implemented by the regulators.
Bank Holding Company Regulation
WAL is a bank holding company as defined under the BHCA. The BHCA generally limits the business of bank holding companies to banking, managing or controlling banks, and other activities that the FRB has determined to be

so closely related to banking as to be a proper incident thereto. Business activities that have been determined to be related to banking, and therefore appropriate for bank holding companies and their affiliates to engage in, include securities brokerage services, investment advisory services, fiduciary services, and certain management advisory and data processing services, among others. Bank holding companies that have elected to become financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity that is either (i) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity, and that does not pose a substantial

Table of Contents

risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the FRB). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting, and making merchant banking investments.

Mergers and Acquisitions

The BHCA, the Bank Merger Act, and other federal and state statutes regulate the direct and indirect acquisition of depository institutions. The BHCA requires the prior FRB approval for a bank holding company to acquire, directly or indirectly, 5% or more of any class of voting securities of a commercial bank or its parent holding company and for a company, other than a bank holding company, to acquire 25% or more of any class of voting securities of a bank or bank holding company. Under the Change in Bank Control Act, any person, including a company, may not acquire, directly or indirectly, control of a bank without providing 60 days' prior notice and receiving a non-objection from the appropriate federal banking agency.

Under the Bank Merger Act, the prior approval of the appropriate federal banking agency is required for insured depository institutions to merge or enter into purchase and assumption transactions. In reviewing applications seeking approval of merger and purchase and assumption transactions, the federal banking agencies will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined banking organization, the applicant's performance record under the CRA, and the effectiveness of the subject organizations in combating money laundering activities. For further information relating to the CRA, see the Section titled "Community Reinvestment Act and Fair Lending Laws."

Under Section 6-142 of the Arizona Revised Statutes, no person may acquire control of a company that controls an Arizona bank without the prior approval of the Arizona Superintendent of Financial Institutions, or Arizona Superintendent. A person who has the power to vote 15% or more of the voting stock of a controlling company is presumed to control the company.

Enhanced Prudential Standards

Section 165 of the Dodd-Frank Act imposes enhanced prudential standards on larger banking organizations, with certain of these standards applicable to banking organizations over $10 billion, including WAL and WAB, as of the quarter ending June 30, 2014. In October 2012, the FDIC, the OCC, and the FRB issued separate but similar rules requiring covered banks and bank holding companies with $10 billion to $50 billion in total consolidated assets to conduct an annual company-run stress test. WAL and WAB conducted a company-run capital stress test as required by the Dodd-Frank Act in 2017 and provided the results to the FRB. WAL found the Company would have sufficient capital to maintain regulatory capital levels throughout an economic downturn.

As a result of passage of the EGRRCPA, together with the interagency statement regarding the impact of the EGRRCPA released by the FRB, the FDIC and the OCC on July 6, 2018, the Company is relieved from the requirement to conduct company-run stress testing for itself and WAB until reaching $100 billion in assets. Notwithstanding that federal banking agencies will not take action to require company-run stress testing, the capital planning and risk management practices of the Company and the Bank will continue to be reviewed through the regular supervisory processes of the FRB.

In February 2014, the FRB issued a rule further implementing the enhanced prudential standards required by the Dodd-Frank Act. Although most of the standards apply only to bank holding companies with more than $50 billion in assets, as directed by the Dodd-Frank Act, the rule contains certain standards that apply to bank holding companies with more than $10 billion in assets, including a requirement to establish a risk committee of the Company's BOD to manage enterprise-wide risk. The Company meets these requirements. The EGRRCPA increased the asset threshold for requiring a bank holding company to establish a separate risk committee of independent directors from $10 billion to $50 billion. Notwithstanding this change, the Company anticipates retaining its separate risk committee of independent directors.

Volcker Rule

Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule, restricts the ability of banking entities, such as the Company and WAB, from: (i) engaging in "proprietary trading" and (ii) investing in or sponsoring certain covered funds, subject to certain limited exceptions. Under the Volcker Rule, the term "covered funds" is defined as any issuer that would be an investment company under the Investment Company Act but for the exemption in Section

3(c)(1) or 3(c)(7) of that Act, which includes CLO and CDO securities. There are also several exemptions from the definition of covered fund, including, among other things, loan securitizations, joint ventures, certain types of foreign funds, entities issuing asset-backed commercial paper, and registered investment companies. Further, the final rules permit banking entities, subject to certain conditions and limitations, to invest in or sponsor a covered fund in connection with (1) organizing and offering the covered fund; (2) certain risk-mitigating hedging activities; and (3) de minimis investments in covered funds. Compliance with the Volcker Rule was required by July 21, 2017 and the Company is fully compliant.

Dividends

The Company has never declared or paid cash dividends on its common stock. The Company currently intends to retain any future earnings for future growth and does not anticipate paying any cash dividends in the foreseeable future. Any determination in the future to pay dividends will be at the discretion of WAL's BOD and will depend on the Company's earnings, financial condition, results of operations, business prospects, capital requirements, regulatory restrictions, contractual restrictions, and other factors that the BOD may deem relevant.

The Company's ability to pay dividends is subject to the regulatory authority of the FRB. The supervisory concern of the FRB focuses on a bank holding company's capital position, its ability to meet its financial obligations as they come due, and its capacity to act as a source of financial strength to its insured depository institution subsidiaries. In addition, FRB policy discourages the payment of dividends by a bank holding company that is not supported by current operating earnings.

As a Delaware corporation, the Company is also subject to limitations under Delaware law on the payment of dividends. Under the Delaware General Corporation Law, dividends may only be paid out of surplus or out of net profits for the year in which the dividend is declared or the preceding year, and no dividends may be paid on common stock at any time during which the capital of outstanding preferred stock or preference stock exceeds the Company's net assets.

From time to time, the Company may become a party to financing agreements and other contractual obligations that have the effect of limiting or prohibiting the declaration or payment of dividends such as the Series B Preferred Stock it issued pursuant to the SBLF (which has subsequently been redeemed). Holding company expenses and obligations with respect to its outstanding trust preferred securities and corresponding subordinated debt also may limit or impair the Company's ability to declare and pay dividends.

Since the Company has no significant assets other than the voting stock of its subsidiaries, it currently depends on dividends from WAB and, to a lesser extent, its non-bank subsidiaries, for a substantial portion of its revenue and as the primary sources of its cash flow. The ability of a state member bank, such as WAB, to pay cash dividends is restricted by the FRB and the State of Arizona. The FRB's Regulation H states that a member bank may not declare or pay a dividend if the total of all dividends declared during that calendar year exceed the bank's net income during that calendar year and the retained net income of the prior two years. Further, without receiving prior approval from both the FRB and two thirds of its shareholders, a bank cannot declare or pay a dividend that would exceed its undivided profits or withdraw any portion of its permanent capital.

Under Section 6-187 of the Arizona Revised Statutes, WAB may pay dividends on the same basis as any other Arizona corporation, except that cash dividends paid out of capital surplus require the prior approval of the Arizona Superintendent. Under Section 10-640 of the Arizona Revised Statutes, a corporation may not make a distribution to stockholders if to do so would render the corporation insolvent or unable to pay its debts as they become due. However, an Arizona bank may not declare a non-stock dividend out of capital surplus without the approval of the Arizona Superintendent.

Federal Reserve System

As a member of the Federal Reserve System, WAB is required by law to maintain reserves against its transaction deposits. The reserves must be held in cash or with the FRB. Banks are permitted to meet this requirement by maintaining the specified amount as an average balance over a two-week period. The total of reserve balances was approximately $145.9 million and $105.5 million, as of December 31, 2018 and 2017, respectively.

Source of Strength Doctrine

FRB policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Section 616 of the Dodd-Frank Act codified the requirement that bank holding companies act as a source of financial strength. As a result, the Company is expected to commit resources to support WAB, including at times when the Company may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. The U.S. Bankruptcy Code provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal banking agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Capital Adequacy and Prompt Corrective Action

The Capital Rules established a comprehensive capital framework for U.S. banking organizations. The Capital Rules generally implement the Basel Committee's Basel III final capital framework for strengthening international capital standards. The Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach with a more risk-sensitive approach.

The Capital Rules: (i) include CET1 and the related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the Capital Rules, for most banking organizations, including the Company, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock, and the most common forms of Tier 2 capital are subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the Capital Rules' specific requirements.

Pursuant to the Capital Rules, the minimum capital ratios are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (called "leverage ratio").

The Capital Rules also include a "capital conservation buffer," composed entirely of CET1, in addition to these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity, and other capital instrument repurchases and compensation based on the amount of the shortfall. The Capital Rules became fully phased-in on January 1, 2019. Thus, the capital standards applicable to the Company beginning in 2019 now include an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing assets, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. The deductions and adjustments were incrementally phased in between January 1, 2015 and January 1, 2019.

In addition, under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss items included in shareholders' equity (for example, mark-to-market of securities held in the available-for-sale portfolio) under GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the Capital Rules, the effects of certain of these items are not excluded; however, non-advanced approaches banking organizations may make a one-time permanent election to continue to exclude these items. The Company has made this one-time election to exclude these items from its regulatory capital ratios.

The Capital Rules also preclude certain hybrid securities, such as trust preferred securities, issued on or after May 19, 2010 from inclusion in bank holding companies' Tier 1 capital. The Company has used trust preferred securities in the past as a tool for raising additional Tier 1 capital and otherwise improving its regulatory capital ratios. Although the Company may continue to include its existing trust preferred securities as Tier 1 capital, the prohibition on the use of these securities as Tier 1 capital going forward may limit the Company's ability to raise capital in the future.

The risk-weighting categories in the Capital Rules are standardized and include a risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes.

In September 2017, the federal banking agencies proposed simplifying the Capital Rules. The proposal would apply primarily to non-advanced approaches institutions, such as the Company. The proposal would simplify and clarify a number of the more complex aspects of the Capital Rules, including the treatment for certain acquisition, development, and construction loans, mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interests. In November 2017, the FRB finalized a rule extending the currently applicable capital rules for non-advanced approaches institutions, including the treatment of mortgage servicing assets. That rule is in effect pending the comment period and review of the general proposal to simplify the Capital Rules for non-advanced approaches institutions.

Table of Contents

Management believes the Company is in compliance, and will continue to be in compliance, with the targeted capital ratios as such requirements are phased in.

Prompt Corrective Action and Safety and Soundness

Pursuant to Section 38 of the FDIA, federal banking agencies are required to take “prompt corrective action” should a depository institution fail to meet certain capital adequacy standards. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

For purposes of prompt corrective action, to be: (i) well-capitalized, a bank must have a total risk based capital ratio of at least 10%, a Tier 1 risk based capital ratio of at least 8%, a CET1 risk based capital ratio of at least 6.5%, and a Tier 1 leverage ratio of at least 5%; (ii) adequately capitalized, a bank must have a total risk based capital ratio of at least 8%, a Tier 1 risk based capital ratio of at least 6%, a CET1 risk based capital ratio of at least 4.5%, and a Tier 1 leverage ratio of at least 4%; (iii) undercapitalized, a bank would have a total risk based capital ratio of less than 8%, a Tier 1 risk based capital ratio of less than 6%, a CET1 risk based capital ratio of less than 4.5%, and a Tier 1 leverage ratio of less than 4%; (iv) significantly undercapitalized, a bank would have a total risk based capital ratio of less than 6%, a Tier 1 risk based capital ratio of less than 4%, a CET1 risk based capital ratio of less than 3%, and a Tier 1 leverage ratio of less than 3%; (v) critically undercapitalized, a bank would have a ratio of tangible equity to total assets that is less than or equal to 2%.

Bank holding companies and insured banks also may be subject to potential enforcement actions of varying levels of severity by the federal banking agencies for unsafe or unsound practices in conducting their business, or for violation of any law, rule, regulation, condition imposed in writing by the agency or term of a written agreement with the agency. In more serious cases, enforcement actions may include the issuance of directives to increase capital; the issuance of formal and informal agreements; the imposition of civil monetary penalties; the issuance of a cease and desist order that can be judicially enforced; the issuance of removal and prohibition orders against officers, directors, and other institution-affiliated parties; the termination of the bank’s deposit insurance; the appointment of a conservator or receiver for the bank; and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Transactions with Affiliates and Insiders

Under federal law, transactions between insured depository institutions and their affiliates are governed by Sections 23A and 23B of the FRA and implementing Regulation W. In a bank holding company context, at a minimum, the parent holding company of a bank, and any companies which are controlled by such parent holding company, are affiliates of the bank. Generally, Sections 23A and 23B of the FRA are intended to protect insured depository institutions from losses arising from transactions with non-insured affiliates by limiting the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate and with all affiliates of the bank in the aggregate, and requiring that such transactions be on terms consistent with safe and sound banking practices.

Further, Section 22(h) of the FRA and its implementing Regulation O restricts loans to directors, executive officers, and principal stockholders (“insiders”). Under Section 22(h), loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the BOD. Further, under Section 22(h) of the FRA, loans to directors, executive officers, and principal stockholders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the bank's employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers.

Lending Limits

In addition to the requirements set forth above, state banking law generally limits the amount of funds that a state-chartered bank may lend to a single borrower. Under Section 6-352 of the Arizona Revised Statutes, the obligations of one borrower to a bank may not exceed 20% of the bank’s capital, plus an additional 10% of its capital if the additional amounts are fully secured by readily marketable collateral.

Table of Contents

Brokered Deposits
Section 29 of the FDIA and FDIC regulations generally limit the ability of any bank to accept, renew or roll over any brokered deposit unless it is "well capitalized" or, with the FDIC's approval, "adequately capitalized." However, as a result of the EGRRCPA, the FDIC is undertaking a comprehensive review of its regulatory approach to brokered deposits, including reciprocal deposits, and interest rate caps applicable to banks that are less than "well capitalized." At this time, it is difficult to predict the impact, if any, to the Bank of the FDIC's review of brokered deposit regulations.
Consumer Protection and CFPB Supervision
The Dodd-Frank Act centralized responsibility for consumer financial protection by creating the CFPB, an independent agency charged with responsibility for implementing, enforcing, and examining compliance with federal consumer financial protection laws. The Company is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Procedures Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Practices Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which is part of the Dodd-Frank Act. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect the Company's business, financial condition, or operations.
Depositor Preference
The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.
Federal Deposit Insurance
Substantially all of the deposits of WAB are insured up to applicable limits by the FDIC's DIF. The basic limit on FDIC deposit insurance is $250,000 per depositor. WAB is subject to deposit insurance assessments to maintain the DIF.
The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's CAMELS rating. The risk matrix utilizes different risk categories distinguished by capital levels and supervisory ratings. As a result of the Dodd-Frank Act, the base for insurance assessments is now consolidated average assets less average tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed. WAB is classified as, and subject to the scorecard for, a large and highly complex institution to determine its total base assessment rate.
The Dodd-Frank Act requires that the FDIC raise the minimum reserve ratio of the DIF from 1.15% to 1.35%, and that the FDIC offset the effect of this increase on insured depository institutions with total consolidated assets of less than $10 billion. In March 2016, the FDIC finalized a rule to impose a surcharge of 4.5 cents per $100 of their assessment base on deposit insurance assessment rates paid by insured depository institutions with total consolidated assets of more than $10 billion. As of June 30, 2016, the minimum reserve ratio reached 1.17% and as such, WAB was subject to the surcharge beginning July 1, 2016. At September 30, 2018, the reserve ratio reached 1.36%, exceeding the statutorily required minimum. As a result, WAB was no longer subject to the surcharge as of September 30, 2018. The FDIC also has authority to further increase deposit insurance assessments. FDIC deposit insurance expense also includes FICO assessments related to outstanding FICO bonds. These assessments will continue until the FICO bonds mature, with such maturities beginning in 2017 and continuing through 2019.
Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Company's management is not aware of any practice, condition, or violation that might lead to the termination of its deposit insurance.
Financial Privacy and Data Security

The Company is subject to federal laws, including the GLBA, and certain state laws containing consumer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated and non-affiliated third parties and limit the reuse of certain consumer information received from non-affiliated institutions. These provision require notice of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to affiliates or non-affiliated third parties by means of “opt out” or “opt in” authorizations.

Table of Contents

For example, in August 2018, the CFPB published its final rule to update Regulation P pursuant to the amended GLBA. Under this rule, certain qualifying financial institutions are not required to provide annual privacy notices to customers. To qualify, a financial institution must not share nonpublic personal information about customers except as described in certain statutory exceptions which do not trigger a customer's statutory opt-out right. In addition, the financial institution must not have changed its disclosure policies and practices from those disclosed in its most recent privacy notice. The rule sets forth timing requirements for delivery of annual privacy notices in the event that a financial institution that qualified for the annual notice exemption later changes its policies or practices in such a way that it no longer qualifies for the exemption.

The GLBA also requires that financial institutions implement comprehensive written information security programs that include administrative, technical, and physical safeguards to protect consumer information. Further, pursuant to interpretive guidance issued under the GLBA and certain state laws, financial institutions are required to notify customers of security breaches that result in unauthorized access to their nonpublic personal information.

For example, under California law, every business that owns or licenses personal information about a California resident must maintain reasonable security procedures and policies to protect that information and comply with specific requirements relating to the destruction of records containing personal information and disclosure of breaches to customers, and restrictions on the use of customer information unless the customer "opts in." Other states, including Arizona and Nevada where WAB has branches, may also have applicable laws requiring businesses that retain consumer personal information to develop reasonable security policies and procedures, notify consumers of a security breach, or provide disclosures about the use and sharing of consumer personal information.

The federal banking agencies, including the FRB, through the Federal Financial Institutions Examination Council, have adopted guidelines to encourage financial institutions to address cybersecurity risks and identify, assess, and mitigate these risks, both internally and at critical third party services providers. In October 2016, the federal bank regulatory agencies issued proposed rules on enhanced cybersecurity risk-management and resilience standards that would apply to very large financial institutions and to services provided by third parties to these institutions. The comment period for these proposed rules has closed and a final rule has not been published. Although the proposed rules would apply only to bank holding companies and banks with $50 billion or more in total consolidated assets, these rules could influence the federal bank regulatory agencies' expectations and supervisory requirements for information security standards and cybersecurity programs of financial institutions with less than $50 billion in total consolidated assets.

Although these laws and regulations impose compliance costs and create obligations and, in some cases, reporting obligations, and compliance with all of the laws, regulations, and reporting obligations may require significant resources of WAL and WAB, these laws and regulations do not materially affect WAB's products, services or other business activities.

Community Reinvestment Act and Fair Lending Laws

WAB has a responsibility under the CRA to help meet the credit needs of its communities, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit discrimination in lending practices on the basis of characteristics specified in those statutes. WAB's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities and the activities of the Company. WAB's failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions. WAB received a rating of "Satisfactory" in its most recent CRA examination, in November 2015.

Federal Home Loan Bank of San Francisco

WAB is a member of the FHLB of San Francisco, which is one of 12 regional FHLBs that provide funding to their members for making housing loans as well as for affordable house and community development loans. Each FHLB serves as a reserve, or central bank, for the members within its assigned region. Each FHLB makes loans to its members in accordance with policies and procedures established by the board of directors of the FHLB. As a member, WAB must purchase and maintain stock in the FHLB of San Francisco. At December 31, 2018, WAB's total investment in FHLB stock was $17.3 million.

Incentive Compensation

The Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including the Company and WAB, with at least $1 billion in total consolidated assets that encourage inappropriate risks by providing an executive officer, employee, director, or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. The federal banking agencies and the SEC most recently proposed such regulations in 2016, but the regulations have not yet been finalized.

If the regulations are adopted in the form initially proposed, they will restrict the manner in which executive compensation is structured.

The Dodd-Frank Act also requires publicly traded companies to give stockholders a non-binding vote on executive compensation at least every three years and on so-called “golden parachute” payments in connection with approvals of mergers and acquisitions. WAL gives stockholders a non-binding vote on executive compensation annually.

Preventing Suspicious Activity

Under Title III of the USA PATRIOT Act, all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions, and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of the GLBA and other privacy laws. Financial institutions that hold correspondent accounts for foreign banks or provide private banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign “shell banks” and persons from jurisdictions of particular concern. The primary federal banking agencies and the Secretary of the Treasury have adopted regulations to implement several of these provisions. On May 11, 2018, WAB must comply with the new Customer Due Diligence Rule, which clarified and strengthened the existing obligations for identifying new and existing customers and explicitly include risk-based procedures for conducting ongoing customer due diligence. All financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act. The Company has a Bank Secrecy Act and USA PATRIOT Act Board-approved compliance program and engages in relatively few transactions with foreign financial institutions or foreign persons.

The FCRA’s Red Flags Rule requires financial institutions with covered accounts (e.g., consumer bank accounts and loans) to develop, implement, and administer an identity theft prevention program. This program must include reasonable policies and procedures to detect suspicious patterns or practices that indicate the possibility of identity theft, such as inconsistencies in personal information or changes in account activity.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals, and others. These are typically known as the OFAC rules based on their administration by the OFAC. The OFAC-administered sanctions targeting countries take many different forms. Generally, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (property and bank deposits) cannot be paid out, withdrawn, set off, or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Future Legislative Initiatives

Federal and state legislatures may introduce legislation that will impact the financial services industry. In addition, federal banking agencies may introduce regulatory initiatives that are likely to impact the financial services industry, generally. However it is not clear whether such changes will be enacted or, if enacted, what their effect on the Company will be. New legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it or any implementing regulations would have on the financial condition or results of operations of the Company. A change in statutes, regulations, or regulatory policies applicable to WAL or any of its subsidiaries could have a material effect on the business of the Company.

Table of Contents

Item 7A. 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, interest rates, foreign currency exchange rates, commodity prices, and equity prices. The Company's market risk arises primarily from interest rate risk inherent in its lending, investing, and deposit taking activities. To that end, management actively monitors and manages the Company's interest rate risk exposure. The Company generally manages its interest rate sensitivity by evaluating re-pricing opportunities on its earning assets to those on its funding liabilities.

Management uses various asset/liability strategies to manage the re-pricing characteristics of the Company's assets and liabilities, all of which are designed to ensure that exposure to interest rate fluctuations is limited to within the Company's guidelines of acceptable levels of risk-taking. Hedging strategies, including the terms and pricing of loans and deposits and management of the deployment of its securities, are used to reduce mismatches in interest rate re-pricing opportunities of portfolio assets and their funding sources.

Interest rate risk is addressed by the ALCO, which includes members of executive management, finance, and operations. ALCO monitors interest rate risk by analyzing the potential impact on the net EVE and net interest income from potential changes in interest rates and considers the impact of alternative strategies or changes in balance sheet structure. The Company manages its balance sheet in part to maintain the potential impact on EVE and net interest income within acceptable ranges despite changes in interest rates.

The Company's exposure to interest rate risk is reviewed at least quarterly by the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine its change in both EVE and net interest income in the event of hypothetical changes in interest rates. If potential changes to EVE and net interest income resulting from hypothetical interest rate changes are not within the limits established by the BOD, the BOD may direct management to adjust the asset and liability mix to bring interest rate risk within Board-approved limits.

Net Interest Income Simulation. In order to measure interest rate risk at December 31, 2018, the Company uses a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between a baseline net interest income forecast using current yield curves that do not take into consideration any future anticipated rate hikes, compared to forecasted net income resulting from an immediate parallel shift in rates upward or downward, along with other scenarios directed by ALCO. The income simulation model includes various assumptions regarding the re-pricing relationships for each of the Company's products. Many of the Company's assets are floating rate loans, which are assumed to re-price immediately and, proportional to the change in market rates, depending on their contracted index, including the impact of caps or floors. Some loans and investments contain contractual prepayment features (embedded options) and, accordingly, the simulation model incorporates prepayment assumptions. The Company's non-term deposit products re-price more slowly, usually changing less than the change in market rates and at the Company's discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that could impact the Company's results, including changes by management to mitigate interest rate changes or secondary factors, such as changes to the Company's credit risk profile as interest rates change.

Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment speeds that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the modeled assumptions may have significant effects on the Company's actual net interest income.

This simulation model assesses the changes in net interest income that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates over a twelve-month period. At December 31, 2018, the Company's net interest income exposure for the next twelve months related to these hypothetical changes in market interest rates was within the Company's current guidelines for all up-rate scenarios. The Company’s net interest income exposure in the 100 basis point down-rate scenario was not within the Company’s guideline of (5.0)%. The breach is the result of the Company’s asset sensitive balance sheet as the Company’s assets re-price faster than its liabilities. In addition, interest-rate sensitive liabilities have a less significant impact to changes in interest rates due to the liability pricing assumptions utilized in the model and, as non-interest-bearing deposits represent 39% of total deposits, the Company has a higher proportion of interest-earning assets in comparison to its interest-bearing liabilities. Accordingly, in a down-rate scenario, asset pricing will react faster than liability pricing, resulting in an expected loss of interest income. The Board and ALCO have accepted the breach and believe that as deposit costs increase over time, the proportion of fixed-rate assets relative to floating-rate assets will also increase, reducing our asset sensitivity and dampening the impact of a down-rate scenario.

Table of Contents

Sensitivity of Net Interest Income

	Interest Rate Scenario (change in basis points from Base)						
	Down 100	Base	Up 100	Up 200	Up 300	Up 400	Short Rates Up 100
	(in thousands)						
Interest Income	$1,077,413	$1,185,872	$1,306,369	$1,426,302	$1,546,495	$1,667,029	$1,294,126
Interest Expense	147,959	198,680	253,016	307,350	361,680	416,006	252,033
Net Interest Income	929,454	987,192	1,053,353	1,118,952	1,184,815	1,251,023	1,042,093
% Change	(5.8)%		6.7 %	13.3 %	20.0 %	26.7 %	5.6 %

Economic Value of Equity. The Company measures the impact of market interest rate changes on the NPV of estimated cash flows from its assets, liabilities, and off-balance sheet items, defined as EVE, using a simulation model. This simulation model assesses the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates. At December 31, 2018, the Company's EVE exposure related to these hypothetical changes in market interest rates was within the Company's current guidelines. The following table shows the Company's projected change in EVE for this set of rate shocks at December 31, 2018:

Economic Value of Equity

	Interest Rate Scenario (change in basis points from Base)						
	Down 100	Base	Up 100	Up 200	Up 300	Up 400	Short Rates Up 100
	(in thousands)						
Assets	$23,532,413	$23,018,258	$22,486,076	$21,994,506	$21,546,768	$21,121,409	$23,016,043
Liabilities	18,908,801	18,498,856	18,173,139	17,893,596	17,648,641	17,430,703	18,942,813
Net Present Value	4,623,612	4,519,402	4,312,937	4,100,910	3,898,127	3,690,706	4,073,230
% Change	2.3 %		(4.6)%	(9.3)%	(13.7)%	(18.3)%	(9.9)%

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, asset prepayments, and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates. Actual amounts may differ from the projections set forth above should market conditions vary from the underlying assumptions.

Derivative Contracts. In the normal course of business, the Company uses derivative instruments to meet the needs of its customers and manage exposure to fluctuations in interest rates. The following table summarizes the aggregate notional amounts, market values, and terms of the Company’s derivative positions as of December 31, 2018 and 2017:

Outstanding Derivatives Positions

December 31,					
2018			2017		
Notional	Net Value	Weighted Average Term (Years)	Notional	Net Value	Weighted Average Term (Years)
(dollars in thousands)					
$1,017,773	$(42,477)	15.8	$1,115,736	$(51,629)	16.0

Table of Contents

Item 8. Financial Statements and Supplementary Data

The Company's Consolidated Financial Statements and Supplementary Data included in this Annual Report is immediately following the Index to Consolidated Financial Statements page to this Annual Report.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Western Alliance Bancorporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Western Alliance Bancorporation and Subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the consolidated financial statements (collectively the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report, dated March 1, 2019, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 1994.

Phoenix, Arizona

March 1, 2019

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2018	2017
	(in thousands, except shares and per share amounts)	
Assets:		
Cash and due from banks	$180,053	$181,191
Interest-bearing deposits in other financial institutions	318,519	235,577
Cash, cash equivalents, and restricted cash	498,572	416,768
Money market investments	7	—
Investment securities - AFS, at fair value; amortized cost of $3,339,888 at December 31, 2018 and $3,515,401 at December 31, 2017	3,276,988	3,499,519
Investment securities - HTM, at amortized cost; fair value of $298,648 at December 31, 2018 and $256,314 at December 31, 2017	302,905	255,050
Investment securities - equity	115,061	—
Investments in restricted stock, at cost	66,132	65,785
Loans, net of deferred loan fees and costs	17,710,629	15,093,935
Less: allowance for credit losses	(152,717)	(140,050)
Net loans held for investment	17,557,912	14,953,885
Premises and equipment, net	119,474	118,719
Other assets acquired through foreclosure, net	17,924	28,540
Bank owned life insurance	170,145	167,764
Goodwill	289,895	289,895
Other intangible assets, net	9,260	10,853
Deferred tax assets, net	31,990	5,780
Investments in LIHTC	342,381	267,023
Other assets	310,840	249,504
Total assets	$23,109,486	$20,329,085
Liabilities:		
Deposits:		
Non-interest-bearing demand	$7,456,141	$7,433,962
Interest-bearing	11,721,306	9,538,570
Total deposits	19,177,447	16,972,532
Customer repurchase agreements	22,411	26,017
Other borrowings	491,000	390,000
Qualifying debt	360,458	376,905
Other liabilities	444,436	333,933
Total liabilities	20,495,752	18,099,387
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock - par value $0.0001; 200,000,000 authorized; 106,741,870 shares issued at December 31, 2018 and 107,057,520 at December 31, 2017	10	10
Treasury stock, at cost (1,793,231 shares at December 31, 2018 and 1,570,155 shares at December 31, 2017)	(53,083)	(40,173)
Additional paid in capital	1,417,724	1,424,540
Accumulated other comprehensive (loss)	(33,622)	(3,145)

Retained earnings	1,282,705	848,466
Total stockholders’ equity	2,613,734	2,229,698
Total liabilities and stockholders’ equity	$23,109,486	$20,329,085

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	Year Ended December 31,		
	2018	2017	2016
	(in thousands, except per share amounts)		
Interest income:			
Loans, including fees	$910,577	$747,510	$636,596
Investment securities	106,752	83,354	52,570
Dividends	7,915	7,740	9,002
Other	8,239	6,909	2,338
Total interest income	1,033,483	845,513	700,506
Interest expense:			
Deposits	90,464	41,965	29,722
Other borrowings	4,329	561	508
Qualifying debt	22,287	18,273	12,998
Other	524	50	65
Total interest expense	117,604	60,849	43,293
Net interest income	915,879	784,664	657,213
Provision for credit losses	23,000	17,250	8,000
Net interest income after provision for credit losses	892,879	767,414	649,213
Non-interest income:			
Service charges and fees	22,295	20,346	18,824
Income from equity investments	8,595	4,496	2,664
Card income	8,009	6,313	5,226
Foreign currency income	4,760	3,536	3,419
Lending related income and gains (losses) on sale of loans, net	4,340	2,212	5,295
Income from bank owned life insurance	3,946	3,861	3,762
(Loss) gain on sales of investment securities, net	(7,656)	2,343	1,059
Unrealized (losses) gains on assets measured at fair value, net	(3,611)	(1)	8
Other income	2,438	2,238	2,658
Total non-interest income	43,116	45,344	42,915
Non-interest expense:			
Salaries and employee benefits	253,238	214,344	188,810
Occupancy	29,404	27,860	27,303
Legal, professional, and directors' fees	28,722	29,814	24,610
Data processing	22,716	19,225	19,657
Deposit costs	18,900	9,731	4,983
Insurance	14,005	14,042	12,898
Business development	5,960	6,128	5,902
Loan and repossessed asset expenses	4,578	4,617	2,999
Card expense	4,301	3,413	1,939
Marketing	3,770	3,804	3,596
Intangible amortization	1,594	2,074	2,788
Net loss (gain) on sales / valuations of repossessed and other assets	9	(80)	(125)
Acquisition / restructure expense	—	—	12,412
Other expense	38,470	25,969	23,177
Total non-interest expense	425,667	360,941	330,949
Income before provision for income taxes	510,328	451,817	361,179

Income tax expense	74,540	126,325	101,381
Net income	$435,788	$325,492	$259,798

Table of Contents

	Year Ended December 31,		
	2018	2017	2016
	(in thousands, except per share amounts)		
Earnings per share:			
Basic	$4.16	$ 3.12	$ 2.52
Diluted	4.14	3.10	2.50
Weighted average number of common shares outstanding:			
Basic	104,669	104,179	103,042
Diluted	105,370	104,997	103,843

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net income	$435,788	$325,492	$259,798
Other comprehensive (loss) income, net:			
Unrealized (loss) gain on AFS securities, net of tax effect of $13,354, $(3,973), and $15,099, respectively	(40,808)	6,334	(24,254)
Unrealized (loss) gain on SERP, net of tax effect of $24, $(79), and $(18), respectively	(77)	264	31
Unrealized gain (loss) on junior subordinated debt, net of tax effect of $(1,857), $2,220, and $1,405, respectively	5,693	(3,604)	(2,077)
Realized loss (gain) on sale of AFS securities included in income, net of tax effect of $(1,883), $899, and $404, respectively	5,773	(1,444)	(655)
Net other comprehensive (loss) income	(29,419)	1,550	(26,955)
Comprehensive income	$406,369	$327,042	$232,843

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock						
	Shares	Amount	Additional Paid in Capital	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Stockholders' Equity
	(in thousands)						
Balance, December 31, 2015	103,087	$ 10	$1,323,473	$(16,879)	$ 22,260	$262,638	$1,591,502
Net income	—	—	—	—	—	259,798	259,798
Exercise of stock options	77	—	1,070	—	—	—	1,070
Restricted stock, performance stock units, and other grants, net	662	—	19,812	—	—	—	19,812
Restricted stock surrendered (1)	(305)	—	—	(9,483)	—	—	(9,483)
ATM common stock issuance, net	1,550	—	55,785	—	—	—	55,785
Other comprehensive loss, net	—	—	—	—	(26,955)	—	(26,955)
Balance, December 31, 2016	105,071	$ 10	$1,400,140	$(26,362)	$ (4,695)	$522,436	$1,891,529
Balance, January 1, 2017 (2)	105,071	10	1,400,140	(26,362)	(4,695)	522,974	1,892,067
Net income	—	—	—	—	—	325,492	325,492
Exercise of stock options	38	—	846	—	—	—	846
Restricted stock, performance stock units, and other grants, net	648	—	23,554	—	—	—	23,554
Restricted stock surrendered (1)	(270)	—	—	(13,811)	—	—	(13,811)
Other comprehensive income, net	—	—	—	—	1,550	—	1,550
Balance, December 31, 2017	105,487	$ 10	$1,424,540	$(40,173)	$ (3,145)	$848,466	$2,229,698
Balance, January 1, 2018 (3)	105,487	10	1,424,540	(40,173)	(4,203)	849,524	2,229,698
Net income	—	—	—	—	—	435,788	435,788
Exercise of stock options	22	—	554	—	—	—	554
Restricted stock, performance stock unit, and other grants, net	564	—	25,711	—	—	—	25,711
Restricted stock surrendered (1)	(223)	—	—	(12,910)	—	—	(12,910)
Stock repurchase	(901)	—	(33,081)	—	—	(2,607)	(35,688)
Other comprehensive loss, net	—	—	—	—	(29,419)	—	(29,419)
Balance, December 31, 2018	104,949	$ 10	$1,417,724	$(53,083)	$ (33,622)	$1,282,705	$2,613,734

(1) Share amounts represent Treasury Shares, see "Note 1. Summary of Significant Accounting Policies" for further discussion.

(2) As adjusted for adoption of ASU 2017-12. The cumulative effect of adoption of this guidance at January 1, 2017 resulted in an increase to retained earnings of $0.5 million and a corresponding increase to loans for the fair market value adjustment on the swaps.

(3) As adjusted for adoption of ASU 2016-01 and ASU 2018-02. The cumulative effect of adoption of this guidance at January 1, 2018 resulted in an increase to retained earnings of $1.1 million and a corresponding decrease to accumulated other comprehensive income. See "Note 1. Summary of Significant Accounting Policies" for further

discussion.

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31,		
	2018	2017	2016
	(in thousands)		
Cash flows from operating activities:			
Net income	$435,788	$325,492	$259,798
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for credit losses	23,000	17,250	8,000
Depreciation and amortization	14,319	13,393	12,494
Stock-based compensation	25,711	23,554	20,338
Deferred income taxes	(16,709)	88,471	7,644
Amortization of net premiums for investment securities	14,247	16,938	13,790
Amortization of tax credit investments	35,898	25,355	17,336
Accretion of fair market value adjustments on loans acquired from business combinations	(18,565)	(28,235)	(29,209)
Accretion and amortization of fair market value adjustments on other assets and liabilities acquired from business combinations	1,904	2,385	3,098
Income from bank owned life insurance	(3,946)	(3,861)	(3,762)
Losses / (Gains) on:			
Sales of investment securities	7,656	(2,343)	(1,059)
Assets measured at fair value, net	3,611	1	(8)
Sale of loans	(2,638)	(945)	(2,492)
Other assets acquired through foreclosure, net	(1,214)	(228)	372
Valuation adjustments of other repossessed assets, net	1,267	120	(268)
Sale of premises, equipment, and other assets, net	(44)	28	21
Changes in:			
Other assets	1,378	(111,902)	(23,114)
Other liabilities	19,309	18,338	(2,334)
Net cash provided by operating activities	540,972	383,811	280,645
Cash flows from investing activities:			
Investment securities - trading			
Principal pay downs and maturities	—	—	395
Proceeds from sales	—	994	—
Investment securities - AFS			
Purchases	(520,734)	(1,429,434)	(1,205,057)
Principal pay downs and maturities	425,151	430,934	499,541
Proceeds from sales	154,434	110,104	25,504
Investment securities - HTM			
Purchases	(56,575)	(169,400)	(92,384)
Principal pay downs and maturities	8,987	6,174	94
Equity securities carried at fair value			
Purchases	(71,728)	—	—
Reinvestment of dividends	(577)	—	—
Proceeds from sales	48,639	—	—
Purchase of investment tax credits	(109,598)	(38,098)	(28,847)
Purchase of SBIC investments	(4,129)	(5,819)	—
(Purchase) sale of money market investments, net	(7)	—	121
Proceeds from bank owned life insurance	1,655	607	1,710

(Purchase) liquidation of restricted stock, net	(347)	(535)	(7,139)
Loan fundings and principal collections, net	(2,586,703)	(1,873,387)	(810,543)
Purchase of premises, equipment, and other assets, net	(11,313)	(8,862)	(10,574)
Proceeds from sale of other real estate owned and repossessed assets, net	9,412	21,195	9,133
Cash and cash equivalents (used) acquired in acquisitions, net	—	—	(1,272,187)
Net cash used in investing activities	(2,713,433)	(2,955,527)	(2,890,233)

Table of Contents

	December 31, 2018	2017	2016
	(in thousands)		
Cash flows from financing activities:			
Net increase (decrease) in deposits	$2,204,915	$2,422,669	$2,519,239
Proceeds from issuance of subordinated debt	—	—	169,256
Net increase (decrease) in borrowings	97,394	294,289	(66,428)
Proceeds from exercise of common stock options	554	846	1,070
Cash paid for tax withholding on vested restricted stock	(12,910)	(13,811)	(9,483)
Common stock repurchases	(35,688)	—	—
Proceeds from issuance of stock in offerings, net	—	—	55,785
Net cash provided by financing activities	2,254,265	2,703,993	2,669,439
Net increase (decrease) in cash, cash equivalents, and restricted cash	81,804	132,277	59,851
Cash, cash equivalents, and restricted cash at beginning of period	416,768	284,491	224,640
Cash, cash equivalents, and restricted cash at end of period	$498,572	$416,768	$284,491
Supplemental disclosure:			
Cash paid during the period for:			
Interest	$113,507	$59,838	$41,565
Income taxes	18,760	99,430	61,281
Non-cash operating, investing, and financing activity:			
Transfers to other assets acquired through foreclosure, net	5,744	1,812	13,110
Unfunded commitments originated	167,502	123,012	56,479
Non-cash charitable contribution	6,895	—	—
Non-cash assets acquired in acquisition	—	—	1,284,557
Non-cash liabilities acquired in acquisition	—	—	12,559
Change in unrealized (loss) gain on AFS securities, net of tax	(40,808)	6,334	(24,254)
Change in unrealized gain (loss) on junior subordinated debt, net of tax	5,693	(3,604)	(2,077)
Net increase (decrease) in unfunded obligations	46,495	(10,495)	(21,225)

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of operation
WAL is a bank holding company headquartered in Phoenix, Arizona, incorporated under the laws of the state of Delaware. WAL provides a full spectrum of deposit, lending, treasury management, international banking, and online banking products and services through its wholly-owned banking subsidiary, WAB.
WAB operates the following full-service banking divisions: ABA, BON, FIB, Bridge, and TPB. The Company also serves business customers through a national platform of specialized financial services. In addition, the Company has two non-bank subsidiaries, LVSP, which holds and manages certain OREO properties and a captive insurance company formed and licensed under the laws of the State of Arizona, CSI. CSI was established as part of the Company's overall enterprise risk management strategy.
Basis of presentation
The accounting and reporting policies of the Company are in accordance with GAAP and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in the Consolidated Financial Statements.
Use of estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates and judgments are ongoing and are based on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from those estimates and assumptions used in the Consolidated Financial Statements and related notes. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; certain assets and liabilities carried at fair value; and accounting for income taxes.
Principles of consolidation
As of December 31, 2018, WAL has the following significant wholly-owned subsidiaries: WAB, LVSP, and eight unconsolidated subsidiaries used as business trusts in connection with the issuance of trust-preferred securities.
The Bank has the following significant wholly-owned subsidiaries: WABT, which holds certain investment securities, municipal and nonprofit loans, and leases; WA PWI, which holds certain limited partnerships invested primarily in low income housing tax credits and small business investment corporations; and BW Real Estate, Inc., which operates as a real estate investment trust and holds certain of WAB's real estate loans and related securities.
The Company does not have any other significant entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.
Reclassifications
Certain amounts reported in prior periods may have been reclassified in the Consolidated Financial Statements to conform to the current presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.
Cash and cash equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing), and federal funds sold. Cash flows from loans originated by the Company and customer deposit accounts are reported net.
The Company maintains amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Table of Contents

Cash reserve requirements

Depository institutions are required by law to maintain reserves against their transaction deposits. The reserves must be held in cash or with the FRB. Banks are permitted to meet this requirement by maintaining the specified amount as an average balance over a two-week period. The total of reserve balances was approximately $145.9 million and $105.5 million as of December 31, 2018 and 2017, respectively.

Investment securities

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

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

For periods prior to January 1, 2018, equity securities were classified as AFS and reported at fair value with unrealized gains and losses included as a separate component of AOCI, net of tax. Upon adoption of ASU 2016-01, the fair value changes in equity securities are recognized as part of non-interest income, see "Recently adopted accounting guidance" below for further discussion.

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

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

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

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

Restricted stock

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

Table of Contents

Loans, held for investment

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

The Company may also acquire loans through a business combination. These acquired loans are recorded at estimated fair value on the date of purchase, which is comprised of unpaid principal adjusted for estimated credit losses and interest rate fair value adjustments. Loans are evaluated individually at the acquisition date to determine if there has been credit deterioration since origination. Such loans may then be aggregated and accounted for as a pool of loans based on common characteristics. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company’s estimate of undiscounted cash flows expected to be collected over the Company’s initial investment in the loan. The excess of contractual cash flows over the cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan’s yield over the remaining life. Subsequent decreases to cash flows expected to be collected are recognized as impairment. The Company may not carry over or create a valuation allowance in the initial accounting for loans acquired under these circumstances. For purchased loans that are not deemed impaired at the acquisition date, fair value adjustments attributable to both credit and interest rates are accreted (or amortized) over the contractual life of the individual loan. For additional information, see "Note 3. Loans, Leases and Allowance for Credit Losses" of these Notes to Consolidated Financial Statements.

Loan fees collected for the origination of loans less direct loan origination costs (net deferred loan fees) are amortized over the contractual life of the loan through interest income. If a loan has scheduled payments, the amortization of the net deferred loan fee is calculated using the interest method over the contractual life of the loan. If a loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer’s unused line of credit and fees related to standby letters of credit are recognized over the commitment period. When loans are repaid, any remaining unamortized balances of premiums, discounts, or net deferred fees are recognized as interest income.

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

For all loan types, when a loan is placed on non-accrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed, and the Company makes a loan-level decision to apply either the cash basis or cost recovery method. The Company recognizes income on a cash basis only for those non-accrual loans for which the collection of the remaining principal balance is not in doubt. Under the cost recovery method, subsequent payments received from the customer are applied to principal and generally no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required.

Impaired loans: A loan is identified as impaired when it is no longer probable that interest and principal will be collected according to the contractual terms of the original loan agreement. Impaired loans are measured for reserve requirements in accordance with ASC 310, Receivables, based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral less applicable disposition costs if the loan is collateral dependent. The amount of an impairment reserve, if any, and any subsequent changes are recorded as a provision for credit losses. Losses are recorded as a charge-off when losses are confirmed. In addition to management's internal loan review process,

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

Table of Contents

classification as a TDR, will be removed from TDR status provided that the modified terms were market-based at the time of modification.

Allowance for credit losses

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

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

The general allowance covers all non-impaired loans and incorporates several quantitative and qualitative factors, which are used for all of the Company's portfolio segments. Quantitative factors include company-specific, ten-year historical net charge-offs stratified by loans with similar characteristics. Qualitative factors include: 1) levels of and trends in delinquencies and impaired loans; 2) levels of and trends in charge-offs and recoveries; 3) trends in volume and terms of loans; 4) changes in underwriting standards or lending policies; 5) experience, ability, depth of lending staff; 6) national and local economic trends and conditions; 7) changes in credit concentrations; 8) out-of-market exposures; 9) changes in quality of loan review system; and 10) changes in the value of underlying collateral.

Due to the credit concentration of the Company's loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Arizona, Nevada, and California. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, regulators, as an integral part of their examination processes, periodically review the Bank's allowance for credit losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examination. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when the 1) assets have been isolated from the Company; 2) transferee obtains the right to pledge or exchange the transferred assets; and 3) Company no longer maintains effective control over the transferred assets through an agreement to repurchase the transferred assets before maturity.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease or the estimated life of the improvement, whichever is shorter. Depreciation and amortization is computed using the following estimated lives:

	Years
Bank premises	31
Furniture, fixtures, and equipment	3 - 10
Leasehold improvements (1)	3 - 10

(1) Depreciation is recorded over the lesser of 3 to 10 years or the term of the lease.

Management periodically reviews premises and equipment in order to determine if facts and circumstances suggest that the value of an asset is not recoverable.

83

Table of Contents

Goodwill and other intangible assets

The Company records as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. The Company performs its annual goodwill and intangibles impairment tests as of October 1 each year, or more often if events or circumstances indicate that the carrying value may not be recoverable. The Company can first elect to assess, through qualitative factors, whether it is more likely than not that goodwill is impaired. If the qualitative assessment indicates potential impairment, a quantitative impairment test is necessary. If, based on the quantitative test, a reporting unit's carrying amount exceeds its fair value, a goodwill impairment charge for this difference is recorded to current period earnings as non-interest expense.

The Company’s intangible assets consist primarily of core deposit intangible assets that are amortized over periods ranging from 5 to 10 years. The Company considers the remaining useful lives of its core deposit intangible assets each reporting period, as required by ASC 350, Intangibles—Goodwill and Other, to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset’s remaining useful life has changed, the remaining carrying amount of the intangible asset is amortized prospectively over the revised remaining useful life. The Company has not revised its estimates of the useful lives of its core deposit intangibles during the years ended December 31, 2018, 2017, or 2016.

Other assets acquired through foreclosure

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

Low income housing credits

The Company holds ownership interests in limited partnerships and limited liability companies that invest in affordable housing projects. These investments are designed to generate a return primarily through the realization of federal tax credits and deductions. The Company accounts for these investments using the proportional amortization method. See LIHTC section in "Note 14. Income Taxes" of these Notes to Consolidated Financial Statements for further discussion.

The Company evaluates its interests in these entities to determine if it has a variable interest and whether it is required to consolidate these entities. A variable interest is an investment or other interest that will absorb portions of an entity's expected losses or receive portions of the entity's expected residual returns. If the Company determines that it has a variable interest in an entity, it evaluates whether such interest is in a variable interest entity. A VIE is broadly defined as an entity where either 1) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance or 2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support. The Company is required to consolidate any VIEs when it is determined to be the primary beneficiary of the VIE's operations.

A variable interest holder is considered to be the primary beneficiary of a VIE if it has both the power to direct the activities of a VIE that most significantly impact the entity's economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The Company’s assessment of whether it is the primary beneficiary of a VIE includes consideration of various factors such as, the Company's ability to direct the activities that most significantly impact the entity's economic performance, its form of ownership interest, its representation on the entity's governing body, the size and seniority of its investment, its ability and the rights of other investors to participate in policy making decisions and to replace the manager of and/or liquidate the entity. The Company is required to evaluate whether to consolidate a VIE both at inception and on an ongoing basis as changes in circumstances require reconsideration.

The Company’s investments in qualified affordable housing projects meet the definition of a VIE as the entities do not have sufficient equity investment at risk to finance their activities without additional subordinated financial support and are structured with nonsubstantive voting rights. The general partner or managing member has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. Accordingly, as a limited partner, the Company is not the primary beneficiary and is not required consolidate these entities.

Table of Contents

Bank owned life insurance

BOLI is carried at its cash surrender value with changes recorded in other non-interest income in the Consolidated Income Statements. The face amount of the underlying policies including death benefits was $358.7 million and $360.0 million as of December 31, 2018 and 2017, respectively. There are no loans offset against cash surrender values, and there are no restrictions as to the use of proceeds.

Customer repurchase agreements

The Company enters into repurchase agreements with customers, whereby it pledges securities against overnight investments made from the customer's excess collected funds. The Company records these at the amount of cash received in connection with the transaction.

Stock compensation plans

The Company has the Incentive Plan, as amended, which is described more fully in "Note 10. Stockholders' Equity" of these Notes to Consolidated Financial Statements. Compensation expense for stock options and non-vested restricted stock awards is based on the fair value of the award on the measurement date which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. Forfeitures are estimated at the time of the award grant and revised in subsequent periods if actual forfeitures differ from those estimates. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of stock options. The fair value of non-vested restricted stock awards is the market price of the Company's stock on the date of grant.

See "Note 10. Stockholders' Equity" of these Notes to Consolidated Financial Statements for further discussion of stock options and restricted stock awards.

Dividends

WAL is a legal entity separate and distinct from its subsidiaries. As a holding company with limited significant assets other than the capital stock of its subsidiaries, WAL's ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from its subsidiaries. The Company's subsidiaries ability to pay dividends to WAL is subject to, among other things, their individual earnings, financial condition, and need for funds, as well as federal and state governmental policies and regulations applicable to WAL and each of those subsidiaries, which limit the amount that may be paid as dividends without prior approval. In addition, the terms and conditions of other securities the Company issues may restrict its ability to pay dividends to holders of the Company's common stock. For example, if any required payments on outstanding trust preferred securities are not made, WAL would be prohibited from paying cash dividends on its common stock.

Treasury shares

The Company separately presents treasury shares, which represent shares surrendered to the Company equal in value to the statutory payroll tax withholding obligations arising from the vesting of employee restricted stock awards. Treasury shares are carried at cost.

Common Stock Repurchases

On December 11, 2018, the Company adopted its common stock repurchase program, pursuant to which the Company is authorized to repurchase up to $250 million of its shares of common stock. All shares repurchased under the plan are retired upon settlement. The Company has elected to allocate the excess of the repurchase price over the par value of its common stock between additional paid-in capital and retained earnings. The allocation of the excess repurchase price to additional paid-in capital is limited to the amount of additional paid-in capital that was recorded at the time that the shares were initially issued, which is calculated on a last-in, first-out basis.

Derivative financial instruments

The Company uses interest-rate swaps to mitigate interest-rate risk associated with changes to the fair value of certain fixed-rate financial instruments (fair value hedges).

The Company recognizes derivatives as assets or liabilities in the Consolidated Balance Sheet at their fair value in accordance with ASC 815, Derivatives and Hedging. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset or liability attributable to a particular risk, such as interest rate risk, are considered fair value hedges.

Table of Contents

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk are recorded in current-period earnings. Changes in the fair value of derivatives not considered to be highly effective in hedging the change in fair value of the hedged item are recognized in earnings as non-interest income during the period of the change.

The Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction after the derivative contract is executed. At inception, the Company performs a quantitative assessment to determine whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in the fair value of the hedged item. Retroactive effectiveness is assessed, as well as the continued expectation that the hedge will remain effective prospectively. After the initial quantitative assessment is performed, on a quarterly basis, the Company performs a qualitative hedge effectiveness assessment. This assessment takes into consideration any adverse developments related to the counterparty's risk of default and any negative events or circumstances that affect the factors that originally enabled the Company to assess that it could reasonably support, qualitatively, an expectation that the hedging relationship was and will continue to be highly effective. The Company discontinues hedge accounting prospectively when it is determined that a hedge is no longer highly effective. When hedge accounting is discontinued on a fair value hedge that no longer qualifies as an effective hedge, the derivative continues to be reported at fair value in the Consolidated Balance Sheet, but the carrying amount of the hedged item is no longer adjusted for future changes in fair value. The adjustment to the carrying amount of the hedged item that existed at the date hedge accounting is discontinued is amortized over the remaining life of the hedged item into earnings.

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

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

Off-balance sheet instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instrument arrangements consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Financial Statements when they are funded. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheet. Losses would be experienced when the Company is contractually obligated to make a payment under these instruments and must seek repayment from the borrower, which may not be as financially sound in the current period as they were when the commitment was originally made.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

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

The Company also has off-balance sheet arrangements related to its derivative instruments. Derivative instruments are recognized in the Consolidated Financial Statements at fair value and their notional values are carried off-balance sheet. See "Note 12. Derivatives and Hedging Activities" of these Notes to Consolidated Financial Statements for further discussion.

Table of Contents

Business combinations

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

Fair values of financial instruments

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

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, prepayment speeds, volatilities, etc.) or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market.
- Level 3 - Valuation is generated from model-based techniques where one or more significant inputs are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect the Company’s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models, and similar techniques.

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

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

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

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at December 31, 2018 and 2017. The estimated fair value amounts for December 31, 2018 and 2017 have been measured as of period-end, and have not been re-evaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the

Table of Contents

estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

The information in "Note 16. Fair Value Accounting" in these Notes to Consolidated Financial Statements should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company’s assets and liabilities.

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

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

Cash, cash equivalents, and restricted cash

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

Money market investments

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

Investment securities

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

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

Restricted stock

WAB is a member of the Federal Reserve System and the FHLB and, accordingly, maintains investments in the capital stock of the FRB and the FHLB. WAB also maintains an investment in its primary correspondent bank. These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of its restricted stock to determine if any impairment exists. The fair values of these investments have been categorized as Level 2 in the fair value hierarchy.

Loans

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

Accrued interest receivable and payable

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

Derivative financial instruments

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

Deposits

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

Table of Contents

FHLB advances and customer repurchase agreements

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

Subordinated debt

The fair value of subordinated debt is based on the market rate for the respective subordinated debt security. Subordinated debt has been categorized as Level 3 in the fair value hierarchy.

Junior subordinated debt

Junior subordinated debt is valued based on a discounted cash flow model which uses as inputs Treasury Bond rates and the 'BB' rated financial index. Junior subordinated debt has been categorized as Level 3 in the fair value hierarchy.

Off-balance sheet instruments

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

Income taxes

The Company is subject to income taxes in the United States and files a consolidated federal income tax return with all of its subsidiaries, with the exception of BW Real Estate, Inc. Deferred income taxes are recorded to reflect the effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and their income tax bases using enacted tax rates that are expected to be in effect when the taxes are actually paid or recovered. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Net deferred tax assets are recorded to the extent that these assets will more-likely-than-not be realized. In making these determinations, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, tax planning strategies, projected future taxable income, and recent operating results. If it is determined that deferred income tax assets to be realized in the future are in excess of their net recorded amount, an adjustment to the valuation allowance will be recorded, which will reduce the Company's provision for income taxes.

A tax benefit from an unrecognized tax benefit may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including related appeals or litigation, based on technical merits. Income tax benefits must meet a more-likely-than-not recognition threshold at the effective date to be recognized.

Interest and penalties related to unrecognized tax benefits are recognized as part of the provision for income taxes in the Consolidated Income Statement. Accrued interest and penalties are included in the related tax liability line with other liabilities in the Consolidated Balance Sheet. See "Note 14. Income Taxes" of these Notes to Consolidated Financial Statements for further discussion on income taxes.

Non-interest income

Non-interest income includes service charges and fees, income from equity investments, card income, foreign currency income, income from bank owned life insurance, lending related income, net gain or loss on sales of investment securities, net unrealized gains or losses on assets measured at fair value, and other income. Service charges and fees consist of fees earned from performance of account analysis, general account services, and other deposit account services. These fees are recognized as the related services are provided in accordance with ASC 606, Revenue from Contracts with Customers. Income from equity investments includes gains on equity warrant assets, SBIC equity income, and success fees. Card income includes fees earned from customer use of debit and credit cards, interchange income from merchants, and international charges. Card income is generally within the scope of ASC 310, Receivables; however, certain processing transactions for merchants, such as interchange fees, are within the scope of ASC 606. Beginning on October 1, 2018, interchange fees are being recorded net of customer rewards earned, which is more in line with current industry practice. Foreign currency income represents fees earned on the differential between purchases and sales of foreign currency on behalf of the Company’s clients. Income from bank owned life insurance is accounted for in accordance with ASC 325, Investments - Other. Lending related income includes fees earned from gains or losses on the sale of loans, SBA income, and letter of credit fees. Gains and losses on the sale of loans and SBA income are recognized pursuant to ASC 860, Transfers and Servicing. Net unrealized gains or losses on assets measured at fair value represent fair value changes in equity securities and are accounted for in accordance with ASC 321, Investments - Equity Securities. Fees related to standby letters of

Table of Contents

credit are accounted for in accordance with ASC 440, Commitments. Other income includes operating lease income, which is recognized on a straight-line basis over the lease term in accordance with ASC 840, Leases. Net gain or loss on sales / valuations of repossessed and other assets is presented as a component of non-interest expense, but may also be presented as a component of non-interest income in the event that a net gain is recognized. Net gain or loss on sales of repossessed and other assets are accounted for in accordance with ASC 610, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets. See "Note 22. Revenue from Contracts with Customers" of these Notes to Consolidated Financial Statements for further details related to the nature and timing of revenue recognition for non-interest income revenue streams within the scope of the new standard.

Recent accounting pronouncements

In February 2016, the FASB issued guidance within ASU 2016-02, Leases. The amendments in ASU 2016-02 to Topic 842, Leases, require lessees to recognize the lease assets and lease liabilities arising from operating leases in the statement of financial position, which will result in a gross up of assets and liabilities on the balance sheet. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. In July 2018, the FASB issued guidance within ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842) Targeted Improvements. The amendments within ASU 2018-10 clarify how to apply certain aspects and transition adjustments of the new leases standard. The amendments within ASU 2018-11 give entities another option for transition and provide lessors with a practical expedient. The transition option allows entities to continue to apply the legacy guidance in ASC 840, Leases, to prior periods, including disclosure requirements. Accordingly, under this transition approach, the modified retrospective transition method still applies; however, a cumulative-effect adjustment to retained earnings is recognized in the period of adoption, rather than the earliest period presented. The amendments in these ASUs are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has substantially completed its implementation of the new lease standard. All key lease data has been gathered and input into the Company's lease software application and validation procedures over the resulting output has been performed. The Company has elected to apply the practical expedients permitting entities to forgo reassessment of 1) expired or existing contracts that may contain leases; 2) lease classification of expired or existing leases; and 3) initial direct costs for any existing leases. Upon adoption of this standard on January 1, 2019, the Company recorded a right-of-use asset and corresponding lease liability of approximately $45 million. The new standard will not have a material impact on the Company's results of operations or cash flow.

In June 2016, the FASB issued guidance within ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The new standard significantly changes the impairment model for most financial assets that are measured at amortized cost, including off-balance sheet credit exposures, from an incurred loss model to an expected loss model. The amendments in ASU 2016-13 to Topic 326, Financial Instruments - Credit Losses, require that an organization measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU also requires enhanced disclosures, including qualitative and quantitative disclosures that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on AFS debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management has formed a Steering Committee and established an implementation team made up of subject matter experts across different functions within the Company, including Finance, Risk, Credit, and IT, that will coordinate and facilitate all phases of planning and implementation of the new guidance. The Company has currently identified eight portfolio segments and plans to implement six to eight models for CECL, with the expectation that its portfolio segmentation and models will continue to evolve as the Company's loan mix and composition change. The models consist of both internally-developed models and vended solutions. Model validations for four of its models are substantially complete and parallel testing of the Company's major portfolio segments is underway. The implementation team is also updating the Company's accounting policies and assessing its control framework to identify risks resulting from new processes, judgments, and data.

In March 2017, the FASB issued guidance within ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities. The amendments in ASU 2017-08 to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs, shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date, which more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In June 2018, the FASB issued guidance within ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting. The amendments in ASU 2018-07 to Topic 718, Compensation-Stock Compensation, are intended to align the accounting for

Table of Contents

share-based payment awards issued to employees and nonemployees. Changes to the accounting for nonemployee awards include: 1) equity classified share-based payment awards issued to nonemployees will now be measured on the grant date, instead of the previous requirement to remeasure the awards through the performance completion date; 2) for performance conditions, compensation cost associated with the award will be recognized when achievement of the performance condition is probable, rather than upon achievement of the performance condition; and 3) the current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting will be eliminated, except for awards in the form of convertible instruments. The new guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company's share-based payment awards to nonemployees consist only of grants made to the Company's BOD as compensation solely related to the individual's role as a Director. As such, in accordance with ASC 718, the Company accounts for these share-based payment awards to its Directors in the same manner as share-based payment awards for its employees. Accordingly, the amendments in this guidance will not have an effect on the accounting for the Company's share-based payment awards to its Directors.

In July 2018, the FASB issued guidance within ASU 2018-09, Codification Improvements. The amendments in ASU 2018-09 are intended to clarify or correct unintended guidance in the FASB Codification and affect a wide variety of Topics in the Codification. The topics that are applicable to the Company include: 1) debt modifications and extinguishments; 2) stock compensation; and 3) derivatives and hedging. For debt modifications and extinguishments, the amendment clarifies that, in an early extinguishment of debt for which the fair value option has been elected, the net carrying amount of the extinguished debt is equal to its fair value at the reacquisition date, and upon extinguishment, the cumulative amount of the gain or loss on the extinguished debt that resulted from changes in instrument-specific credit risk should be presented in net income. The Company has junior subordinated debt that is recorded at fair value at each reporting period due to election of the FVO. Accordingly, if in the future, the Company chooses to repay this debt prior to its contractual maturity, this amendment would be applicable. For stock compensation, the amendment clarifies that excess tax benefits or tax deficiencies should be recognized in the period in which the amount of the tax deduction is determined, which is typically when an award is exercised (in the case of share options) or vests (in the case of non-vested stock awards). The Company already records excess tax benefits or tax deficiencies in the periods in which the tax deduction is determined. Therefore, this amendment will not have an effect on the Company's accounting for excess tax benefits or tax deficiencies. For derivatives and hedging, previous guidance permits derivatives to be offset only when all four conditions (including the intent to set off) are met. This amendment clarifies that the intent to set off is not required to offset fair value amounts recognized for derivative instruments that are executed with the same counterparty under a master netting agreement. This amendment will not have an effect on the offsetting of the Company's derivative assets and liabilities. The amendments in this ASU that do not require transition guidance are effective immediately and those amendments that have transition guidance are effective for annual periods beginning after December 15, 2018.

In August 2018, the FASB issued guidance within ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments within ASU 2018-13 remove, modify, and supplement the disclosure requirements for fair value measurements. Disclosure requirements that were removed include: the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Additional disclosure requirements include: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. With the exception of the above additional disclosure requirements, which will be applied prospectively, all other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued guidance within ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40). The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments in this Update require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in this Update also require that the capitalized implementation costs of a hosting arrangement that is a service contract be expensed over the term of the hosting arrangement. Presentation requirements include: expense related to the capitalized implementation costs should be presented in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement, payments for capitalized implementation costs in the statement of cash flows should be classified in the same manner as payments made for fees associated with the hosting element, and capitalized implementation costs in the statement of financial position should be presented in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Recently adopted accounting guidance

In May 2014, the FASB issued guidance within ASU 2014-09, Revenue from Contracts with Customers. The amendments in ASU 2014-09 to ASC 606, Revenue from Contracts with Customers, creates a common revenue standard and clarifies the principles for recognizing revenue that can be applied consistently across various transactions, industries, and capital markets. The amendments in the ASU clarify that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As part of that principle, the entity should identify the contract(s) with the customer, identify the performance obligation(s) of the contract, determine the transaction price, allocate that transaction price to the performance obligation(s) of the contract, and then recognize revenue when or as the entity satisfies the performance obligation(s). The Company adopted ASU 2014-09 on January 1, 2018 using the modified retrospective method. Substantially all of the Company's revenue is generated from interest income related to loans and investment securities, which are not within the scope of this guidance. The contracts that are within the scope of this guidance include service charges and fees on deposit accounts, certain types of card income, and success fees earned from equity investments. The Company completed its review of contracts and other agreements that are within the scope of this guidance and did not identify any material changes to the timing or amount of revenue recognition. Accordingly, the Company did not recognize an adjustment to retained earnings upon adoption of this guidance. The Company’s accounting policies did not change materially since the principles of revenue recognition in the ASU are largely consistent with current practices applied by the Company. The Company has expanded its qualitative disclosures of performance obligations and disaggregation of significant categories of revenue. See "Note 22. Revenue from Contracts with Customers" for further discussion.

In January 2016, the FASB issued guidance within ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 to Subtopic 825-10, Financial Instruments, contain the following elements: 1) requires equity investments to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5) requires an entity to present separately in OCI the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements; 7) clarifies that the entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. Effective on January 1, 2015, the Company adopted the amendment noted in item 5) above as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Effective on January 1, 2018, the Company adopted the other amendments in this guidance. The primary impact on the Company's Consolidated Financial Statements results from the amendments discussed in item 1) above as changes in the fair value of the Company's equity investments are now recognized in net income, rather than in AOCI. As of January 1, 2018, the Company recorded a cumulative-effect adjustment of $0.4 million to decrease accumulated other comprehensive income with a corresponding increase to opening retained earnings. During the year ended December 31, 2018, the Company recognized a loss of $3.6 million related to fair value changes in equity securities still held at the reporting date, which was recorded in the Consolidated Income Statement.

In August 2016, the FASB issued guidance within ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in ASU 2016-15 to Topic 230, Statement of Cash Flows, provide guidance on eight specific cash flow classification issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investments; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and the application of the predominance principle. The adoption of this guidance did not have a significant impact on the Company's Consolidated Statement of Cash Flows.

In January 2017, the FASB issued guidance within ASU 2017-01, Clarifying the Definition of a Business. The amendments in ASU 2017-01 to Topic 805, Business Combinations, clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued guidance within ASU 2017-04, Simplifying the Test for Goodwill Impairment. The amendments in ASU 2017-04 to Topic 350, Intangibles - Goodwill and Other, modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Accordingly, the amendments eliminate Step 2 from the goodwill impairment test because goodwill impairment will no longer be determined by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2017, the FASB issued guidance within ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in ASU 2017-05 to Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets, clarify the scope of Subtopic 610-20 and add guidance for partial sales of nonfinancial assets, including partial sales of real estate. Under current GAAP, there are several different accounting models to evaluate whether the transfer of certain assets qualify for sale treatment. The new standard reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued guidance within ASU 2017-09, Scope of Modification Accounting. The amendments in ASU 2017-09 to Topic 718, Compensation - Stock Compensation, provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all of the following conditions are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The adoption of this guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued guidance within ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Under current GAAP, the effect of a change in tax laws or rates on deferred tax liabilities and assets are included in income from continuing operations even in situations in which the related income tax effects of items in AOCI were originally recognized in comprehensive income. Accordingly, as the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income from continuing operations, the tax effects of items within AOCI do not reflect the current tax rate. The amendments in ASU 2018-02 to Topic 220, Income Statement - Reporting Comprehensive Income, allow a reclassification from AOCI to retained earnings from tax effects resulting from the TCJA. The Company elected to adopt this guidance effective January 1, 2018 and recorded a cumulative-effect adjustment of $0.7 million to decrease accumulated other comprehensive income with a corresponding increase to opening retained earnings.

Table of Contents

2. INVESTMENT SECURITIES

The carrying amounts and fair values of investment securities at December 31, 2018 and 2017 are summarized as follows:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity				
Tax-exempt	$302,905	$ 3,163	$ (7,420)	$298,648
Available-for-sale debt securities				
CDO	$50	$ 15,277	$ —	$15,327
Commercial MBS issued by GSEs	106,385	82	(6,361)	100,106
Corporate debt securities	105,029	—	(5,649)	99,380
Private label residential MBS	948,161	945	(24,512)	924,594
Residential MBS issued by GSEs	1,564,181	1,415	(35,472)	1,530,124
Tax-exempt	542,086	4,335	(7,753)	538,668
Trust preferred securities	32,000	—	(3,383)	28,617
U.S. government sponsored agency securities	40,000	—	(1,812)	38,188
U.S. treasury securities	1,996	—	(12)	1,984
Total AFS debt securities	$3,339,888	$ 22,054	$ (84,954)	$3,276,988
Equity securities (1)				
CRA investments	$52,210	$ —	$ (1,068)	$51,142
Preferred stock	65,954	148	(2,183)	63,919
Total equity securities	$118,164	$ 148	$ (3,251)	$115,061

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Held-to-maturity				
Tax-exempt	$255,050	$ 4,514	$ (3,250)	$256,314
Available-for-sale debt securities				
CDO	$50	$ 21,807	$ —	$21,857
Commercial MBS issued by GSEs	113,069	46	(4,038)	109,077
Corporate debt securities	105,044	261	(1,822)	103,483
Private label residential MBS	874,261	756	(6,493)	868,524
Residential MBS issued by GSEs	1,719,188	810	(30,703)	1,689,295
Tax-exempt	501,988	10,893	(1,971)	510,910
Trust preferred securities	32,000	—	(3,383)	28,617
U.S. government sponsored agency securities	64,000	—	(2,538)	61,462
U.S. treasury securities	2,496	—	(14)	2,482
Available-for-sale equity securities (1)				
CRA investments	51,133	—	(517)	50,616
Preferred stock	52,172	1,160	(136)	53,196
Total AFS securities	$3,515,401	$ 35,733	$ (51,615)	$3,499,519

(1) The Company's equity securities consist of CRA investments and preferred stock. Effective January 1, 2018, the Company adopted the amendments within ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires that fair value changes in equity securities be recognized as part of non-interest income. Prior to January 1, 2018, equity securities were classified as part of AFS securities. On a prospective basis, equity securities will be reported separately.

Table of Contents

The Company conducts an OTTI analysis on a quarterly basis. The initial indication of OTTI is a decline in the market value below the amount recorded for an investment, and taking into account the severity and duration of the decline. Another potential indication of OTTI is a downgrade below investment grade. In determining whether an impairment is OTTI, the Company considers the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

For debt securities, for the purpose of an OTTI analysis, the Company also considers the cause of the price decline (general level of interest rates, credit spreads, and industry and issuer-specific factors), whether downgrades by bond rating agencies have occurred, the issuer's financial condition, near-term prospects, and current ability to make future payments in a timely manner, as well as the issuer's ability to service debt, and any change in agencies' ratings at the evaluation date from the acquisition date and any likely imminent action.

At December 31, 2018 and 2017, the Company's unrealized losses relate primarily to market interest rate increases since the securities' original purchase date. The total number of AFS securities in an unrealized loss position at December 31, 2018 is 373, compared to 302 at December 31, 2017. The Company has reviewed securities for which there is an unrealized loss in accordance with its accounting policy for OTTI described above and determined that there are no impairment charges for the years ended December 31, 2018, 2017, and 2016. The Company does not consider any securities to be other-than-temporarily impaired as of December 31, 2018 and 2017. No assurance can be made that OTTI will not occur in future periods.

Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	December 31, 2018					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity						
Tax-exempt	$3,868	$91,095	$3,552	$69,991	$7,420	$161,086
Available-for-sale debt securities						
Commercial MBS issued by GSEs	$—	$—	$6,361	$98,275	$6,361	$98,275
Corporate debt securities	16	5,013	5,633	94,367	5,649	99,380
Private label residential MBS	5,173	217,982	19,339	537,316	24,512	755,298
Residential MBS issued by GSEs	1,363	141,493	34,109	1,215,490	35,472	1,356,983
Tax-exempt	3,562	209,767	4,191	72,382	7,753	282,149
Trust preferred securities	—	—	3,383	28,617	3,383	28,617
U.S. government sponsored agency securities	—	—	1,812	38,188	1,812	38,188
U.S. treasury securities	—	—	12	1,984	12	1,984
Total AFS securities	$10,114	$574,255	$74,840	$2,086,619	$84,954	$2,660,874

Table of Contents

	December 31, 2017					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity debt securities						
Tax-exempt	$3,250	$107,921	$—	$—	$3,250	$107,921
Available-for-sale debt securities						
Commercial MBS issued by GSEs	$161	$13,565	$3,877	$93,641	$4,038	$107,206
Corporate debt securities	1,398	78,602	424	19,576	1,822	98,178
Private label residential MBS	3,115	480,885	3,378	188,710	6,493	669,595
Residential MBS issued by GSEs	13,875	999,478	16,828	523,270	30,703	1,522,748
Tax-exempt	17	6,159	1,954	69,674	1,971	75,833
Trust preferred securities	—	—	3,383	28,617	3,383	28,617
U.S. government sponsored agency securities	14	4,986	2,524	56,476	2,538	61,462
U.S. treasury securities	14	2,482	—	—	14	2,482
Available-for-sale equity securities						
CRA investments	$—	$—	$517	$50,616	$517	$50,616
Preferred stock	136	7,357	—	—	136	7,357
Total AFS securities	$18,730	$1,593,514	$32,885	$1,030,580	$51,615	$2,624,094

The amortized cost and fair value of securities as of December 31, 2018, by contractual maturities, are shown below. MBS are shown separately as individual MBS are comprised of pools of loans with varying maturities. Therefore, these securities are listed separately in the maturity summary.

	December 31, 2018	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held-to-maturity		
Due in one year or less	$11,300	$11,317
After one year through five years	—	—
After five years through ten years	14,493	14,845
After ten years	277,112	272,486
Total HTM securities	$302,905	$298,648
Available-for-sale		
Due in one year or less	$3,306	$3,327
After one year through five years	12,063	12,112
After five years through ten years	216,197	210,070
After ten years	489,595	496,655
Mortgage-backed securities	2,618,727	2,554,824
Total AFS securities	$3,339,888	$3,276,988

Table of Contents

The following tables summarize the carrying amount of the Company's investment ratings position as of December 31, 2018 and 2017:

	December 31, 2018							
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Held-to-maturity debt securities								
Tax-exempt	$—	$—	$—	$—	$—	$—	$302,905	$302,905
Available-for-sale debt securities								
CDO	$—	$—	$—	$—	$—	$15,327	$—	$15,327
Commercial MBS issued by GSEs	—	100,106	—	—	—	—	—	100,106
Corporate debt securities	—	—	—	66,515	32,865	—	—	99,380
Private label residential MBS	887,520	—	34,342	343	947	1,442	—	924,594
Residential MBS issued by GSEs	—	1,530,124	—	—	—	—	—	1,530,124
Tax-exempt	66,160	12,146	306,409	152,330	—	—	1,623	538,668
Trust preferred securities	—	—	—	—	28,617	—	—	28,617
U.S. government sponsored agency securities	—	38,188	—	—	—	—	—	38,188
U.S. treasury securities	—	1,984	—	—	—	—	—	1,984
Total AFS securities (1)	$953,680	$1,682,548	$340,751	$219,188	$62,429	$16,769	$1,623	$3,276,988
Equity securities								
CRA investments	$—	$25,375	$—	$—	$—	$—	$25,767	$51,142
Preferred stock	—	—	—	—	45,771	3,693	14,455	63,919
Total equity securities (1)	$—	$25,375	$—	$—	$45,771	$3,693	$40,222	$115,061

(1) Where ratings differ, the Company uses an average of the available ratings by major credit agencies.

	December 31, 2017							
	AAA	Split-rated AAA/AA+	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated	Totals
	(in thousands)							
Held-to-maturity debt securities								
Tax-exempt	$—	$—	$—	$—	$—	$—	$255,050	$255,050
Available-for-sale debt securities								
CDO	$—	$—	$—	$—	$—	$21,857	$—	$21,857
Commercial MBS issued by GSEs	—	109,077	—	—	—	—	—	109,077
Corporate debt securities	—	—	—	74,293	29,190	—	—	103,483
Private label residential MBS	809,242	—	55,161	1,350	931	1,840	—	868,524
	—	1,689,295	—	—	—	—	—	1,689,295

Residential MBS issued by GSEs								
Tax-exempt	64,893	25,280	249,200	167,994	—	—	3,543	510,910
Trust preferred securities	—	—	—	—	28,617	—	—	28,617
U.S. government sponsored agency securities	—	61,462	—	—	—	—	—	61,462
U.S. treasury securities	—	2,482	—	—	—	—	—	2,482
Available-for-sale equity securities								
CRA investments	—	25,349	—	—	—	—	25,267	50,616
Preferred stock	—	—	—	10,388	23,822	4,104	14,882	53,196
Total AFS securities (1)	$874,135	$1,912,945	$304,361	$254,025	$82,560	$27,801	$43,692	$3,499,519

(1) Where ratings differ, the Company uses an average of the available ratings by major credit agencies.

Table of Contents

Securities with carrying amounts of approximately $788.4 million and $913.7 million at December 31, 2018 and 2017, respectively, were pledged for various purposes as required or permitted by law.

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

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Available-for-sale securities			
Gross gains	$8,074	$3,204	$2,115
Gross losses	(7,738)	(861)	(1,056)
Net gains (losses)	$336	$2,343	$1,059
Equity securities (1)			
Gross gains	$—	$—	$—
Gross losses	(7,992)	—	—
Net (losses) gains	$(7,992)	$—	$—

(1) The Company's equity securities consist of CRA investments and preferred stock. Effective January 1, 2018, the Company adopted the amendments within ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires that fair value changes in equity securities be recognized as part of non-interest income. Prior to January 1, 2018, equity securities were classified as part of AFS securities. On a prospective basis, equity securities will be reported separately.

During the year ended December 31, 2018, the Company sold certain available-for-sale securities with a carrying value of $119.8 million and recognized a loss on sale of these securities of $7.7 million. The sales resulted from management’s review of its investment portfolio, which led to its decision to sell lower yielding securities and reinvest in securities with higher yields and shorter durations. With the exception of these transactions, management does not intend to sell any of its debt securities in an unrealized loss position in the foreseeable future and it is more-likely-than-not that the Company will not be required to sell these securities prior to recovery.

Table of Contents

3. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

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

	December 31,	
	2018	2017
	(in thousands)	
Commercial and industrial	$7,762,642	$6,841,381
Commercial real estate - non-owner occupied	4,213,428	3,904,011
Commercial real estate - owner occupied	2,325,380	2,241,613
Construction and land development	2,134,753	1,632,204
Residential real estate	1,204,355	425,940
Consumer	70,071	48,786
Loans, net of deferred loan fees and costs	17,710,629	15,093,935
Allowance for credit losses	(152,717)	(140,050)
Total loans HFI	$17,557,912	$14,953,885

Net deferred loan fees and costs as of December 31, 2018 and 2017 total $36.3 million and $25.3 million, respectively, which is a reduction in the carrying value of loans. Net unamortized purchase discounts on secondary market loan purchases total $2.0 million and $8.5 million as of December 31, 2018 and 2017, respectively. Total loans held for investment are also net of interest rate and credit marks on acquired loans, which are a net reduction in the carrying value of loans. Interest rate marks were $7.1 million and $14.1 million as of December 31, 2018 and 2017, respectively. Credit marks were $14.6 million and $27.0 million as of December 31, 2018 and 2017, respectively.

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

	December 31, 2018					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total
	(in thousands)					
Commercial and industrial	$7,753,111	$3,187	$416	$5,928	$9,531	$7,762,642
Commercial real estate						
Owner occupied	2,320,321	4,441	—	618	5,059	2,325,380
Non-owner occupied	4,051,837	—	—	—	—	4,051,837
Multi-family	161,591	—	—	—	—	161,591
Construction and land development						
Construction	1,382,664	—	—	—	—	1,382,664
Land	751,613	—	476	—	476	752,089
Residential real estate	1,182,933	9,316	4,010	8,096	21,422	1,204,355
Consumer	69,830	—	—	241	241	70,071
Total loans	$17,673,900	$16,944	$4,902	$14,883	$36,729	$17,710,629

Table of Contents

	December 31, 2017					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial and industrial	$6,835,385	$ 2,245	$ 669	$ 3,082	$5,996	$6,841,381
Commercial real estate						
Owner occupied	2,240,457	1,026	—	130	1,156	2,241,613
Non-owner occupied	3,696,729	2,993	—	2,847	5,840	3,702,569
Multi-family	201,442	—	—	—	—	201,442
Construction and land development						
Construction	1,090,176	—	—	—	—	1,090,176
Land	536,917	—	—	5,111	5,111	542,028
Residential real estate	411,857	6,874	1,487	5,722	14,083	425,940
Consumer	48,408	83	213	82	378	48,786
Total loans	$15,061,371	$ 13,221	$ 2,369	$ 16,974	$32,564	$15,093,935

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

	December 31, 2018				December 31, 2017			
	Non-accrual loans			Loans past due 90 days or more and still accruing	Non-accrual loans			Loans past due 90 days or more and still accruing
	Current	Past Due/ Delinquent	Total Non-accrual		Current	Past Due/ Delinquent	Total Non-accrual	
	(in thousands)							
Commercial and industrial	$7,639	$ 7,451	$ 15,090	$ —	$17,913	$ 4,113	$ 22,026	$ 43
Commercial real estate								
Owner occupied	—	—	—	594	1,089	792	1,881	—
Non-owner occupied	—	—	—	—	—	5,840	5,840	—
Multi-family	—	—	—	—	—	—	—	—
Construction and land development								
Construction	—	476	476	—	—	—	—	—
Land	—	—	—	—	868	5,111	5,979	—
Residential real estate	552	11,387	11,939	—	2,039	6,078	8,117	—
Consumer	—	241	241	—	—	82	82	—
Total	$8,191	$ 19,555	$ 27,746	$ 594	$21,909	$ 22,016	$ 43,925	$ 43

The reduction in interest income associated with loans on non-accrual status was approximately $2.3 million, $2.4 million, and $2.0 million for the years ended December 31, 2018, 2017, and 2016, respectively.

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

Table of Contents

The following tables present gross loans by risk rating:

	December 31, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial and industrial	$7,574,506	$61,202	$ 126,356	$ 578	$ —	$7,762,642
Commercial real estate						
Owner occupied	2,255,513	12,860	57,007	—	—	2,325,380
Non-owner occupied	4,030,350	12,982	8,505	—	—	4,051,837
Multi-family	161,591	—	—	—	—	161,591
Construction and land development						
Construction	1,378,624	1,210	2,830	—	—	1,382,664
Land	751,012	—	1,077	—	—	752,089
Residential real estate	1,191,571	527	12,257	—	—	1,204,355
Consumer	69,755	75	241	—	—	70,071
Total	$17,412,922	$88,856	$ 208,273	$ 578	$ —	$17,710,629

	December 31, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$17,400,616	$87,264	$ 186,020	$ —	$ —	$17,673,900
Past due 30 - 59 days	11,255	1,580	4,109	—	—	16,944
Past due 60 - 89 days	719	12	3,767	404	—	4,902
Past due 90 days or more	332	—	14,377	174	—	14,883
Total	$17,412,922	$88,856	$ 208,273	$ 578	$ —	$17,710,629

	December 31, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial and industrial	$6,675,574	$85,781	$ 76,328	$ 3,698	$ —	$6,841,381
Commercial real estate						
Owner occupied	2,149,465	43,122	48,397	629	—	2,241,613
Non-owner occupied	3,676,711	11,166	14,692	—	—	3,702,569
Multi-family	201,442	—	—	—	—	201,442
Construction and land development						
Construction	1,072,342	4,477	13,357	—	—	1,090,176
Land	535,412	637	5,979	—	—	542,028
Residential real estate	408,527	8,971	8,442	—	—	425,940
Consumer	47,824	878	84	—	—	48,786
Total	$14,767,297	$155,032	$ 167,279	$ 4,327	$ —	$15,093,935

Table of Contents

	December 31, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current (up to 29 days past due)	$14,758,149	$154,295	$ 145,934	$ 2,993	$ —	$15,061,371
Past due 30 - 59 days	7,966	518	4,737	—	—	13,221
Past due 60 - 89 days	1,182	219	968	—	—	2,369
Past due 90 days or more	—	—	15,640	1,334	—	16,974
Total	$14,767,297	$155,032	$ 167,279	$ 4,327	$ —	$15,093,935

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

	December 31,	
	2018	2017
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310 (1)	$986	$19,315
Impaired loans without a specific valuation allowance under ASC 310 (2)	111,266	79,239
Total impaired loans	$112,252	$98,554
Valuation allowance related to impaired loans (3)	$(681)	$(5,606)

(1) Includes TDR loans of zero and $3.7 million at December 31, 2018 and 2017, respectively.
(2) Includes TDR loans of $44.5 million and $48.8 million at December 31, 2018 and 2017, respectively.
(3) Includes valuation allowance related to TDR loans of zero and $1.2 million at December 31, 2018 and 2017, respectively.

The following table presents impaired loans by class:

	December 31,	
	2018	2017
	(in thousands)	
Commercial and industrial	$63,896	$34,156
Commercial real estate		
Owner occupied	6,530	10,430
Non-owner occupied	12,407	21,251
Multi-family	—	—
Construction and land development		
Construction	—	—
Land	9,403	15,426
Residential real estate	19,744	17,170
Consumer	272	121
Total	$112,252	$98,554

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable, in the table above as “Impaired loans without a specific valuation allowance under ASC 310.” However, before concluding that an impaired loan needs no associated valuation allowance, an assessment is made to consider all available and relevant information for the method used to evaluate impairment and the type of loan being assessed. The valuation allowance disclosed above is included in the allowance for credit losses reported in the Consolidated Balance Sheets as of December 31, 2018 and 2017.

Table of Contents

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

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Average balance on impaired loans	$104,825	$104,866	$109,461
Interest income recognized on impaired loans	4,490	4,046	4,167
Interest recognized on non-accrual loans, cash basis	1,745	1,614	1,254

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

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Commercial and industrial	$52,496	$33,519	$26,577
Commercial real estate			
Owner occupied	7,682	18,692	18,865
Non-owner occupied	15,375	22,000	30,633
Multi-family	—	—	—
Construction and land development			
Construction	—	—	—
Land	9,547	13,558	17,006
Residential real estate	19,425	16,893	16,096
Consumer	300	204	284
Total	$104,825	$104,866	$109,461

The average investment in TDR loans included in the average investment in impaired loans table above for the years ended December 31, 2018, 2017, and 2016 was $51.2 million, $55.5 million, and $68.8 million, respectively.

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

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Commercial and industrial	$2,113	$1,077	$727
Commercial real estate			
Owner occupied	491	677	849
Non-owner occupied	937	1,074	1,196
Multi-family	—	—	—
Construction and land development			
Construction	—	—	—
Land	566	699	830
Residential real estate	381	516	560
Consumer	2	3	5
Total	$4,490	$4,046	$4,167

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

Table of Contents

The following table summarizes nonperforming assets:

	December 31,	
	2018	2017
	(in thousands)	
Non-accrual loans (1)	$27,746	$43,925
Loans past due 90 days or more on accrual status (2)	594	43
Accruing troubled debt restructured loans	36,458	42,431
Total nonperforming loans	64,798	86,399
Other assets acquired through foreclosure, net	17,924	28,540
Total nonperforming assets	$82,722	$114,939

(1) Includes non-accrual TDR loans of $8.0 million and $10.1 million at December 31, 2018 and 2017, respectively.
(2) Includes less than $0.1 million from loans acquired with deteriorated credit quality at December 31, 2017.

Loans Acquired with Deteriorated Credit Quality

Changes in the accretable yield for loans acquired with deteriorated credit quality are as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Balance, at beginning of period	$9,324	$15,177	$15,925
Additions due to acquisition	—	—	4,301
Reclassifications from non-accretable to accretable yield (1)	683	2,086	1,892
Accretion to interest income	(1,018)	(2,797)	(3,439)
Reversal of fair value adjustments upon disposition of loans	(5,222)	(5,142)	(3,502)
Balance, at end of period	$3,768	$9,324	$15,177

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

Table of Contents

Allowance for Credit Losses

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

	Year Ended December 31,					
	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
	(in thousands)					
2018						
Beginning Balance	$19,599	$ 31,648	$ 5,500	$ 82,527	$ 776	$140,050
Charge-offs	1	233	1,038	15,034	114	16,420
Recoveries	(1,433)	(1,237)	(947)	(2,427)	(43)	(6,087)
Provision	1,482	2,177	5,867	13,198	276	23,000
Ending balance	$22,513	$ 34,829	$ 11,276	$ 83,118	$ 981	$152,717
2017						
Beginning Balance	$21,175	$ 25,673	$ 3,851	$ 73,333	$ 672	$124,704
Charge-offs	—	2,269	447	8,186	102	11,004
Recoveries	(1,229)	(2,897)	(1,778)	(3,112)	(84)	(9,100)
Provision	(2,805)	5,347	318	14,268	122	17,250
Ending balance	$19,599	$ 31,648	$ 5,500	$ 82,527	$ 776	$140,050
2016						
Beginning Balance	$18,976	$ 23,160	$ 5,278	$ 71,181	$ 473	$119,068
Charge-offs	18	728	165	12,477	161	13,549
Recoveries	(485)	(5,690)	(875)	(3,991)	(144)	(11,185)
Provision	1,732	(2,449)	(2,137)	10,638	216	8,000
Ending balance	$21,175	$ 25,673	$ 3,851	$ 73,333	$ 672	$124,704

Table of Contents

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

	Commercial Real Estate-Owner Occupied (in thousands)	Commercial Real Estate-Non-Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Consumer	Total Loans
Loans as of December 31, 2018							
Recorded Investment							
Impaired loans with an allowance recorded	$—	$ —	$623	$363	$—	$—	$986
Impaired loans with no allowance recorded	6,530	12,407	63,273	19,381	9,403	272	111,266
Total loans individually evaluated for impairment	6,530	12,407	63,896	19,744	9,403	272	112,252
Loans collectively evaluated for impairment	2,314,871	4,121,464	7,698,746	1,184,592	2,125,350	69,799	17,514,822
Loans acquired with deteriorated credit quality	3,979	79,557	—	19	—	—	83,555
Total recorded investment	$2,325,380	$ 4,213,428	$7,762,642	$1,204,355	$2,134,753	$70,071	$17,710,629
Unpaid Principal Balance							
Impaired loans with an allowance recorded	$—	$ —	$1,482	$363	$—	$—	$1,845
Impaired loans with no allowance recorded	11,852	18,155	103,992	27,979	25,624	10,632	198,234
Total loans individually evaluated for impairment	11,852	18,155	105,474	28,342	25,624	10,632	200,079
Loans collectively evaluated for impairment	2,314,871	4,121,464	7,698,746	1,184,592	2,125,350	69,799	17,514,822
Loans acquired with deteriorated credit quality	5,315	95,680	4,352	72	—	—	105,419
Total unpaid principal balance	$2,332,038	$ 4,235,299	$7,808,572	$1,213,006	$2,150,974	$80,431	$17,820,320
Related Allowance for Credit Losses							
Impaired loans with an allowance recorded	$—	$ —	$621	$60	$—	$—	$681
Impaired loans with no allowance recorded	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	—	—	621	60	—	—	681
	14,286	20,456	82,488	11,216	22,513	981	151,940

Loans collectively evaluated for impairment							
Loans acquired with deteriorated credit quality	—	87	9	—	—	—	96
Total allowance for credit losses	$ 14,286	$ 20,543	$ 83,118	$ 11,276	$ 22,513	$ 981	$ 152,717

106

Table of Contents

	Commercial Real Estate-Owner Occupied	Commercial Real Estate-Non-Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Consumer	Total Loans
	(in thousands)						
Loans as of December 31, 2017							
Recorded Investment							
Impaired loans with an allowance recorded	$—	$ —	$19,315	$—	$—	$—	$19,315
Impaired loans with no allowance recorded	10,430	21,250	14,842	17,170	15,426	121	79,239
Total loans individually evaluated for impairment	10,430	21,250	34,157	17,170	15,426	121	98,554
Loans collectively evaluated for impairment	2,221,614	3,777,219	6,807,181	408,169	1,616,778	48,665	14,879,626
Loans acquired with deteriorated credit quality	9,569	105,542	43	601	—	—	115,755
Total recorded investment	$2,241,613	$ 3,904,011	$6,841,381	$425,940	$ 1,632,204	$48,786	$15,093,935
Unpaid Principal Balance							
Impaired loans with an allowance recorded	$—	$ —	$20,795	$—	$—	$—	$20,795
Impaired loans with no allowance recorded	17,459	28,028	42,261	26,057	32,289	10,695	156,789
Total loans individually evaluated for impairment	17,459	28,028	63,056	26,057	32,289	10,695	177,584
Loans collectively evaluated for impairment	2,221,614	3,777,219	6,807,181	408,169	1,616,778	48,665	14,879,626
Loans acquired with deteriorated credit quality	12,619	128,440	3,146	720	—	—	144,925
Total unpaid principal balance	$2,251,692	$ 3,933,687	$6,873,383	$434,946	$ 1,649,067	$59,360	$15,202,135
Related Allowance for Credit Losses							
Impaired loans with an allowance recorded	$—	$ —	$5,606	$—	$—	$—	$5,606
Impaired loans with no allowance recorded	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	—	—	5,606	—	—	—	5,606
Loans collectively evaluated for impairment	13,884	16,135	76,919	5,500	19,599	776	132,813
Loans acquired with deteriorated credit quality	—	1,629	2	—	—	—	1,631
Total allowance for credit losses	$13,884	$ 17,764	$82,527	$5,500	$ 19,599	$776	$140,050

Table of Contents

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

	Year Ended December 31, 2018					
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Forgiven Principal Balance	Lost Interest Income	Post-Modification Outstanding Recorded Investment	Waived Fees and Other Expenses
	(dollars in thousands)					
Commercial and industrial	11	$ 35,132	$ —	$ —	$ 35,132	$ —
Commercial real estate						
Owner occupied	—	—	—	—	—	—
Non-owner occupied	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—
Construction and land development						
Construction	—	—	—	—	—	—
Land	—	—	—	—	—	—
Residential real estate	1	294	—	—	294	—
Consumer	—	—	—	—	—	—
Total	12	$ 35,426	$ —	$ —	$ 35,426	$ —

	Year Ended December 31, 2017					
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Forgiven Principal Balance	Lost Interest Income	Post-Modification Outstanding Recorded Investment	Waived Fees and Other Expenses
	(dollars in thousands)					
Commercial and industrial	11	$ 3,513	$ —	$ —	$ 3,513	$ —
Commercial real estate						
Owner occupied	—	—	—	—	—	—
Non-owner occupied	3	2,993	—	—	2,993	—
Multi-family	—	—	—	—	—	—
Construction and land development						
Construction	—	—	—	—	—	—
Land	—	—	—	—	—	—
Residential real estate	1	122	—	—	122	—
Consumer	—	—	—	—	—	—
Total	15	$ 6,628	$ —	$ —	$ 6,628	$ —

Table of Contents

	Year Ended December 31, 2016					
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Forgiven Principal Balance	Lost Interest Income	Post-Modification Outstanding Recorded Investment	Waived Fees and Other Expenses
	(dollars in thousands)					
Commercial and industrial	2	$ 2,405	$ —	$ —	$ 2,405	$ —
Commercial real estate						
Owner occupied	—	—	—	—	—	—
Non-owner occupied	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—
Construction and land development						
Construction	—	—	—	—	—	—
Land	—	—	—	—	—	—
Residential real estate	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	2	$ 2,405	$ —	$ —	$ 2,405	$ —

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

	Year Ended December 31,					
	2018		2017		2016	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)					
Commercial and industrial	—	$ —	1	$ 87	—	$ —
Commercial real estate						
Owner occupied	—	—	1	135	—	—
Non-owner occupied	—	—	1	308	1	5,381
Multi-family	—	—	—	—	—	—
Construction and land development						
Construction	—	—	2	1,119	—	—
Land	—	—	—	—	—	—
Residential real estate	—	—	1	48	2	408
Consumer	—	—	—	—	—	—
Total	—	$ —	6	$ 1,697	3	$ 5,789

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

At December 31, 2018 commitments outstanding on TDR loans totaled $1.5 million. There were no loan commitments outstanding on TDR loans at December 31, 2017.

Loan Purchases and Sales

Total secondary market loan purchases during the years ended December 31, 2018 and 2017, totaled $1.60 billion and $908.1 million, respectively. For 2018, these purchased loans consisted of $883.2 million of residential real estate loans, $690.1 million of commercial and industrial loans, and $27.5 million of construction loans. For 2017, total purchased loans consisted of $696.6 million of commercial and industrial loans and $211.5 million of residential real estate loans.

During the year ended December 31, 2018, the Company sold loans which primarily consisted of commercial and industrial loans with a carrying value of $66.5 million and recognized a gain of $2.6 million on the sales. During the year ended December 31, 2017, the Company sold loans, which consisted primarily of commercial and industrial loans with a carrying value of $170.9 million and recognized a gain of $0.9 million on the sales.

Table of Contents

4. PREMISES AND EQUIPMENT

The following is a summary of the major categories of premises and equipment:

	December 31,	
	2018	2017
	(in thousands)	
Bank premises	$89,930	$89,411
Land and improvements	32,954	32,953
Furniture, fixtures, and equipment	42,729	37,098
Leasehold improvements	25,919	23,707
Construction in progress	6,302	1,415
Total	197,834	184,584
Accumulated depreciation and amortization	(78,360)	(65,865)
Premises and equipment, net	$119,474	$118,719

Lease Obligations

The Company leases certain premises and equipment under non-cancelable operating leases expiring through 2030. The following is a schedule of future minimum rental payments under these leases at December 31, 2018:

	(in thousands)
2019	$ 11,370
2020	10,322
2021	7,418
2022	6,294
2023	6,070
Thereafter	15,417
Total future minimum rental payments	$ 56,891

The Company leases certain office locations and many of these leases contain multiple renewal options and provisions for increased rents. Total rent expense of $11.0 million, $10.4 million, and $11.0 million is included in occupancy expense for the years ended December 31, 2018, 2017, and 2016, respectively. Total depreciation expense of $10.6 million, $9.9 million, and $9.2 million is included in occupancy expense for the years ended December 31, 2018, 2017, and 2016, respectively.

Table of Contents

5. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

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

	Year Ended December 31,		
	2018		
	Gross Balance	Valuation Allowance	Net Balance
	(in thousands)		
Balance, beginning of period	$32,552	$ (4,012)	$28,540
Transfers to other assets acquired through foreclosure, net	5,744	—	5,744
Proceeds from sale of other real estate owned and repossessed assets, net	(12,636)	3,224	(9,412)
Charitable contribution (1)	(6,895)	—	(6,895)
Valuation adjustments, net	—	(1,267)	(1,267)
Gains (losses), net (2)	1,214	—	1,214
Balance, end of period	$19,979	$ (2,055)	$17,924
	2017		
Balance, beginning of period	$54,138	$ (6,323)	$47,815
Transfers to other assets acquired through foreclosure, net	1,812	—	1,812
Proceeds from sale of other real estate owned and repossessed assets, net	(23,626)	2,431	(21,195)
Valuation adjustments, net	—	(120)	(120)
Gains (losses), net (2)	228	—	228
Balance, end of period	$32,552	$ (4,012)	$28,540
	2016		
Balance, beginning of period	$52,984	$ (9,042)	$43,942
Transfers to other assets acquired through foreclosure, net	13,110	—	13,110
Proceeds from sale of other real estate owned and repossessed assets, net	(11,584)	2,451	(9,133)
Valuation adjustments, net	—	268	268
(Losses) gains, net (2)	(372)	—	(372)
Balance, end of period	$54,138	$ (6,323)	$47,815

(1) Represents a contribution of OREO property to the Company's charitable foundation. See "Note 19. Related Party Transactions" for further discussion.

(2) Includes net gains related to initial transfers to other assets of $1.0 million, $0.1 million, and $0.4 million during the years ended December 31, 2018, 2017, and 2016, respectively.

At December 31, 2018 and 2017, the majority of the Company’s repossessed assets consisted of properties located in Nevada and California. The Company held 11 properties at December 31, 2018, compared to 19 at December 31, 2017.

Table of Contents

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess consideration paid for net assets acquired in a business combination over their fair value. Goodwill and other intangible assets acquired in a business combination that are determined to have an indefinite useful life are not subject to amortization, but are subsequently evaluated for impairment at least annually. The Company has goodwill of $289.9 million as of December 31, 2018, which has been allocated to the Nevada, Northern California, Technology & Innovation, and HFF operating segments.

The Company performs its annual goodwill and intangibles impairment tests as of October 1 each year, or more often if events or circumstances indicate that the carrying value may not be recoverable. During the years ended December 31, 2018, 2017, and 2016, there were no events or circumstances that indicated an interim impairment test of goodwill or other intangible assets was necessary and, based on the Company's annual goodwill and intangibles impairment tests as of October 1 of each of these years, it was determined that goodwill and intangible assets are not impaired.

The following is a summary of the Company's acquired intangible assets:

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Subject to amortization						
Core deposit intangibles	$ 14,647	$ 5,737	$ 8,910	$ 14,647	$ 4,144	$ 10,503

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Impairment	Net Carrying Amount	Gross Carrying Amount	Impairment	Net Carrying Amount
	(in thousands)					
Not subject to amortization						
Trade name	$ 350	$ —	$ 350	$ 350	$ —	$ 350

As of December 31, 2018, the Company's core deposit intangible assets had a weighted average estimated useful life of 6.5 years. The Company's remaining core deposit intangible assets consist of those acquired in the acquisition of Bridge and are being amortized using an accelerated amortization method over a period of 10 years. Amortization expense recognized on amortizable intangibles totaled $1.6 million, $2.1 million, and $2.8 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Below is a summary of future estimated aggregate amortization expense:

	December 31, 2018
	(in thousands)
2019	$ 1,547
2020	1,494
2021	1,433
2022	1,364
2023	1,289
Thereafter	1,783
Total	$ 8,910

Table of Contents

7. DEPOSITS

The table below summarizes deposits by type:

	December 31,	
	2018	2017
	(in thousands)	
Non-interest-bearing demand deposits	$7,456,141	$7,433,962
Interest-bearing transaction accounts	2,555,609	1,586,209
Savings and money market accounts	7,330,709	6,330,977
Time certificates of deposit ($250,000 or more)	1,009,900	713,654
Other time deposits	825,088	907,730
Total deposits	$19,177,447	$16,972,532

The summary of the contractual maturities for all time deposits as of December 31, 2018 is as follows:

	December 31,
	(in thousands)
2019	$ 1,707,065
2020	101,572
2021	21,336
2022	1,854
2023	3,161
Total	$ 1,834,988

WAB is a participant in the Promontory Interfinancial Network, a network that offers deposit placement services such as CDARS and ICS, which offer products that qualify large deposits for FDIC insurance. Federal banking law and regulation places restrictions on depository institutions regarding brokered deposits because of the general concern that these deposits are not relationship-based and are at a greater risk of being withdrawn, thus posing liquidity risk for institutions that gather brokered deposits in significant amounts. At December 31, 2018 and 2017, the Company had $322.9 million and $401.4 million, respectively, of reciprocal CDARS deposits and $706.9 million and $617.9 million, respectively, of ICS deposits. At December 31, 2018 and 2017, the Company had $718.2 million and $67.3 million, respectively, of wholesale brokered deposits. In addition, non-interest-bearing deposits for which the Company provides account holders with earnings credits totaled $2.29 billion and $1.85 billion at December 31, 2018 and 2017, respectively. The Company incurred $18.0 million and $8.7 million in deposit related costs on these deposits during the year ended December 31, 2018 and 2017, respectively.

Table of Contents

8. OTHER BORROWINGS

The following table summarizes the Company’s borrowings as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
	(in thousands)	
Short-Term:		
Federal funds purchased	$256,000	$—
FHLB advances	235,000	390,000
Total short-term borrowings	$491,000	$390,000

The Company maintains unsecured lines of credit with correspondent banks totaling $715.0 million as of December 31, 2018. Federal fund lines of credit, totaling $670.0 million, have a rate comparable to the federal funds effective rate plus 0.10% to 0.20% and the Company's other $45.0 million line of credit has a floating interest rate of one-month LIBOR plus 3.25%. As of December 31, 2018 and 2017, outstanding balances on the Company's lines of credit consisted of federal funds purchased of $256.0 million and zero, respectively.

The Company maintains secured lines of credit with the FHLB and the FRB. The Company’s borrowing capacity is determined based on collateral pledged, generally consisting of investment securities and loans, at the time of the borrowing. At December 31, 2018, the Company had $235.0 million in short-term FHLB overnight advances, with an interest rate of 2.56%. At December 31, 2017, short-term FHLB advances of $390.0 million had an interest rate of 1.41%.

Other short-term borrowing sources available to the Company include customer repurchase agreements, which have an average rate of 0.15%. As of December 31, 2018 and 2017, customer repurchase agreements totaled $22.4 million and $26.0 million, respectively.

As of December 31, 2018 and 2017, the Company had additional available credit with the FHLB of approximately $2.52 billion and $1.91 billion, respectively, and with the FRB of approximately $1.31 billion and $1.11 billion, respectively.

9. QUALIFYING DEBT

Subordinated Debt

The Parent has $175.0 million of subordinated debentures, which were recorded net of issuance costs of $5.5 million, and mature July 1, 2056. Beginning on or after July 1, 2021, the Company may redeem the debentures, in whole or in part, at their principal amount plus any accrued and unpaid interest. The debentures have a fixed interest rate of 6.25% per annum.

WAB has $150.0 million of subordinated debt, which was recorded net of debt issuance costs of $1.8 million, and matures July 15, 2025. The subordinated debt has a fixed interest rate of 5.00% through June 30, 2020 and then converts to a variable rate of 3.20% plus three-month LIBOR through maturity.

To hedge the interest rate risk on the Company's subordinated debt issuances, the Company entered into fair value interest rate hedges with receive fixed/pay variable swaps.

The carrying value of all subordinated debt issuances, which includes the fair value of the related hedges, totals $299.4 million and $308.6 million at December 31, 2018 and 2017, respectively.

Table of Contents

Junior Subordinated Debt

The Company has formed or acquired through acquisition eight statutory business trusts, which exist for the exclusive purpose of issuing Cumulative Trust Preferred Securities.

The Company's junior subordinated debt has contractual balances and maturity dates as follows:

		December 31,	
Name of Trust	Maturity	2018	2017
At fair value		(in thousands)	
BankWest Nevada Capital Trust II	2033	$15,464	$15,464
Intermountain First Statutory Trust I	2034	10,310	10,310
First Independent Statutory Trust I	2035	7,217	7,217
WAL Trust No. 1	2036	20,619	20,619
WAL Statutory Trust No. 2	2037	5,155	5,155
WAL Statutory Trust No. 3	2037	7,732	7,732
Total contractual balance		66,497	66,497
FVO on junior subordinated debt		(17,812)	(10,263)
Junior subordinated debt, at fair value		$48,685	$56,234
At amortized cost			
Bridge Capital Holdings Trust I	2035	$12,372	$12,372
Bridge Capital Holdings Trust II	2036	5,155	5,155
Total contractual balance		17,527	