

WESTERN ALLIANCE BANCORPORATION

Form 10-K

March 01, 2019

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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 (I.R.S. Employer  
incorporation or organization) 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  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

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

Indicate by check mark whether the registrant 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  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

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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  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

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.

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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,” “potential,” “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.

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## 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                      |

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|                |   |      |  |
|----------------|---|------|--|
| 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             |

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## 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<br>(in millions) | Net Loans  | Deposits   |
|-----------------------|------------------|---------------------|---|-------------------------------|------------|------------|
| Western Alliance Bank | Phoenix, Arizona | 47                  | Arizona: Chandler, Flagstaff, Gilbert, Mesa, Phoenix, Scottsdale, and Tucson<br>Nevada: Carson City, Fallon, Reno, Sparks, Henderson, Las Vegas, Mesquite, and North Las Vegas<br>California: Beverly Hills, Carlsbad, Costa Mesa, La Mesa, Los Angeles, Menlo Park, Oakland, Palo Alto, Pleasanton, San Diego, San Francisco, and San Jose<br>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.





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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.

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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.

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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.

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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.

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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.



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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.





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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-Footerprint    | Out-of-Footerprint | Total  | In-Footerprint    | Out-of-Footerprint | 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.

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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.

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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

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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.



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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.

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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;



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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.

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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.



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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

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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 identify 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.

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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.



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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.

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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.

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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.



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## 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)   | (b)                                   | (c)  | (d)   |
|------------------------------|---|---------------------------------------|--|---|
|                              | Total<br>Number<br>of Shares<br>Purchased<br>(1)(2) | Average<br>Price<br>Paid Per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs (2) | Approximate<br>Dollar Value<br>of Shares<br>That May Yet<br>to be<br>Purchased<br>Under the<br>Plans or<br>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.

On December 12, 2018, the Company announced that it had adopted a common stock repurchase program, (2) 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.

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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.

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## 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 |

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|   | As of and for the Year Ended December 31,     |              |              |              |             |    |
|---|---|--------------|--------------|--------------|-------------|----|
|   | 2018  | 2017         | 2016         | 2015         | 2014        |    |
|   | (dollars in thousands, except per share data) |              |              |              |             |    |
| <b>Per Share Data:</b>  |   |              |              |              |             |    |
| 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 <sup>1</sup>                    | 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      |    |
| <b>Selected Balance Sheet Data:</b>                           |   |              |              |              |             |    |
| 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   |    |
| <b>Selected Other Balance Sheet Data:</b>                     |   |              |              |              |             |    |
| 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     |    |
| <b>Selected Financial and Liquidity Ratios:</b>               |   |              |              |              |             |    |
| Return on average assets                                      | 2.05  | % 1.72       | % 1.61       | % 1.56       | % 1.50      | %  |
| Return on average tangible common equity <sup>1</sup>         | 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       |    |
| <b>Capital Ratios:</b>  |   |              |              |              |             |    |
| 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        |    |
| <b>Selected Asset Quality Ratios:</b>                         |   |              |              |              |             |    |
| Net charge-offs (recoveries) to average loans outstanding     | 0.06  | % 0.01       | % 0.02       | % (0.06)     | )% (0.07    | )% |

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|  |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
| 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 |

<sup>1</sup> See Non-GAAP Financial Measures section beginning on page 32.

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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<sup>1</sup>

Operating PPNR increased \$86.8 million to \$553.5 million, compared to \$466.6 million in 2017<sup>1</sup>

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<sup>1</sup>

Tangible book value per share, net of tax, of \$22.07, an increase of 20.5% from \$18.31 at December 31, 2017<sup>1</sup>

Operating efficiency ratio of 41.9% in 2018, compared to 41.5% in 2017<sup>1</sup>

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.

<sup>1</sup> See Non-GAAP Financial Measures section beginning on page 32.

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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 <sup>1</sup> | 20.64  | 18.31     | 17.71     |
| Net interest margin                                   | 4.68   | 4.65      | 4.58      |
| Operating efficiency ratio <sup>1</sup>               | 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 <sup>1</sup>  | 2,316,464      | 1,931,648    |

<sup>1</sup> 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 |
| Reposessed 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 reposessed 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     |





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## 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<br>December 31, |           | Increase<br>(Decrease) | Year Ended<br>December 31, |           | Increase<br>(Decrease) |
|---|----------------------------|-----------|------------------------|----------------------------|-----------|------------------------|
|   | 2018                       | 2017      |                        | 2017                       | 2016      |                        |
| (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.

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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 |
| <br>  |                         |           |           |
| 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 |
| <br>  |                         |           |           |
| 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.

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## 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  |   |
| <br>   |                                   |              |   |
| 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 |   |
| <br>   |                                   |              |   |
| 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 |   |
| <br>                                 |                         |           |           |   |
| 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 |   |
| <br>                                 |                         |           |           |   |
| Operating efficiency ratio - TEB     | 41.9                    | % 41.5    | % 43.4    | % |

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## 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    |

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|   |             |             |      |   |
|---|-------------|-------------|------|---|
| 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 | % |

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## 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, |           |                            | 2017               |           |                            |
|--|-------------------------|-----------|----------------------------|--------------------|-----------|----------------------------|
|  | 2018                    |           |                            | 2017               |           |                            |
|  | Average<br>Balance      | Interest  | Average<br>Yield /<br>Cost | Average<br>Balance | Interest  | Average<br>Yield /<br>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.  
Prior period net interest margin is adjusted to include the effects from the TCJA of the lower statutory corporate
- (5) federal tax rate on the calculation of the taxable-equivalent adjustment, which reduced the taxable-equivalent adjustment to \$20.7 million.



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|  | Year Ended December 31,<br>2017 |           |                            | 2016               |           |                            |
|--|---------------------------------|-----------|----------------------------|--------------------|-----------|----------------------------|
|  | Average<br>Balance              | Interest  | Average<br>Yield /<br>Cost | Average<br>Balance | Interest  | Average<br>Yield /<br>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.

Prior period net interest margin is adjusted to include the effects from the TCJA of the lower statutory corporate (5) 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.

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|                                       | Year Ended December 31,<br>2018 versus 2017  |          |           | Year Ended December 31,<br>2017 versus 2016  |          |           |
|---------------------------------------|--|----------|-----------|--|----------|-----------|
|                                       | Increase (Decrease) Due to<br>Changes in (1) |          |           | Increase (Decrease) Due to<br>Changes in (1) |          |           |
|                                       | Volume                                       | Rate     | Total     | Volume                                       | Rate     | Total     |
| 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,

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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.

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## Non-interest Income

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

|   | Year Ended December 31, |          |                        |          |          |                        |
|---|-------------------------|----------|------------------------|----------|----------|------------------------|
|   | 2018                    | 2017     | Increase<br>(Decrease) | 2017     | 2016     | Increase<br>(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.

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## Non-interest Expense

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

|   | Year Ended December 31, |           |                        |           |           |                        |
|---|-------------------------|-----------|------------------------|-----------|-----------|------------------------|
|   | 2018                    | 2017      | Increase<br>(Decrease) | 2017      | 2016      | Increase<br>(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.





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## 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)        |

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## 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 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|

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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) |       |               |       |                |       |                   |       |             |       |
| <b>Held-to-maturity</b>                     |                        |       |               |       |                |       |                   |       |             |       |
| Tax-exempt                                  | \$11,300               | 4.48% | \$—           | —     | \$14,493       | 3.80% | \$277,112         | 4.78% | \$302,905   | 4.73% |
| <b>Available-for-sale</b>                   |                        |       |               |       |                |       |                   |       |             |       |
| 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% |
| <b>Equity</b>                               |                        |       |               |       |                |       |                   |       |             |       |
| 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.



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## 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.

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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<br>year or less | Due after<br>one year to<br>five years | Due after<br>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.



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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.



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## 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.

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## 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       |    |

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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<br>and<br>Industrial | Commercial<br>Real Estate | Construction<br>and Land<br>Development | Residential<br>Real<br>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:

|                                   | Number<br>of<br>Loans | Loan<br>Balance | Percent<br>of Loan<br>Balance | Percent<br>of<br>Total<br>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<br>of<br>Loans | Loan<br>Balance | Percent<br>of Loan<br>Balance | Percent<br>of<br>Total<br>Loans |

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 % |

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## Other Assets Acquired Through Foreclosure

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

|   | Year Ended December 31, |             |           |
|---|-------------------------|-------------|-----------|
|   | 2018                    |             |           |
|   | Gross                   | Valuation   | Net       |
|   | Balance                 | Allowance   | 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.

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

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.

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

|                                       | Year Ended December 31, |       |                    |       |                    |       |
|---------------------------------------|-------------------------|-------|--------------------|-------|--------------------|-------|
|                                       | 2018                    |       | 2017               |       | 2016               |       |
|                                       | Average<br>Balance      | Rate  | Average<br>Balance | Rate  | Average<br>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      |      |