

WESTERN ALLIANCE BANCORPORATION

Form 10-Q

October 30, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission file number: 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)

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an 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

As of October 26, 2018, Western Alliance Bancorporation had 105,858,808 shares of common stock outstanding.

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PART I

GLOSSARY OF ENTITIES AND TERMS

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

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	GNMA	Government National Mortgage Association
ALCO	Asset and Liability Management Committee	GSE	Government-Sponsored Enterprise
AOCI	Accumulated Other Comprehensive Income	HFI	Held for Investment
ASC	Accounting Standards Codification	HTM	Held-to-Maturity
ASU	Accounting Standards Update	ICS	Insured Cash Sweep Service
Basel Committee	Basel Committee on Banking Supervision	IRC	Internal Revenue Code
Basel III	Banking Supervision's December 2010 final capital framework	ISDA	International Swaps and Derivatives Association
BOD	Board of Directors	LIBOR	London Interbank Offered Rate
CDARS	Certificate Deposit Account Registry Service	LIHTC	Low-Income Housing Tax Credit
CDO	Collateralized Debt Obligation	MBS	Mortgage-Backed Securities
CEO	Chief Executive Officer	NBL	National Business Lines
CFO	Chief Financial Officer	NOL	Net Operating Loss
CRA	Community Reinvestment Act	NPV	Net Present Value
CRE	Commercial Real Estate	OCC	Office of the Comptroller of the Currency
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	OCI	Other Comprehensive Income
EGRRCPA	The Economic Growth, Regulatory Relief, and Consumer Protection Act	OREO	Other Real Estate Owned
EPS	Earnings per share	OTTI	Other-than-Temporary Impairment

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EVE	Economic Value of Equity	PCI	Purchased Credit Impaired
Exchange Act	Securities Exchange Act of 1934, as amended	SBA	Small Business Administration
FASB	Financial Accounting Standards Board	SBIC	Small Business Investment Company
FDIC	Federal Deposit Insurance Corporation	SEC	Securities and Exchange Commission
FHLB	Federal Home Loan Bank	SERP	Supplemental Executive Retirement Plan
FHLMC	Federal Home Loan Mortgage Corporation	TCJA	Tax Cuts and Jobs Act
FNMA	Federal National Mortgage Association	TDR	Troubled Debt Restructuring
FRB	Federal Reserve Bank	TEB	Tax Equivalent Basis
FVO	Fair Value Option	XBRL	eXtensible Business Reporting Language
GAAP	U.S. Generally Accepted Accounting Principles		

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Item 1. Financial Statements

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited) (in thousands, except shares and per share amounts)	December 31, 2017
Assets:		
Cash and due from banks	\$ 148,545	\$ 181,191
Interest-bearing deposits in other financial institutions	482,019	235,577
Federal funds sold	70,000	—
Cash, cash equivalents, and restricted cash	700,564	416,768
Money market investments	5	—
Investment securities - AFS, at fair value; amortized cost of \$3,211,440 at September 30, 2018 and \$3,515,401 at December 31, 2017	3,107,076	3,499,519
Investment securities - HTM, at amortized cost; fair value of \$279,033 at September 30, 2018 and \$256,314 at December 31, 2017	288,290	255,050
Investment securities - equity	172,294	—
Investments in restricted stock, at cost	65,993	65,785
Loans - HFI, net of deferred loan fees and costs	16,732,765	15,093,935
Less: allowance for credit losses	(150,011)	(140,050)
Net loans held for investment	16,582,754	14,953,885
Premises and equipment, net	119,211	118,719
Other assets acquired through foreclosure, net	20,028	28,540
Bank owned life insurance	169,162	167,764
Goodwill	289,895	289,895
Other intangible assets, net	9,658	10,853
Deferred tax assets, net	43,483	5,780
Investments in LIHTC	295,116	267,023
Other assets	312,618	249,504
Total assets	\$22,176,147	\$20,329,085
Liabilities:		
Deposits:		
Non-interest-bearing demand	\$8,014,715	\$7,433,962
Interest-bearing	10,893,865	9,538,570
Total deposits	18,908,580	16,972,532
Customer repurchase agreements	20,969	26,017
Other borrowings	—	390,000
Qualifying debt	359,082	376,905
Other liabilities	399,123	333,933
Total liabilities	19,687,754	18,099,387
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock - par value \$0.0001; 200,000,000 authorized; 107,633,006 shares issued at September 30, 2018 and 107,057,520 at December 31, 2017	10	10
Treasury stock, at cost (1,771,509 shares at September 30, 2018 and 1,570,155 shares at December 31, 2017)	(52,035)	(40,173)

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Additional paid in capital	1,444,555	1,424,540
Accumulated other comprehensive (loss) income	(70,363) (3,145
Retained earnings	1,166,226	848,466
Total stockholders' equity	2,488,393	2,229,698
Total liabilities and stockholders' equity	\$22,176,147	\$20,329,085

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CONSOLIDATED INCOME STATEMENTS

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	\$234,709	\$191,096	\$662,703	\$547,306
Investment securities	26,100	22,152	77,847	58,010
Dividends	1,831	2,005	5,506	6,154
Other	2,576	2,583	5,459	5,584
Total interest income	265,216	217,836	751,515	617,054
Interest expense:				
Deposits	25,266	11,449	59,288	29,506
Other borrowings	90	84	3,352	333
Qualifying debt	5,794	4,708	16,458	13,539
Other	28	12	51	41
Total interest expense	31,178	16,253	79,149	43,419
Net interest income	234,038	201,583	672,366	573,635
Provision for credit losses	6,000	5,000	17,000	12,250
Net interest income after provision for credit losses	228,038	196,583	655,366	561,385
Non-interest income:				
Service charges and fees	5,267	5,248	16,684	15,189
Card income	2,138	1,509	6,143	4,517
Income from equity investments	1,440	967	5,417	2,977
Lending related income and gains (losses) on sale of loans, net	1,422	97	3,447	746
Foreign currency income	1,092	756	3,475	2,630
Income from bank owned life insurance	868	975	2,963	2,896
(Loss) gain on sales of investment securities, net	(7,232)	) 319	(7,232)	) 907
Unrealized (losses) gains on assets measured at fair value, net	(1,212)	) —	(2,971)	) (1)
Other income	635	585	1,579	1,795
Total non-interest income	4,418	10,456	29,505	31,656
Non-interest expense:				
Salaries and employee benefits	64,762	52,747	188,680	156,640
Legal, professional, and directors' fees	7,907	6,038	21,856	23,324
Occupancy	7,406	7,507	21,671	21,328
Data processing	5,895	4,524	16,688	14,163
Deposit costs	4,848	2,904	11,888	6,778
Insurance	3,712	3,538	11,466	10,355
Business development	1,381	1,439	4,523	4,949
Card expense	1,282	966	3,305	2,558
Loan and repossessed asset expenses	1,230	1,263	2,830	3,639
Marketing	687	776	2,429	2,628
Intangible amortization	398	489	1,195	1,666
Net (gain) loss on sales / valuations of repossessed and other assets	(67)	) 266	(1,474)	) (46)
Other expense	14,400	6,839	29,481	17,561
Total non-interest expense	113,841	89,296	314,538	265,543
Income before provision for income taxes	118,615	117,743	370,333	327,498
Income tax expense	7,492	34,899	53,631	91,352

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Net income	\$ 111,123	\$ 82,844	\$ 316,702	\$ 236,146
Earnings per share:				
Basic	\$ 1.06	\$ 0.79	\$ 3.03	\$ 2.27
Diluted	1.05	0.79	3.00	2.25
Weighted average number of common shares outstanding:				
Basic	104,768	104,221	104,664	104,124
Diluted	105,448	104,942	105,398	104,941
See accompanying Notes to Unaudited Consolidated Financial Statements.				

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Net income	\$111,123	\$82,844	\$316,702	\$236,146
Other comprehensive (loss) income, net:				
Unrealized (loss) gain on AFS securities, net of tax effect of \$7,337, \$(689), \$23,438, and \$(9,894), respectively	(22,462)	1,116	(71,765)	15,947
Unrealized (loss) gain on SERP, net of tax effect of \$4, \$(71), \$10, and \$(93), respectively	(12)	114	(35)	150
Unrealized (loss) gain on junior subordinated debt, net of tax effect of \$661, \$(394), \$(61), and \$1,649, respectively	(2,028)	641	186	(2,677)
Realized loss (gain) on sale of AFS securities included in income, net of tax effect of \$(1,778), \$122, \$(1,778), and \$346, respectively	5,454	(197)	5,454	(561)
Net other comprehensive (loss) income	(19,048)	1,674	(66,160)	12,859
Comprehensive income	\$92,075	\$84,518	\$250,542	\$249,005
See accompanying Notes to Unaudited Consolidated Financial Statements.				

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Treasury	Accumulated	Retained	Total
	Shares	Amount	Paid in	Stock	Other	Earnings	Stockholders'
			Capital		Comprehensive		Equity
					(Loss)	Income	
	(in thousands)						
Balance, December 31, 2016	105,071	\$ 10	\$ 1,400,140	\$(26,362)	\$ (4,695)	) \$522,436	\$ 1,891,529
Balance, January 1, 2017 (1)	105,071	10	1,400,140	(26,362)	(4,695)	) 522,974	1,892,067
Net income	—	—	—	—	—	236,146	236,146
Exercise of stock options	36	—	786	—	—	—	786
Restricted stock, performance stock units, and other grants, net	653	—	17,909	—	—	—	17,909
Restricted stock surrendered (2)	(267)	) —	—	(13,642)	—	—	(13,642)
Other comprehensive income, net	—	—	—	—	12,859	—	12,859
Balance, September 30, 2017	105,493	\$ 10	\$ 1,418,835	\$(40,004)	\$ 8,164	) \$759,120	\$ 2,146,125
Balance, December 31, 2017	105,487	\$ 10	\$ 1,424,540	\$(40,173)	\$ (3,145)	) \$848,466	\$ 2,229,698
Balance, January 1, 2018 (3)	105,487	10	1,424,540	(40,173)	(4,203)	) 849,524	2,229,698
Net income	—	—	—	—	—	316,702	316,702
Exercise of stock options	21	—	534	—	—	—	534
Restricted stock, performance stock unit, and other grants, net	554	—	19,481	—	—	—	19,481
Restricted stock surrendered (2)	(201)	) —	—	(11,862)	—	—	(11,862)
Other comprehensive loss, net	—	—	—	—	(66,160)	) —	(66,160)
Balance, September 30, 2018	105,861	\$ 10	\$ 1,444,555	\$(52,035)	\$ (70,363)	) \$1,166,226	\$ 2,488,393

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

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

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

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	\$316,702	\$236,146
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	17,000	12,250
Depreciation and amortization	10,460	9,956
Stock-based compensation	19,481	17,909
Deferred income taxes	(16,107)	) 3,371
Amortization of net premiums for investment securities	10,795	14,926
Amortization of tax credit investments	26,546	19,524
Accretion of fair market value adjustments on loans acquired from business combinations	(14,099)	) (20,994)
Accretion and amortization of fair market value adjustments on other assets and liabilities acquired from business combinations	1,427	1,898
Income from bank owned life insurance	(2,963)	) (2,896)
(Gains) / Losses on:		
Sales of investment securities	7,232	(907)
Assets measured at fair value, net	2,971	1
Sale of loans	(2,434)	) 117
Other assets acquired through foreclosure, net	(1,464)	) (233)
Valuation adjustments of other repossessed assets, net	32	120
Sale of premises, equipment, and other assets, net	(42)	) 67
Changes in:		
Other assets	17,419	(12,958)
Other liabilities	3,324	(7,214)
Net cash provided by operating activities	\$396,280	\$271,083
Cash flows from investing activities:		
Investment securities - trading		
Proceeds from sales	\$—	\$994
Investment securities - AFS		
Purchases	(251,413)	) (1,361,908)
Principal pay downs and maturities	329,958	370,231
Proceeds from sales	44,308	87,853
Investment securities - HTM		
Purchases	(34,275)	) (62,489)
Principal pay downs and maturities	754	—
Equity securities		
Purchases	(71,727)) —
Reinvestment of dividends	(426)) —
Purchase of investment tax credits	(66,456)	) (19,916)
Purchase of SBIC investments	(3,063)) —
(Purchase) sale of money market investments, net	(5)	) (175)
Proceeds from bank owned life insurance	1,655	607
(Purchase) liquidation of restricted stock, net	(208)) (430)
Loan fundings and principal collections, net	(1,591,733)) (1,179,494)

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Purchase of premises, equipment, and other assets, net	(8,319) (7,644)
Proceeds from sale of other real estate owned and repossessed assets, net	8,793	20,748	
Net cash used in investing activities	\$(1,642,157)	\$(2,151,623)	

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	Nine Months Ended	
	September 30,	
	2018	2017
	(in thousands)	
Cash flows from financing activities:		
Net increase (decrease) in deposits	\$1,936,048	\$2,354,920
Net increase (decrease) in borrowings	(395,047)	(95,661)
Proceeds from exercise of common stock options		