WESTERN ALLIANCE BANCORPORATION
Form 10-K
March 01, 2007

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

(Mark One)

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2006

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

Commission File Number: 001-32550
WESTERN ALLIANCE BANCORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Nevada	88-0365922
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer I.D. Number)
2700 W. Sahara Avenue, Las Vegas, NV	89102
(Address of Principal Executive Offices)	(Zip Code)

(702) 248-4200

Registrant s telephone number, including area code
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
Common Stock, $0.0001 Par Value
(Title of Class)
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 o No þ

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 o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The aggregate market value of the registrant s voting stock held by non-affiliates is approximately $546,859,000 based on the June 30, 2006 closing price of said stock on the New York Stock Exchange ($34.78 per share).
As of February 16, 2007, 27,345,310 shares of the registrant s common stock were outstanding.
Portions of the registrant s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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PART I

ITEM 1. BUSINESS

WHERE YOU CAN FIND MORE INFORMATION

Under the Securities Exchange Act of 1934 Sections 13 and 15(d), periodic and current reports must be filed with the SEC. We electronically file the following reports with the SEC: Form 10-K (Annual Report), Form 10-Q (Quarterly Report), Form 8-K (Current Report), and Form DEF 14A (Proxy Statement). We may file additional forms. The SEC maintains an Internet site, www.sec.gov, in which all forms filed electronically may be accessed. Additionally, all forms filed with the SEC and additional shareholder information is available free of charge on our website: www.westernalliancebancorp.com. We post these reports to our website as soon as reasonably practicable after filing them with the SEC. None of the information on or hyperlinked from our website is incorporated into this Report.

Western Alliance Bancorporation

We are a bank holding company headquartered in Las Vegas, Nevada. We provide a full range of banking and related services to locally owned businesses, professional firms, real estate developers and investors, local non-profit organizations, high net worth individuals and other consumers through our subsidiary banks and financial services companies located in Nevada, Arizona and California. On a consolidated basis, as of December 31, 2006, we had approximately $4.2 billion in assets, $3.0 billion in total loans, $3.4 billion in deposits and $408.6 million in stockholders equity. We have focused our lending activities primarily on commercial loans, which comprised 86.3% of our total loan portfolio at December 31, 2006. In addition to traditional lending and deposit gathering capabilities, we also offer a broad array of financial products and services aimed at satisfying the needs of small to mid-sized businesses and their proprietors, including cash management, trust administration and estate planning, custody and investments and equipment leasing.

Bank of Nevada (formerly BankWest of Nevada) was founded in 1994 by a group of individuals with extensive community banking experience in the Las Vegas market. We believe our success has been built on the strength of our management team, our conservative credit culture, the attractive growth characteristics of the markets in which we operate and our ability to expand our franchise by attracting seasoned bankers with long-standing relationships in their communities.

In 2003, with the support of local banking veterans, we opened Alliance Bank of Arizona in Phoenix, Arizona and Torrey Pines Bank in San Diego, California. Over the past three and a half years we have successfully leveraged the expertise and strengths of Western Alliance and Bank of Nevada to build and expand these new banks in a rapid and efficient manner.

In 2006, we opened Alta Alliance Bank in Oakland, California.

Through our wholly owned, non-bank subsidiaries, Miller/Russell & Associates, Inc. and Premier Trust, Inc., we provide investment advisory and wealth management services, including trust administration and estate planning. We acquired Miller/Russell and Premier Trust in May 2004 and December 2003, respectively. As of December 31, 2006, Miller/Russell had $1.40 billion in assets under management, and Premier Trust had $256 million in assets under management and $430 million in total trust assets.

We have achieved significant growth. Specifically, from December 31, 2000 to December 31, 2006, we increased:

- total assets from $443.7 million to $4.2 billion;
- total net loans from $319.6 million to $3.0 billion;
- total deposits from $410.2 million to $3.4 billion; and

core deposits (all deposits other than certificates of deposit greater than $100,000) from $355.8 million to $2.9 billion.

The Company provides a full range of banking services, as well as trust and investment advisory services through its six consolidated subsidiaries. The company manages its business with a primary focus on each subsidiary. Thus, the Company has identified six operating segments. However, the trust and investment advisory segments do not meet the quantitative thresholds for disclosure and have therefore been included in the other column. Parent company information is also included in the other category because it represents an overhead function rather than an operating segment. The Company has not aggregated any operating segments.

The Company reported three segments in the financial statements issued prior to December 31, 2006. In October 2006, the Company opened a new bank subsidiary, Alta Alliance Bank, which is located in Northern California. Although Alta Alliance Bank does not meet the quantitative thresholds for disclosure at December 31, 2006, this segment is reported because it is expected to meet the quantitative thresholds for disclosure in the future.

The four reported segments derive a majority of their revenues from interest income and the chief executive officer relies primarily on net interest income to assess the performance of the segments and make decisions about resources to be allocated to the segments. The accounting policies of the reported segments are the same as those of the Company as described in Note 1 to the Consolidated Financial Statements. Transactions between segments consist primarily of borrowings and loan participations. Federal funds purchases and sales and other borrowed funds transactions result in profits that are eliminated for reporting consolidated results of operations. Loan participations are recorded at par value with no resulting gain or loss. The Company allocates centrally provided services to the operating segments based upon estimated usage of those services.

Recent Developments

Acquisition of First Independent Capital of Nevada and First Independent Bank of Nevada. On December 20, 2006, the Company and First Independent Capital of Nevada (First Independent) signed a definitive agreement under which First Independent will merge into Western Alliance Bancorporation. Privately held First Independent owns First Independent Bank of Nevada (headquartered in Reno, Nevada), which had assets of $428 million, deposits of $386 million, loans of $288 million and equity capital of $32 million at December 31, 2006. Under the terms of the agreement, First Independent stockholders may elect to receive either $93.60 in cash or Western Alliance common stock of comparable value (subject to certain collar provisions) as determined by a pricing period prior to close. The agreement contains proration and allocation procedures to ensure that 80% of the First Independent shares are exchanged for shares of Western Alliance. First Independent shareholders may be eligible for additional cash payments of up to $2.38 per share depending upon the performance of certain credits in the First Independent Bank loan portfolio during the two-year period after the merger has been completed. The transaction is valued at approximately $115 million and is expected to close late in the first quarter of 2007.

Our Strategy

Since 1994, we believe that we have been successful in building and developing our operations by adhering to a business strategy focused on understanding and serving the needs of our local clients and pursuing growth markets and opportunities while emphasizing a strong credit culture. Our objective is to provide our shareholders with superior returns. The critical components of our strategy include:

Leveraging our knowledge and expertise. Over the past decade we have assembled an experienced management team and built a culture committed to credit quality and operational efficiency. We have also successfully centralized a significant portion of our operations, processing, compliance, Community Reinvestment Act administration and specialty functions. We intend to grow our franchise and improve our operating efficiencies by continuing to leverage our managerial expertise and the functions we have centralized at Western Alliance.

Maintaining a strong credit culture. We adhere to a specific set of credit standards across our bank subsidiaries that ensure the proper management of credit risk. Western Alliance s management team plays an active role in monitoring compliance with our Banks credit standards. Western Alliance

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also continually monitors each of our subsidiary banks loan portfolios, which enables us to identify and take prompt corrective action on potentially problematic loans.

Attracting seasoned relationship bankers and leveraging our local market knowledge. We believe our success has been the result, in part, of our ability to attract and retain experienced relationship bankers that have strong relationships in their communities. These professionals bring with them valuable customer relationships, and have been an integral part of our ability to expand rapidly in our market areas. These professionals allow us to be responsive to the needs of our customers and provide a high level of service to local businesses. We intend to continue to hire experienced relationship bankers as we expand our franchise.

Offering a broader array of personal financial products and services. Part of our growth strategy is to offer a broader array of personal financial products and services to high net worth individuals and to senior managers at commercial enterprises with which we have established relationships. To this end, we acquired Miller/Russell & Associates, Inc. in May 2004, and Premier Trust, Inc. in December 2003.

Focusing on markets with attractive growth prospects. We operate in what we believe to be highly attractive markets with superior growth prospects. Our metropolitan areas have a high per capita income and are expected to experience some of the fastest population growth in the country. We continuously evaluate new markets in the Western United States with similar growth characteristics as targets for expansion. Our long term strategy is to operate in six to twelve high growth markets. We intend to implement this strategy through the formation of additional *de novo* banks or acquiring other commercial banks in new market areas with attractive growth prospects. As of December 31, 2006, we maintained 31 bank branch offices located throughout our market areas. To accommodate our growth and enhance efficiency, we opened a service center facility in Las Vegas, Nevada that provides centralized back-office services and call center support for all our banking subsidiaries. We intend to expand over the next 12 months to an aggregate of 40 offices.

Attracting low cost deposits. We believe we have been able to attract a stable base of low-cost deposits from customers who are attracted to our personalized level of service and local knowledge. As of December 31, 2006, our deposit base was comprised of 33.9% non-interest bearing deposits, of which 27.2% consisted of title company deposits, 67.3% consisted of other business deposits and 5.5% consisted of consumer deposits.

Our Market Areas

We believe that there is a significant market segment of small to mid-sized businesses that are looking for a locally based commercial bank capable of providing a high degree of flexibility and responsiveness, in addition to offering a broad range of financial products and services. We believe that the local community banks that compete in our markets do not offer the same breadth of products and services that our customers require to meet their growing needs, while the large, national banks lack the flexibility and personalized service that our customers desire in their banking relationships. By offering flexibility and responsiveness to our customers and providing a full range of financial products and services, we believe that we can better serve our markets.

Through our banking and non-banking subsidiaries, we serve customers in Nevada, Arizona and California.

Nevada. In Nevada, we operate in the cities of Las Vegas, Henderson, Mesquite and North Las Vegas, all of which are in the Las Vegas metropolitan area, and Reno, which is located in the Reno metropolitan area. The economy of the Las Vegas metropolitan area is primarily driven by services and industries related to gaming, entertainment and tourism, and is experiencing growth in the residential and commercial construction and light manufacturing sectors. Based on June 30, 2006 FDIC data (which is the most recent date for which public data is available), we ranked 4th out of 29 institutions in deposit market share with $2.3 billion in deposits in the Las Vegas metropolitan area.

Arizona. In Arizona, we operate in Phoenix and Scottsdale, which are located in the Phoenix metropolitan area, Tucson, which is located in the Tucson metropolitan area, and Sedona, which is located in the Flagstaff metropolitan area. These metropolitan areas contain companies in the following industries:

aerospace, high-tech manufacturing, construction, energy, transportation, minerals and mining and financial services.

California. In California, we operate in the cities of San Diego and La Mesa, both of which are in the San Diego metropolitan area, and Oakland, which is in the Bay Area metropolitan area. The business communities in the San Diego and Bay Area metropolitan areas include numerous small to medium-sized businesses and service and professional firms that operate in a diverse number of industries, including the entertainment, defense and aerospace, construction, health care and pharmaceutical, technology and computer, financial and telecommunications industries.

We currently operate in what we believe to be several of the most attractive markets in the Western United States. These markets have high per capita income and are expected to experience some of the fastest population growth in the country. Claritas, Inc., a leading provider of demographic data, projects significant population growth in our metropolitan areas between 2006 and 2011.

We believe that the rapid population growth and attractive economic factors of our markets will provide us with significant opportunities in the future. The growth in the Las Vegas metropolitan area, our primary market, has been driven by a variety of factors, including a service economy associated with the hospitality and gaming industries, affordable housing, no state income taxation, and a growth base of senior or retirement communities. Increased economic activity by individuals and accelerated infrastructure investments by businesses should generate additional demand for our products and services. For example, economic growth should produce additional commercial and residential development, providing us with greater lending opportunities. In addition, as per capita income continues to rise, there should be greater opportunities to provide financial products and services, such as checking accounts and wealth and asset management services.

Operations

Our operations are conducted through the following wholly owned subsidiaries:

Bank of Nevada. Bank of Nevada is a Nevada-chartered commercial bank headquartered in Las Vegas, Nevada. As of December 31, 2006, the bank had $2.9 billion in assets, $2.1 billion in loans and $2.3 billion in deposits. Bank of Nevada has fourteen full-service offices in the Las Vegas metropolitan area and one in Reno.

Alliance Bank of Arizona. Alliance Bank of Arizona is an Arizona-chartered commercial bank headquartered in Phoenix, Arizona. As of December 31, 2006, the bank had $643.3 million in assets, $506.7 million in loans and $552.9 million in deposits. Alliance Bank has four full-service offices in Phoenix, three in Tucson, one in Scottsdale and one in Sedona.

Torrey Pines Bank. Torrey Pines Bank is a California-chartered commercial bank headquartered in San Diego, California. As of December 31, 2006, the bank had $581.6 million in assets, $414.4 million in loans and $491.6 million in deposits. Torrey Pines has five full-service offices in San Diego and one in La Mesa.

Alta Alliance Bank. Alta Alliance Bank opened in October 2006 and is a California-chartered commercial bank headquartered in Oakland, California. As of December 31, 2006, the bank had $56.2 million in assets, $7.7 million in loans and $31.3 million in deposits. Alta Alliance has one full-service office in Oakland and one loan production office in Walnut Creek.

Miller/Russell & Associates, Inc. Miller/Russell offers investment advisory services to businesses, individuals and non-profit entities. As of December 31, 2006, Miller/Russell had $1.40 billion in assets under management. Miller/Russell has offices in Phoenix, Tucson, San Diego and Las Vegas.

Premier Trust, Inc. Premier Trust offers clients wealth management services, including trust administration of personal and retirement accounts, estate and financial planning, custody services and investments. As of December 31, 2006, Premier Trust had $430 million in total trust assets and $256 million in assets under management. Premier Trust has offices in Las Vegas and Phoenix.

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Lending Activities

We provide a variety of loans to our customers, including commercial and residential real estate loans, construction and land development loans, commercial loans, and to a lesser extent, consumer loans. Our lending efforts have focused on meeting the needs of our business customers, who have typically required funding for commercial and commercial real estate enterprises. Commercial loans comprised 86.3% of our total loan portfolio at December 31, 2006.

Commercial Real Estate Loans. The majority of our lending activity consists of loans to finance the purchase of commercial real estate and loans to finance inventory and working capital that are secured by commercial real estate. We have a commercial real estate portfolio comprised of loans on apartment buildings, professional offices, industrial facilities, retail centers and other commercial properties. As of December 31, 2006, 61.3% of our commercial real estate and construction loans were owner occupied.

Construction and Land Development Loans. The principal types of our construction loans include industrial/warehouse properties, office buildings, retail centers, medical facilities, restaurants and single-family homes. Construction and land development loans are primarily made only to experienced local developers with whom we have a sufficient 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. We extend raw commercial land loans primarily to borrowers who plan to initiate active development of the property within two years.

Commercial and Industrial Loans. In addition to real estate related loan products, we also originate commercial and industrial loans, including working capital lines of credit, inventory and accounts receivable lines, equipment loans and other commercial loans. We focus on making commercial loans to small and medium-sized businesses in a wide variety of industries. We also are a Preferred Lender in Arizona with the SBA. We intend to increase our commitment to this product line in the future.

Residential Loans. We originate residential mortgage loans secured by one- to four-family properties, most of which serve as the primary residence of the owner. Most of our loan originations result from relationships with existing or past customers, members of our local community, and referrals from realtors, attorneys and builders.

Consumer Loans. We offer a variety of consumer loans to meet customer demand and to increase the yield on our loan portfolio. Consumer loans are generally offered at a higher rate and shorter term than residential mortgages. Examples of our consumer loans include:

- home equity loans and lines of credit;
- home improvement loans;
- credit card loans;
- new and used automobile loans; and
- personal lines of credit.

As of December 31, 2006 our loan portfolio totaled $3.0 billion, or approximately 72.0% of our total assets. The following tables set forth the composition of our loan portfolio as of December 31, 2006.

Loan Type	December 31, 2006 Amount	Percent
	($ in millions)	
Commercial Real Estate	$ 1,232.2	41.0%
Construction and Land Development	715.5	23.8
Commercial and Industrial	645.5	21.5
Residential Real Estate	384.1	12.8
Consumer	29.6	0.9
Total Gross Loans	$ 3,006.9	100.0%
Net Deferred Loan Fees	(3.7)	

Gross Loans, net of deferred loan fees	$ 3,003.2

Credit Policies and Administration

General

We adhere to a specific set of credit standards across our bank subsidiaries that ensure the proper management of credit risk. Furthermore, our holding company s management team plays an active role in monitoring compliance with such standards by our banks.

Loan originations are subject to a process that includes the credit evaluation of borrowers, 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 respective boards of directors of each of our banking subsidiaries establish their own loan policies, as well as loan limit authorizations. Except for variances to reflect unique aspects of state law and local market conditions, our lending policies generally incorporate consistent underwriting standards. We monitor all changes to each respective bank s loan policy to promote this philosophy. Our credit culture has helped us to identify troubled credits early, allowing us to take corrective action when necessary.

Loan Approval Procedures and Authority

Our loan approval procedures are executed through a tiered loan limit authorization process which is structured as follows:

Individual Authorities. The board of directors of each subsidiary bank sets the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The maximum approval authority for a loan officer is $1.5 million for secured loans and $750,000 for unsecured loans.

Management Loan Committees. Credits in excess of individual loan limits are submitted to the appropriate bank s Management Loan Committee. The Management Loan Committees consist of members of the senior management team of that bank and are chaired by that bank s chief credit officer. The Management Loan Committees have approval authority up to $6.0 million at Bank of Nevada, $7.5 million at Alliance Bank of Arizona, $5.0 million at Torrey Pines Bank and $5.5 million at Alta Alliance Bank.

Credit Administration. Credits in excess of the Management Loan Committee authority are submitted by the bank subsidiary to Western Alliance s Credit Administration. Credit Administration consists of the chief credit officers of Western Alliance and Bank of Nevada. Credit Administration has approval authority up to $18.0 million.

Board of Director Oversight. The CEO of Bank of Nevada acting with the Chairman of the Board of Directors of Bank of Nevada has approval authority up to Bank of Nevada s legal lending limit of $66.4 million.

Our credit administration department works independent of loan production.

Loans to One Borrower. In addition to the limits set forth above, state banking law generally limits the amount of funds that a bank may lend to a single borrower. Under Nevada law, the total amount of outstanding loans that a bank may make to a single borrower generally may not exceed 25% of stockholders tangible equity. Under Arizona law, the obligations of one borrower to a bank may not exceed 15% of the bank s capital. Under California law, the obligations of any one borrower to a bank generally may not exceed 25% of the sum of the bank s shareholders equity, allowance for loan losses, capital notes and debentures.

Notwithstanding the above limits, because of our business model, our affiliate banks are able to leverage their relationships with one another to participate in loans collectively which they otherwise would not be able to accommodate on an individual basis. As of December 31, 2006, the aggregate lending limit of our subsidiary banks was approximately $96.2 million.

Concentrations of Credit Risk. Our lending policies also establish customer and product concentration limits to control single customer and product exposures. As these policies are directional and not absolute, at any particular point in time the ratios may be higher or lower because of funding on outstanding

commitments. Set forth below are our lending policies and the segmentation of our loan portfolio by loan type as of December 31, 2006:

	Percent of Total Capital		Percent of Total Loans	
	Policy Limit	Actual	Policy Limit	Actual
Commercial Real Estate Term	400%	373%	65%	41%
Construction	250	216	30	24
Commercial and Industrial	200	193	30	21
Residential Real Estate	225	116	65	13
Consumer	50	9	15	1

Asset Quality

General

One of our key strategies is to maintain high asset quality. We have instituted a loan grading system consisting of nine different categories. The first five are considered satisfactory. The other four grades range from a watch category to a loss category and are consistent with the grading systems used by the FDIC. All loans are assigned a credit risk grade at the time they are made, and each originating 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 our loan portfolio is reviewed annually by an external, independent loan review firm.

Collection Procedure

If a borrower fails to make a scheduled payment on a loan, we 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. Our Special Assets Department reviews all delinquencies on a monthly basis. Each bank s chief credit officer can approve charge-offs up to $5,000. Amounts in excess of $5,000 require the approval of each bank s respective board of directors. Loans deemed uncollectible are proposed for charge-off on a monthly basis at each respective bank s monthly board meeting.

Non-performing Loans

Our policies require that the chief credit officer of each bank continuously monitor the status of that bank s loan portfolio and prepare and present to the board of directors a monthly report listing all credits 30 days or more past due. All relationships graded substandard or worse typically are transferred to the Special Assets Department for corrective action. In addition, we prepare detailed status reports for all relationships rated watch or lower on a quarterly basis. These reports are provided to management and the board of directors of the applicable bank and Western Alliance.

Our policy is to classify all loans 90 days or more past due and all loans on a non-accrual status as substandard or worse, unless extraordinary circumstances suggest otherwise.

We generally stop accruing income on loans when interest or principal payments are in arrears for 90 days, or earlier if the bank s management deems appropriate. We designate loans on which we stop accruing income as non-accrual loans and we reverse outstanding interest that we previously accrued. We recognize income in the period in which we collect it, when the ultimate collectibility of principal is no longer in doubt. We return non-accrual loans to accrual status when factors indicating doubtful collection no longer exist and the loan has been brought current.

Criticized Assets

Federal regulations require that each insured bank classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, examiners have authority to identify problem assets, and, if appropriate, classify them. We use grades six through nine of our loan grading system to identify potential problem assets.

The following describes grades six through nine of our loan grading system:

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Watch List/Special Mention. Generally these are assets that require more than normal management attention. These loans may involve borrowers with adverse financial trends, higher debt/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 some minor non-compliance with financial covenants.

Substandard. These assets contain well-defined credit weaknesses and are characterized by the distinct possibility that the bank will sustain some loss if such weakness or deficiency is not corrected. These loans generally are adequately secured and in the event of a foreclosure action or liquidation, the bank should be protected from loss. All loans 90 days or more past due and all loans on non-accrual are considered at least substandard, unless extraordinary circumstances would suggest otherwise.

Doubtful. These assets have an extremely high probability of loss, 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. These assets are considered uncollectible, and of such little value that their continuance as bankable assets is not warranted. 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 Loan Losses

The allowance for loan losses reflects our evaluation of the probable losses in our loan portfolio. Although management at each of our banking subsidiaries establishes its own allowance for loan losses, each bank utilizes consistent evaluation procedures. The allowance for loan losses is maintained at a level that represents each bank s management s best estimate of losses in the loan portfolio at the balance sheet date that are both probable and reasonably estimable. We maintain the allowance through provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans charged-off are restored to the allowance for loan losses.

Our evaluation of the adequacy of the allowance for loan losses includes the review of all loans for which the collectibility of principal may not be reasonably assured. For commercial real estate and commercial loans, review of financial performance, payment history and collateral values is conducted on a quarterly basis by the lending staff, and the results of that review are then reviewed by Credit Administration. For residential mortgage and consumer loans, this review primarily considers delinquencies and collateral values.

The criteria that we consider in connection with determining the overall allowance for loan losses include:

- results of the quarterly credit quality review;
- historical loss experience in each segment of the loan portfolio;
- general economic and business conditions affecting our key lending areas;
- credit quality trends (including trends in non-performing loans expected to result from existing conditions);
- collateral values;
- loan volumes and concentrations;
- age of the loan portfolio;
- specific industry conditions within portfolio segments;

duration of the current business cycle;

bank regulatory examination results; and

external loan review results.

Additions to the allowance for loan losses may be made when management has identified significant adverse conditions or circumstances related to a specific loan. Management continuously reviews the entire loan portfolio to determine the extent to which additional loan loss provisions might be deemed necessary. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses that may in fact be realized in the future or that additional provisions for loan losses will not be required.

Various regulatory agencies, as well as our outsourced loan review function, as an integral part of their review process, periodically review our loan portfolios and the related allowance for loan losses. Regulatory agencies may require us to increase the allowance for loan losses based on their review of information available to them at the time of their examination.

As of December 31, 2006, our allowance for loan losses was $33.6 million or 1.12% of total loans.

Investment Activities

Each of our banking subsidiaries has its own investment policy, which is established by our board of directors and is approved by each respective bank s board of directors. These policies dictate that investment decisions will be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management. Each bank s chief financial officer is responsible for making securities portfolio decisions in accordance with established policies. The chief financial officer has the authority to purchase and sell securities within specified guidelines established by the investment policy. All transactions for a specific bank are reviewed by that bank s board of directors.

Our banks investment policies generally limit securities investments to U.S. Government, agency and sponsored entity securities and municipal bonds, as well as investments in preferred and common stock of government sponsored entities, such as Fannie Mae, Freddie Mac, and the Federal Home Loan Bank. The policies also permit investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, as well as collateralized mortgage obligations (CMOs) issued or backed by securities issued by these government agencies and privately issued investment grade CMOs. Privately issued CMOs typically offer higher rates than those paid on government agency CMOs, but lack the guaranty of such agencies and typically there is less market liquidity than agency bonds. The policies also permit investments in securities issued or backed by the SBA and investment grade asset-backed securities and adjustable rate preferred stock. Our current investment strategy uses a risk management approach of diversified investing in fixed-rate securities with short to intermediate-term maturities and floating-rate securities with long-term maturities. The emphasis of this approach is to increase overall securities yields while managing interest rate risk. To accomplish these objectives, we focus on investments in mortgage-backed securities and CMOs with a secondary focus on higher yielding investment grade asset-backed securities and adjustable rate preferred stock.

All of our investment securities are classified as available for sale or held to maturity pursuant to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Available for sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and instead reported as a separate component of stockholders equity. Held to maturity securities are those securities that we have both the intent and the ability to hold to maturity. These securities are carried at cost adjusted for amortization of premium and accretion of discount.

As of December 31, 2006, we had an investment securities portfolio of $542.3 million, representing approximately 13.0% of our total assets, with the majority of the portfolio invested in AAA-rated securities. The average duration of our investment securities is 3.0 years as of December 31, 2006. The following table summarizes our investment securities portfolio as of December 31, 2006.

	December 31, 2006	
	Amount	Percent
	($ in millions)	
Mortgage-backed Securities	$ 379.5	70.0%
U.S. Government Sponsored Agencies	27.7	5.1
Asset-backed Securities	48.0	8.9
Adjustable Rate Preferred Stock	49.1	9.1
Municipal Bonds, U.S. Treasuries & Other	38.0	6.9
Total Investment Securities	$ 542.3	100.0%

As of December 31, 2006 and December 31, 2005, we had an investment in bank-owned life insurance (BOLI) of $82.1 million and $51.8 million, respectively. We purchased the BOLI to help offset employee benefit costs.

Deposit Products and Other Funding Sources

We offer a variety of deposit products to our customers, including checking accounts, savings accounts, money market accounts and other deposit accounts, including fixed-rate, fixed maturity retail certificates of deposit ranging in terms from 30 days to five years, individual retirement accounts, and non-retail certificates of deposit consisting of jumbo certificates greater than or equal to $100,000. We have historically focused on attracting low cost core deposits. As of December 31, 2006, our deposit portfolio was comprised of 33.9% non-interest bearing deposits, compared to 17.4% time deposits.

Our non-interest bearing deposits consist of non-interest bearing checking accounts, which, as of December 31, 2006, were comprised of 27.2% title company deposits, which consist primarily of deposits held in escrow pending the closing of commercial and residential real estate transactions, and, to a lesser extent, operating accounts for title companies; 67.3% other business deposits, which consist primarily of operating accounts for businesses; and 5.5% consumer deposits. We consider these deposits to be core deposits. We believe these deposits are generally not interest rate sensitive since these accounts are not created for investment purposes. The competition for these deposits in our markets is strong. We believe our success in attracting and retaining these deposits is based on several factors, including (1) the high level of service we provide to our customers; (2) our ability to attract and retain experienced relationship bankers who have strong relationships in their communities; (3) our broad array of cash management services; and (4) our competitive pricing on earnings credits paid on these deposits. We intend to continue our efforts to attract deposits from our business lending relationships in order to maintain our low cost of funds and improve our net interest margin. However, the loss of a significant part of our low-cost deposit base would negatively impact our profitability.

Deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from areas surrounding our branch offices. In order to attract and retain deposits, we rely on providing quality service and introducing new products and services that meet our customers needs.

Each subsidiary bank s asset and liability committee sets its own deposit rates. Our banks consider a number of factors when determining their individual deposit rates, including:

Information on current and projected national and local economic conditions and the outlook for interest rates;

The competitive environment in the markets it operates in;

Loan and deposit positions and forecasts, including any concentrations in either; and

FHLB advance rates and rates charged on other sources of funds.

As of December 31, 2006, we had approximately $3.4 billion in total deposits. The following table shows our deposit composition as of December 31, 2006:

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	December 31, 2006	
	Amount	Percent
	($ in millions)	
Non-interest Bearing Demand	$ 1,154.2	33.9%
Savings & Money Market	1,407.9	41.4
Time, $100k and over	524.9	15.4
Interest Bearing Demand	246.4	7.3
Other Time	67.0	2.0
Total Deposits	$ 3,400.4	100.0%

In addition to our deposit base, we have access to other sources of funding, including FHLB advances, repurchase agreements and unsecured lines of credit with other financial institutions. Additionally, in the past, we have accessed the capital markets through trust preferred offerings.

Financial Products & Services

In addition to traditional commercial banking activities, we provide other financial services to our customers, including:

- Internet banking;
- Wire transfers;
- Electronic bill payment;
- Lock box services;
- Courier services;
- Cash vault; and
- Cash management services (including account reconciliation, collections and sweep accounts).

We have a service center facility which became operational in the fourth quarter of 2006. We expect that this facility will increase our capacity to provide courier, cash management and other business services.

Through Miller/Russell, we provide customers with asset allocation and investment advisory services. In addition, we provide wealth management services including trust administration of personal and retirement accounts, estate and financial planning, custody services and investments through Premier Trust.

Customer, Product and Geographic Concentrations

Approximately 64.9% of our loan portfolio as of December 31, 2006 consisted of commercial real estate secured loans, including commercial real estate loans and construction and land development loans. Moreover, our business activities are currently focused in the Las Vegas, San Diego, Tucson, Phoenix and Oakland metropolitan areas. Consequently, our business is dependent on the trends of these regional economies. In addition, approximately 9.2% of our deposits as of December 31, 2006 consisted of noninterest bearing title company deposits. No individual or single group of related accounts is considered material in relation to our assets or deposits or in relation to our overall business.

Competition

The banking and financial services business in our market areas is highly competitive. This increasingly competitive environment is a result primarily of growth in community banks, changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. We compete for loans, deposits and customers with other commercial banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other non-bank financial services providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than we can offer.

Competition for deposit and loan products remains strong from both banking and non-banking firms, and this competition directly affects the rates of those products and the terms on which they are offered to consumers. Technological innovation continues to contribute to greater competition in domestic and international financial services markets. Many customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer and ATMs.

Mergers between financial institutions have placed additional pressure on banks to consolidate their operations, reduce expenses and increase revenues to remain competitive. In addition, competition has intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically with fewer restrictions than in the past. These laws allow banks to merge with other banks across state lines, thereby enabling banks to establish or expand banking operations in our market. The competitive environment is also significantly impacted by federal and state legislation that makes it easier for non-bank financial institutions to compete with us.

Employees

As of December 31, 2006, we had 785 full-time equivalent employees.

Legal Proceedings

There are no material pending legal proceedings to which Western Alliance is a party or to which any of our properties are subject. There are no material proceedings known to us to be contemplated by any governmental authority. From time to time, we are involved in a variety of litigation matters in the ordinary course of our business and anticipate that we will become involved in new litigation matters in the future.

Financial Information Regarding Segment Reporting

We currently operate our business in six operating segments: Bank of Nevada, Alliance Bank of Arizona, Torrey Pines Bank, Alta Alliance Bank, Premier Trust, Inc. and Miller/Russell & Associates, Inc. Please refer to Note 18 Segment Information to our Consolidated Financial Statements for financial information regarding segment reporting.

SUPERVISION AND REGULATION

The following discussion is only intended to summarize some of the significant statutes and regulations that affect the banking industry and therefore is not a comprehensive survey of the field. These summaries are qualified in their entirety by reference to the particular statute or regulation that is referenced or described. Changes in applicable laws or regulations or in the policies of banking supervisory agencies, or the adoption of new laws or regulations, may have a material effect on Western Alliance s business and prospects. Changes in fiscal or monetary policies also may affect Western Alliance. The probability, timing, nature or extent of such changes or their effect on Western Alliance cannot be predicted.

Bank Holding Company Regulation

General. Western Alliance Bancorporation is a bank holding company and is registered with the Board of Governors of the Federal Reserve System (Federal Reserve) under the Bank Holding Company Act of 1956 (the BHC Act). As such, the Federal Reserve is Western Alliance s primary federal regulator, and Western is subject to extensive regulation, supervision and examination by the Federal Reserve. Western Alliance must file reports with the Federal Reserve and provide it with such additional information as it may require.

Under Federal Reserve regulations, a bank holding company is required to serve as a source of financial and managerial strength for its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve s policy that, in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use its available resources to provide adequate capital to its subsidiary banks during period of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company s failure to meet these obligations will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of Federal Reserve regulations, or both.

Among its powers, the Federal Reserve may require a bank holding company to terminate an activity or terminate control of, divest or liquidate subsidiaries or affiliates that the Federal Reserve determines constitute a significant risk to the financial safety or soundness of the bank holding company or any of its bank subsidiaries. Subject to certain exceptions, bank holding companies also are required to give written notice to and receive approval from the Federal Reserve before purchasing or redeeming their common stock or other equity securities. The Federal Reserve also may regulate provisions of a bank holding company s debt, including by imposing interest rate ceilings and reserve requirements. In addition, the Federal Reserve requires all bank holding companies to maintain capital at or above certain prescribed levels.

Holding Company Bank Ownership. The BHC Act requires every bank holding company to obtain the approval of the Federal Reserve before it may acquire, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of any class of the outstanding voting shares of such other bank or bank holding company, acquire all or substantially all the assets of another bank or bank holding company or merge or consolidate with another bank holding company.

Holding Company Nonbank Ownership. With certain exceptions, the BHC Act prohibits a bank holding company from acquiring or retaining, directly or indirectly, ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company, or from engaging, directly or indirectly, in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain nonbank activities that have been identified, by statute or by Federal Reserve regulation or order as activities so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto. Business activities that have been determined to be so related to banking include securities brokerage services, investment advisory services, fiduciary services and certain management advisory and data processing services, among others. A bank holding company that qualifies as a financial holding company also may engage in a broader range of activities that are financial in nature (and complementary to such activities), as discussed below.

In addition, bank holding companies that qualify and elect to become financial holding companies may engage in nonbank activities that have been identified by the Gramm-Leach-Bliley Act of 1999 (GLB Act) or by Federal Reserve and Treasury Department Regulation as financial in nature or incidental or complementary to a financial activity. Activities that are defined as financial in nature include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, engaging in insurance underwriting and agency activities, and making merchant banking investments in nonfinancial companies. In order to become or remain a financial holding company, a bank holding company must be well-capitalized, well-managed, and, except in limited circumstances, have at least satisfactory CRA ratings. Failure by a financial holding company to maintain compliance with these requirements or correct non-compliance within a fixed time period could lead to divestiture of all subsidiary banks or a requirement to conform all nonbanking activities to those permissible for a bank holding company that has not elected financial holding company status.

Change in Control. In the event that the BHC Act is not applicable to a person or entity, the Change in Bank Control Act of 1978 (CIBC Act) requires, that such person or entity give notice to the Federal Reserve and the Federal Reserve not disapprove such notice before such person or entity may acquire control of a bank or bank holding company. A limited number of exemptions apply to such transactions. Control is conclusively presumed to exist if a person or entity acquires 25% or more of the outstanding shares of any class of voting stock of the bank holding company or insured depository institution. Control is rebuttably presumed to exist if a person or entity acquires 10% or more but less than 25% of such voting stock and either the issuer has a class of registered securities under Section 12 of the Securities Exchange Act of 1934, as amended (the 1934 Act), or no other person or entity will own, control or hold the power to vote a greater percentage of such voting stock immediately after the transaction.

State Law Restrictions. As a Nevada corporation, Western Alliance is subject to certain limitations and restrictions under applicable Nevada corporate law. For example, Nevada law imposes restrictions relating to indemnification of directors, maintenance of books, records and minutes and observance of certain corporate formalities. Western Alliance also is a bank holding company within the meaning of state law in the states where its subsidiary banks are located. As such, it is subject to examination by and may be required to file reports with the Nevada Financial

Institutions Division (Nevada FID) under sections 666.095 and 666.105 of the Nevada Revised Statutes. Western Alliance must obtain the approval of the

Nevada Commissioner of Financial Institutions (Nevada Commissioner) before it may acquire another bank. Any transfer of control of a Nevada bank holding company must be approved in advance by the Nevada Commissioner.

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

Western Alliance also is subject to examination and reporting requirements of the California Department of Financial Institutions (California DFI) under sections 3703 and 3704 of the California Financial Code. Any transfer of control of a corporation that controls a California bank requires the prior approval of the California Commissioner of Financial Institutions (California Commissioner).

Bank Regulation

General. Western Alliance controls four subsidiary banks. Bank of Nevada, located in Las Vegas, Nevada, is chartered by the State of Nevada and is subject to primary regulation, supervision and examination by the Nevada FID. Alliance Bank, located in Phoenix, Arizona, is chartered by the State of Arizona and is subject to primary regulation, supervision and examination by the Arizona State Banking Department (Arizona SBD). Torrey Pines Bank, located in San Diego, California, is chartered by the State of California and is subject to primary regulation, supervision and examination by the California DFI. Bank of Nevada, Alliance Bank of Arizona and Torrey Pines Bank also are subject to regulation by the Federal Deposit Insurance Corporation (FDIC), which is their primary federal banking agency. Alta Alliance Bank is chartered by the State of California and is subject to primary regulation, supervision and examination by the California DFI. Alta Alliance Bank is also a member of the Federal Reserve System and is subject to supervision and regulation by the Federal Reserve, which is its primary federal banking agency.

Federal and state banking laws and the implementing regulations promulgated by the federal and state banking regulatory agencies cover most aspects of the banks operations, including capital requirements, reserve requirements against deposits and for possible loan losses and other contingencies, dividends and other distributions to shareholders, customers interests in deposit accounts, payment of interest on certain deposits, permissible activities and investments, securities that a bank may issue and borrowings that a bank may incur, rate of growth, number and location of branch offices and acquisition and merger activity with other financial institutions.

Deposits in the banks are insured by the FDIC to applicable limits through the Deposit Insurance Fund. All of Western Alliance s subsidiary banks are required to pay deposit insurance premiums, which are assessed semiannually and paid quarterly. The premium amount is based upon a risk classification system established by the FDIC. Banks with higher levels of capital and a low degree of supervisory concern are assessed lower premiums than banks with lower levels of capital or a higher degree of supervisory concern. The Federal Deposit Insurance Reform Act of 2005 (the Reform Act) merged the Bank Insurance Fund and the Savings Association Fund into a single Deposit Insurance Fund, increased the maximum amount of the insurance coverage for certain retirement accounts and possible inflation adjustments in the maximum amount of coverage available with respect to other insured accounts, and gave the FDIC more discretion to price deposit insurance coverage according to risk for all insured institutions regardless of the level of the level of the fund reserve ratio. For 2007, the FDIC has announced rates of between 5 cents and 7 cents for $100.00 of deposits for banks with higher levels of capital and a low degree of supervisory concern, up to 43 cents per $100.00 of deposits for institutions in the highest risk category.

If, as a result of an examination, the FDIC were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of the banks operations had become unsatisfactory, or that any of the banks or their management was in violation of any law or regulation, the FDIC may take a number of different remedial actions as it deems appropriate. 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 bank s capital, to restrict the bank s growth, to assess civil monetary penalties against the bank s officers or directors, to remove officers and directors and, if the FDIC concludes that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the bank s deposit insurance.

Under Nevada, Arizona and California law, the respective state banking supervisory authority has many of the same remedial powers with respect to its state-chartered banks.

Change in Control. The application of the CIBC Act is described in the discussion above regarding bank holding companies. Under Nevada banking law, a Nevada bank must report a change in ownership of 10% or more of the bank s outstanding voting stock to the Nevada FID within three business days after obtaining knowledge of the change. Any person who acquires control of a Nevada bank must obtain the prior approval of the Nevada Commissioner. Arizona banking law provides that no person may acquire control of an Arizona bank without the prior approval of the Arizona Superintendent. A person who has the power to vote 15% or more of the voting stock of an Arizona bank is presumed to control the bank. California banking law requires that any person must obtain the prior approval of the California Commissioner before that person may acquire control of a California bank. A person who has the power to vote 10% or more of the voting stock of a California bank is presumed to control the bank.

Bank Merger. Section 18(c) of the Federal Deposit Insurance Act (FDI Act) requires a bank or any other insured depository institution to obtain the approval of its primary federal banking supervisory authority before it may merge or consolidate with or acquire the assets or assume the liabilities of any other insured depository institution. State law requirements are similar. Nevada banking law requires that a bank must obtain the prior approval of the Nevada Commissioner before it may merge or consolidate with or transfer its assets and liabilities to another bank. Arizona banking law requires the approval of the Arizona Superintendent before a bank may merge or consolidate with another bank. Under California law, a California bank that is the survivor of a merger must file an application for approval with the California Commissioner.

Regulation of Nonbanking Subsidiaries

Miller/Russell & Associates, Inc. Miller/Russell & Associates, Inc. is an Arizona corporation and an investment adviser that is registered with the SEC under the Investment Advisers Act of 1940 (Advisers Act). Under the Advisers Act, an investment adviser is subject to supervision and inspection by the SEC. A significant element of supervision under the Advisers Act is the requirement to make significant disclosures to the public under Part II of Form ADV of the adviser s services and fees, the qualifications of its associated persons, financial difficulties and potential conflicts of interests. An investment adviser must keep extensive books and records, including all customer agreements, communications with clients, orders placed and proprietary trading by the adviser or any advisory representative.

Premier Trust Inc. Premier Trust, Inc. is a trust company licensed by the State of Nevada. Under Nevada law, a company may not transact any trust business, with certain exceptions, unless authorized by the Commissioner. The Commissioner examines the books and records of registered trust companies and may take possession of all the property and assets of a trust company whose capital is impaired or is otherwise determined to be unsafe and a danger to the public. Premier Trust also is licensed as a trust company in Arizona and is subject to regulation and examination by the Arizona Superintendent.

Capital Standards

Regulatory Capital Guidelines. The Federal Reserve and the FDIC have risk-based capital adequacy guidelines intended to measure capital adequacy with regard to the degree of risk associated with a banking organization s operations for transactions reported on the balance sheet as assets and transactions, such as letters of credit and recourse arrangements, that are reported as off-balance-sheet items. Under these guidelines, the nominal dollar amounts of assets on the balance sheet and credit-equivalent amounts of off- balance-sheet items are multiplied by one of several risk adjustment percentages. These range from 0.0% for assets with low credit risk, such as cash and certain U.S. government securities, to 100.0% for assets with relatively higher credit risk, such as business loans. A banking organization s risk-based capital ratios are obtained by dividing its Tier 1 capital and total qualifying capital (Tier 1 capital and a limited amount of Tier 2 capital) by its total risk-adjusted assets and off-balance-sheet items. Tier 1 capital consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital may consist of a limited amount of the

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allowance for loan and lease losses and certain other instruments that have some characteristics of equity. The inclusion of elements of Tier 2 capital as qualifying capital is subject to certain other requirements and limitations of the federal banking supervisory agencies. Since December 31, 1992, the Federal Reserve and the FDIC have required a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance-sheet items of 4.0% and a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance-sheet items of 8.0%.

The Federal Reserve and the FDIC require banking organizations to maintain a minimum amount of Tier 1 capital relative to average total assets, referred to as the leverage ratio. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3.0%. However, an institution with a 3.0% leverage ratio would be unlikely to receive the highest rating since a strong capital position is a significant part of the regulators rating criteria. All banking organizations not rated in the highest category must maintain an additional capital cushion of 100 to 200 basis points. The Federal Reserve and the FDIC have the discretion to set higher minimum capital requirements for specific institutions whose specific circumstances warrant it, such as a bank or bank holding company anticipating significant growth. A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the Federal Reserve or the FDIC, as appropriate, to ensure the maintenance of required capital levels. Neither the Federal Reserve nor the FDIC has advised Western Alliance or any of its subsidiary banks that it is subject to any special capital requirements.

Prompt Corrective Action. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including institutions that fall below one or more of the prescribed minimum capital ratios described above. An institution that is classified based upon its capital levels as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it was in the next lower capital category if its primary federal banking supervisory authority, after notice and opportunity for hearing, determines that an unsafe or unsound condition or practice warrants such treatment. At each successively lower capital category, an insured depository institution is subject to additional restrictions. A bank holding company must guarantee that a subsidiary bank that adopts a capital restoration plan will meet its plan obligations, in an amount not to exceed 5% of the subsidiary bank s assets or the amount required to meet regulatory capital requirements, whichever is less. Any capital loans made by a bank holding company to a subsidiary bank are subordinated to the claims of depositors in the bank and to certain other indebtedness of the subsidiary bank. In the event of the bankruptcy of a bank holding company, any commitment by the bank holding company to a federal banking regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee and would be entitled to priority of payment.

In addition to measures that may be taken under the prompt corrective action provisions, federal banking regulatory authorities may bring enforcement actions against banks and bank holding companies for unsafe or unsound practices in the conduct of their businesses or for violations of any law, rule or regulation, any condition imposed in writing by the appropriate federal banking regulatory authority or any written agreement with the authority. Possible enforcement actions include the appointment of a conservator or receiver, the issuance of a cease-and-desist order that could be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders. In addition, a bank holding company s inability to serve as a source of strength for its subsidiary banks could serve as an additional basis for a regulatory action against the bank holding company.

Under Nevada law, if the stockholders equity of a Nevada state-chartered bank becomes impaired, the Nevada Commissioner must require the bank to make the impairment good within three months after receiving notice from the Nevada Commissioner. If the impairment is not made good, the Nevada Commissioner may take possession of the bank and liquidate it.

Dividends. Western Alliance has never declared or paid cash dividends on its capital stock. Western Alliance currently intends to retain any future earnings for future growth and does not anticipate paying any cash dividends in the foreseeable future. Any determination in the future to pay dividends will be at the discretion of Western Alliance s

board of directors and will depend on the company s earnings, financial

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condition, results of operations, business prospects, capital requirements, regulatory restrictions, contractual restrictions and other factors that the board of directors may deem relevant.

Western Alliance s ability to pay dividends is subject to the regulatory authority of the Federal Reserve. Although there are no specific federal laws or regulations restricting dividend payments by bank holding companies, the supervisory concern of the Federal Reserve focuses on a holding company s capital position, its ability to meet its financial obligations as they come due, and its capacity to act as a source of financial strength to its subsidiaries. In addition, Federal Reserve policy discourages the payment of dividends by a bank holding company that are not supported by current operating earnings.

As a bank holding company registered with the State of Nevada, Western Alliance also is subject to limitations under Nevada law on the payment of dividends. Nevada banking law imposes no restrictions on bank holding companies regarding the payment of dividends. Under Nevada corporate law, section 78-288 of the Nevada Revised Statutes provides that no cash dividend or other distribution to shareholders, other than a stock dividend, may be made if, after giving effect to the dividend, the corporation would not be able to pay its debts as they become due or, unless specifically allowed by the articles of incorporation, the corporation s total assets would be less than the sum of its total liabilities and the claims of preferred stockholders upon dissolution of the corporation.

From time to time, Western Alliance may become a party to financing agreements and other contractual obligations that have the effect of limiting or prohibiting the declaration or payment of dividends. Holding company expenses and obligations with respect to its outstanding trust preferred securities and corresponding subordinated debt also may limit or impair Western Alliance s ability to declare and pay dividends.

Since Western Alliance has no significant assets other than the voting stock of its subsidiaries, it currently depends on dividends from its bank subsidiaries and, to a much lesser extent, its nonbank subsidiaries, for a substantial portion of its revenue. The ability of a state nonmember bank to pay cash dividends is not restricted by federal law or regulations. State law imposes restrictions on the ability of each of Western Alliance s subsidiary banks to pay dividends:

- Under sections 661.235 and 661.240 of the Nevada Revised Statutes, Bank of Nevada may not pay dividends unless the bank s surplus fund, not including any initial surplus fund, equals the bank s initial stockholders equity, including 10% of the previous year s net profits, and the dividend would not reduce the bank s stockholders equity below the initial stockholders equity of the bank or 6% of the total deposit liability of the bank.
- Under section 6-187 of the Arizona Revised Statutes, Alliance Bank of Arizona may pay dividends on the same basis as any other Arizona corporation. Under section 10-640 of the Arizona Revised Statutes, a corporation may not make a distribution to shareholders if to do so would render the corporation insolvent or unable to pay its debts as they become due. However, an Arizona bank may not declare a non-stock dividend out of capital surplus without the approval of the Superintendent.
- Under section 642 of the California Financial Code, Torrey Pines Bank and Alta Alliance Bank may not, without the prior approval of the California Commissioner, make a distribution to its shareholders in an amount exceeding the bank s retained earnings or its net income during its last three fiscal years, less any previous distributions made during that period by the bank or its subsidiaries, whichever is less. Under section 643 of the California Financial Code, the California Commissioner may approve a larger distribution, but in no event to exceed the bank s net income during the year, net income during the prior fiscal year or retained earnings, whichever is greatest.

Redemption. A bank holding company may not purchase or redeem its equity securities without the prior written approval of the Federal Reserve if the purchase or redemption combined with all other purchases and redemptions by the bank holding company during the preceding 12 months equals or exceeds 10% of the bank holding company s consolidated net worth. However, prior approval is not required if the bank holding company is well-managed, not the subject of any unresolved supervisory issues and both before and immediately after the purchase or redemption is well-capitalized.

Increasing Competition in Financial Services

Interstate Banking And Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle-Neal Act) generally authorizes interstate branching. Currently, bank holding companies may purchase banks in any state, and banks may merge with banks in other states, unless the home state of the bank holding company or either merging bank has opted out under the legislation. After properly entering a state, an out-of-state bank may establish de novo branches or acquire branches or acquire other banks on the same terms as a bank that is chartered by the state.

Nevada has enacted legislation authorizing interstate mergers pursuant to the Riegle-Neal Act. The Nevada statute permits out-of-state banks and bank holding companies meeting certain requirements to maintain and operate the Nevada branches of a Nevada bank that are acquired in an interstate combination. An out-of-state bank may not enter the state by establishing a de novo branch or acquiring a branch of a depository institution in Nevada without acquiring the institution itself or its charter. However, with the written approval of the Nevada Commissioner, such an out-of-state bank or bank holding company may engage in such a transaction in a county with a population less than 100,000.

An out-of-state bank may establish branches in Arizona by acquiring a depository institution that is headquartered in the state or a branch of such an institution, provided that the institution or branch is more than five years old and the state in which the out-of-state bank is headquartered extends reciprocal rights. An out-of-state bank holding company without a subsidiary bank in Arizona may establish a de novo bank in the state, and thereafter may acquire additional banks.

An out-of-state bank may not enter California by establishing a de novo branch or acquiring a branch of a depository institution in California unless it merges with a California bank or acquires the whole business unit of a California bank. An out-of-state bank holding company without a subsidiary bank in California may establish a de novo bank in the state, and thereafter may acquire additional banks.

Selected Regulation of Banking Activities

Transactions with Affiliates. Banks are subject to restrictions imposed by the FRA and regulations adopted by the Federal Reserve to implement it with regard to extensions of credit to affiliates, investments in securities issued by affiliates and the use of affiliates securities as collateral for loans to any borrower. These laws and regulations may limit the ability of Western Alliance to obtain funds from its subsidiary banks for its cash needs, including funds for payment of dividends, interest and operational expenses.

Insider Credit Transactions. Banks also are subject to certain restrictions regarding extensions of credit to executive officers, directors or principal shareholders of a bank and its affiliates or to any related interests of such persons (i.e., insiders). All extensions of credit to insiders must be made on substantially the same terms and pursuant to the same credit underwriting procedures as are applicable to comparable transactions with persons who are neither insiders nor employees, and must not involve more than the normal risk of repayment or present other unfavorable features. Insider loans also are subject to certain lending limits, restrictions on overdrafts to insiders and requirements for prior approval by the bank s board of directors.

Lending Limits. State banking law generally limits the amount of funds that a bank may lend to a single borrower. Under Nevada law, the total amount of outstanding loans that a bank may make to a single borrower generally may not exceed 25% of stockholders equity. Under Arizona law, the obligations of one borrower to a bank may not exceed 15% of the bank s capital. Under California law, the obligations of any one borrower to a bank generally may not exceed 25% of the sum of the bank s shareholders equity, allowance for loan losses, capital notes and debentures.

Tying Arrangements. Western Alliance and its subsidiary banks are prohibited from engaging in certain tying arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. With certain exceptions for traditional banking services, Western Alliance s subsidiary banks may not condition an extension of credit to a customer on a requirement that the customer obtain additional credit, property or services from the bank, Western Alliance or any of Western Alliance s other subsidiaries, that the customer provide some additional credit, property or services to the bank, Western Alliance or any of Western Alliance s other subsidiaries or that the customer refrain from obtaining credit, property or other services from a competitor.

Regulation of Management. Federal law sets forth circumstances under which officers or directors of a bank or bank holding company may be removed by the institution s primary federal banking supervisory authority. Federal law also prohibits a management official of a bank or bank holding company from serving as a management official with an unaffiliated bank or bank holding company that has offices within a specified geographic area that is related to the location of the bank s offices and the asset size of the institutions.

Safety and Soundness Standards. Federal law imposes upon banks certain non-capital safety and soundness standards. These standards cover internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation and benefits. Additional standards apply to asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan, acceptable to its regulators, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

Consumer Protection Laws and Regulations

The banking regulatory authorities have increased their attention in recent years to compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

Community Reinvestment Act. The CRA is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, when examining insured depository institutions, to assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of outstanding to a low of substantial noncompliance. Bank of Nevada has consistently been rated Outstanding for CRA performance by the FDIC, most recently as of October 10, 2006. Two of Western s subsidiary banks, Alliance Bank of Arizona and Torrey Pines Bank, were rated Satisfactory for CRA performance by the FDIC as of November 1, 2004 and September 1, 2005, respectively. Western s other subsidiary bank, Alta Alliance Bank, opened on October 16, 2006, and has not yet had its first CRA examination.

Equal Credit Opportunity Act. The Equal Credit Opportunity Act generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

Truth in Lending Act. The Truth in Lending Act (TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

Fair Housing Act. The Fair Housing Act (FHA) regulates many practices, and makes it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be illegal under the FHA, including some practices that are not specifically mentioned in the FHA.

Home Mortgage Disclosure Act. The Home Mortgage Disclosure Act (HMDA) grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that is intended to help to show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

Beginning with data reported for 2004, the amount of information that financial institutions collect and disclose concerning applicants and borrowers has expanded, which is expected to increase the attention that HMDA data receives from state and federal banking supervisory authorities, community-oriented organizations and the general public.

Real Estate Settlement Procedures Act. The Real Estate Settlement Procedures Act (RESPA) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. RESPA also prohibits certain abusive practices, such as kickbacks and fee-splitting without providing settlement services.

Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with these laws generally, Western Alliance and its subsidiary banks may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Predatory Lending

Predatory lending is a far-reaching concept and potentially covers a broad range of behavior. As such, it does not lend itself to a concise or comprehensive definition. However, predatory lending typically involves one or more of the following elements:

- making unaffordable loans based on the borrower s assets rather than the borrower s ability to repay an obligation;
- inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced, or loan flipping; and
- engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

The Home Ownership Equity and Protection Act of 1994 (HOEPA) and regulations adopted by the Federal Reserve to implement it require extra disclosures and extend additional protection to borrowers in closed end consumer credit transactions, such as home repairs or renovation, that are secured by a mortgage on the borrower s primary residence. The HOEPA disclosures and protections are applicable to such transactions with any of the following features:

- interest rates for first lien mortgage loans more than 8 percentage points above the yield on U.S. Treasury securities having a comparable maturity;
- interest rates for subordinate lien mortgage loans more than 10 percentage points above the yield on U.S. Treasury securities having a comparable maturity; or
- total points and fees paid in connection with the credit transaction exceed the greater of either 8% of the loan amount or a specified dollar amount that is inflation-adjusted each year.

HOEPA prohibits or restricts numerous credit practices including loan flipping by the same lender or loan servicer within a year of the loan being refinanced. Lenders are presumed to have violated the law unless they document that the borrower has the ability to repay. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid. HOEPA also regulates so-called reverse mortgages.

Privacy

Under the GLB Act, all financial institutions, including Western Alliance, its bank subsidiaries and certain of their nonbanking affiliates and subsidiaries are required to establish policies and procedures to restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer s request and to protect customer data from unauthorized access. In addition, the Fair Credit Reporting Act of 1971 (FCRA) includes many provisions concerning national credit reporting standards and permits consumers, including customers of Western Alliance s subsidiary banks, to opt out of information-sharing for marketing purposes among affiliated companies. The Fair and Accurate Credit Transactions Act of 2003 amended certain provisions of the FRCA and requires banks and other financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The Federal Reserve and the Federal Trade

Commission have extensive rulemaking authority under the FCRA, and Western Alliance and its subsidiary banks are subject to these provisions. Western Alliance has developed policies and procedures for itself and its subsidiaries to maintain compliance and believes it is in compliance with all privacy, information sharing and notification provisions of the GLB Act and the FCRA.

Under California law, every business that owns or licenses personal information about a California resident must maintain reasonable security procedures and policies to protect that information. All customer records that contain personal information and that are no longer required to be retained must be destroyed. Any person that conducts business in California, maintains customers personal information in unencrypted computer records and experiences a breach of security with regard to those records must promptly disclose the breach to all California residents whose personal information was or is reasonably believed to have been acquired by unauthorized persons as a result of such breach. Any person who maintains computerized personal data for others and experiences a breach of security must promptly inform the owner or licensee of the breach. A business may not provide personal information of its customers to third parties for direct mailing purposes unless the customer opts in to such information sharing. A business that fails to provide this privilege to its customers must report the uses made of its customers data upon a customer s request.

Compliance

In order to assure that Western Alliance and its subsidiary banks are in compliance with the laws and regulations that apply to their operations, including those summarized herein, Western Alliance and each of its subsidiary banks employs a compliance officer and Western Alliance engages an independent compliance auditing firm. Western Alliance is regularly reviewed by the Federal Reserve and the subsidiary banks are regularly reviewed by their respective state and federal banking agencies, as part of which their compliance with applicable laws and regulations is assessed. Based on the assessments of its outside compliance auditors and state and federal banking supervisory authorities of Western Alliance and its subsidiary banks, Western Alliance believes that it materially complies with all the laws and regulations that apply to its operations.

Corporate Governance and Accounting Legislation

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act (SOX) was adopted for the stated purpose to increase corporate responsibility, enhance penalties for accounting and auditing improprieties at publicly traded companies, and protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. It applies generally to all companies that file or are required to file periodic reports with the SEC under the Securities Exchange Act of 1934 (Exchange Act), which includes Western Alliance. SOX requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. Among its provisions, SOX subjects bonuses issued to top executives to disgorgement if a subsequent restatement of a company s financial statements was due to corporate misconduct, prohibits an officer or director from misleading or coercing an auditor, prohibits insider trades during pension fund blackout periods, imposes new criminal penalties for fraud and other wrongful acts and extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

Anti-Money Laundering and Anti-Terrorism Legislation

Congress enacted the Bank Secrecy Act of 1970 (the BSA) to require financial institutions, including Western Alliance and its subsidiary banks, to maintain certain records and to report certain transactions to prevent such institutions from being used to hide money derived from criminal activity and tax evasion. The BSA establishes, among other things, (a) record keeping requirements to assist government enforcement agencies in tracing financial transactions and flow of funds; (b) reporting requirements for Suspicious Activity Reports and Currency Transaction Reports) to assist government enforcement agencies in detecting patterns of criminal activity; (c) enforcement provisions authorizing criminal and civil penalties for illegal activities and violations of the BSA and its implementing regulations; and (d) safe harbor provisions that protect financial institutions from civil liability for their cooperative efforts.

Title III of the USA PATRIOT Act (the USA PATRIOT Act) amended the BSA and incorporates anti-terrorist financing provisions into the requirements of the BSA and its implementing regulations. Among other things, the USA PATRIOT Act requires all financial institutions, including Western Alliance,

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its subsidiary banks and several of their nonbanking affiliates and subsidiaries, to institute and maintain a risk-based anti-money laundering compliance program that includes a customer identification program, provides for information sharing with law enforcement and between certain financial institutions by means of an exemption from the privacy provisions of the GLB Act, prohibits U.S. banks and broker-dealers from maintaining accounts with foreign shell banks, establishes due diligence and enhanced due diligence requirements for certain foreign correspondent banking and foreign private banking accounts and imposes additional record keeping requirements for certain correspondent banking arrangements. The USA PATRIOT Act also grants broad authority to the Secretary of the Treasury to take actions to combat money laundering, and federal bank regulators are required to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve any application submitted by a financial institution. Western Alliance and its affiliates have adopted policies, procedures and controls to comply with the BSA and the USA PATRIOT Act, and they engage in very few transactions of any kind with foreign financial institutions or foreign persons.

The Department of the Treasury s Office of Foreign Asset Control (OFAC) administers and enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals. As a result, financial institutions, including Western Alliance, its subsidiary banks and several of their nonbanking affiliates and subsidiaries, must scrutinize transactions to ensure that they do not represent obligations of, or ownership interests in, entities owned or controlled by sanctioned targets. In addition, Western Alliance, its subsidiary banks and several of their nonbanking affiliates and subsidiaries restrict transactions with certain targeted countries except as permitted by OFAC.

ITEM IA. RISK FACTORS

Our businesses face risks and uncertainties, including those discussed below and elsewhere in this report. These factors represent risks and uncertainties that could have a material adverse effect on our business, results of operations and financial condition. These risks and uncertainties are not the only ones we face. Others that we do not know about now, or that we do not now think are significant, may impair our business or the trading price of our securities. The following are significant risks we have identified.

Risks Related to Our Market and Business

Our current primary market area is substantially dependent on gaming and tourism revenue, and a downturn in gaming or tourism could hurt our business and our prospects.

Our business is currently concentrated in the Las Vegas metropolitan area. The economy of the Las Vegas metropolitan area is unique in the United States for its level of dependence on services and industries related to gaming and tourism. Any event that negatively impacts the gaming or tourism industry will adversely impact the Las Vegas economy.

Gaming and tourism revenue (whether or not such tourism is directly related to gaming) is vulnerable to fluctuations in the national economy. A prolonged downturn in the national economy could have a significant adverse effect on the economy of the Las Vegas area. Virtually any development or event that could dissuade travel or spending related to gaming and tourism, whether inside or outside of Las Vegas, could adversely affect the Las Vegas economy. In this regard, the Las Vegas economy is more susceptible than the economies of other cities to issues such as higher gasoline and other fuel prices, increased airfares, unemployment levels, recession, rising interest rates, and other economic conditions, whether domestic or foreign. Gaming and tourism are also susceptible to certain political conditions or events, such as military hostilities and acts of terrorism, whether domestic or foreign. A terrorist act, or the mere threat of a terrorist act, may adversely affect gaming and tourism and the Las Vegas economy and may cause substantial harm to our business.

In addition, Las Vegas competes with other areas of the country for gaming revenue, and it is possible that the expansion of gaming operations in other states, such as California, as a result of changes in laws or otherwise, could significantly reduce gaming revenue in the Las Vegas area.

Although we have no substantial customer relationships in the gaming and tourism industries, a downturn in the Las Vegas economy, generally, could have an adverse effect on our customers and result in an increase in loan delinquencies and foreclosures, a reduction in the demand for our products and services and a reduction of the value of our collateral for loans which could result in the reduction of a customer s

borrowing power, any of which could adversely affect our business, financial condition, results of operations and prospects.

We may not be able to continue our growth at the rate we have in the past several years.

We have grown substantially, from having one chartered bank with $443.7 million in total assets and $410.2 million in total deposits as of December 31, 2000, to four chartered banks with $4.2 billion in total assets and $3.4 billion in total deposits as of December 31, 2006. If we are unable to effectively execute on our strategy, we may not be able to continue to grow at our historical rates. In particular, Alliance Bank of Arizona and Torrey Pines Bank have achieved unusually high annual rates of growth as compared to other banks opened since 2003. We do not expect this high level of growth at Alliance Bank of Arizona and Torrey Pines Bank to continue in the future.

Our growth and expansion strategy may not prove to be successful and our market value and profitability may suffer.

Growth through acquisitions of banks or the organization of new banks in high-growth markets, especially in markets outside of our current markets, represents an important component of our business strategy. Any future acquisitions will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other things:

- difficulty of integrating the operations and personnel;
- potential disruption of our ongoing business; and
- inability of our management to maximize our financial and strategic position by the successful implementation of uniform product offerings and the incorporation of uniform technology into our product offerings and control systems.

We expect that competition for suitable acquisition candidates may be significant. We 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. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions.

In addition to the acquisition of existing financial institutions, we may consider the organization of new banks in new market areas. We do not have any current plan to organize a new bank. Any acquisition or organization of a new bank carries with it numerous risks, including the following:

- the inability to obtain all required regulatory approvals;
- significant costs and anticipated operating losses during the application and organizational phases, and the first years of operation of the new bank;
- the inability to secure the services of qualified senior management;
- the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
- the additional strain on management resources and internal systems and controls.

We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions and the organization of new banks. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability growth.

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If we continue to grow rapidly as planned, we may not be able to control costs and maintain our asset quality.

We expect to continue to grow our assets and deposits, the products and services which we offer and the scale of our operations, generally, both internally and through acquisitions. Our ability to manage our growth successfully will depend on our ability to maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms. If we grow too quickly and are not able to control costs and maintain asset quality, this rapid growth could materially adversely affect our financial performance.

We may have difficulty managing our growth, which may divert resources and limit our ability to successfully expand our operations.

Our rapid growth has placed, and it may continue to place, significant demands on our operations and management. Our future success will depend on the ability of our officers and other key employees to continue to implement and improve our operational, credit, financial, management and other internal risk controls and processes and our reporting systems and procedures, and to manage a growing number of client relationships. We may not successfully implement improvements to our management information and control systems and control procedures and processes in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, our controls and procedures must be able to accommodate an increase in expected loan volume and the infrastructure that comes with new branches and banks. Thus, our growth strategy may divert management from our existing businesses and may require us to incur additional expenditures to expand our administrative and operational infrastructure. If we are unable to manage future expansion in our operations, we may experience compliance and operational problems, have to slow the pace of growth, or have to incur additional expenditures beyond current projections to support such growth, any one of which could adversely affect our business.

Our future growth is dependent upon our ability to recruit additional, qualified employees, especially seasoned relationship bankers.

Our market areas are experiencing a period of rapid growth, placing a premium on highly qualified employees in a number of industries, including the financial services industry. Our business plan includes, and is dependent upon, hiring and retaining highly qualified and motivated executives and employees at every level. In particular, our success has been partly the result of our management s ability to seek and retain highly qualified relationship bankers that have long-standing relationships in their communities. These professionals bring with them valuable customer relationships, and have been an integral part of our ability to attract deposits and to expand rapidly in our market areas. We expect to experience substantial competition in our endeavor to identify, hire and retain the top-quality employees that we believe are key to our future success. If we are unable to hire and retain qualified employees, we may not be able to grow our franchise and successfully execute our business strategy.

We are highly dependent on real estate and events that negatively impact the real estate market could hurt our business.

A significant portion of our loan portfolio is dependent on real estate. As of December 31, 2006, real estate related loans accounted for approximately 78% of total loans. Our financial condition may be adversely affected by a decline in the value of the real estate securing our loans. In addition, acts of nature, including earthquakes, fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition.

In addition, title company deposits comprised 27.2% of our total non-interest bearing deposits as of December 31, 2006. A slowdown in real estate activity in the markets we serve may cause a decline in our deposit growth and may negatively impact our financial condition.

Our high concentration of commercial real estate, construction and land development and commercial, industrial loans expose us to increased lending risks.

As of December 31, 2006, the composition of our loan portfolio was as follows:

commercial real estate loans of $1.2 billion, or 41.0% of total loans,

construction and land development loans of $715.5 million, or 23.8% of total loans,

commercial and industrial loans of $645.5 million, or 21.5% of total loans,
residential real estate loans of $384.1 million, or 12.8% of total loans, and
consumer loans of $29.6 million, or 0.9% of total loans.

Commercial real estate, construction and land development and commercial and industrial loans, which comprised 86.3% of our total loan portfolio as of December 31, 2006, expose us to a greater risk of loss than our residential real estate and consumer loans, which comprised 13.7% of our total loan portfolio as of December 31, 2006. Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship may expose us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan.

If we lost a significant portion of our low-cost deposits, it would negatively impact our profitability.

Our profitability depends in part on our success in attracting and retaining a stable base of low-cost deposits. As of December 31, 2006, our deposit base was comprised of 33.9% non-interest bearing deposits, of which 27.2% consisted of title company deposits, which consist primarily of deposits held in escrow pending the closing of commercial and residential real estate transactions, and to a lesser extent, operating accounts for title companies; 67.4% consisted of other business deposits, which consist primarily of operating accounts for businesses; and 5.5% consisted of consumer deposits. We consider these deposits to be core deposits. While we generally do not believe these deposits are sensitive to interest rate fluctuations, the competition for these deposits in our markets is strong and if we lost a significant portion of these low-cost deposits, it would negatively impact our profitability.

Many of our loans have been made recently, and in certain circumstances there is limited repayment history against which we can fully assess the adequacy of our allowance for loan losses. If our allowance for loan losses is not adequate to cover actual loan losses, our earnings will decrease.

The risk of nonpayment of loans is inherent in all lending activities, and nonpayment, if it occurs, may negatively impact our earnings and overall financial condition, as well as the value of our common stock. Also, many of our loans have been made over the last three years and in certain circumstances there is limited repayment history against which we can fully assess the adequacy of our allowance for loan losses. We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for probable losses based on several factors. If our assumptions are wrong, our allowance for loan losses may not be sufficient to cover our losses, which would have an adverse effect on our operating results. Additions to our allowance for loan losses decrease our net income. While we have not experienced any significant charge-offs or had large numbers of nonperforming loans, due to the significant increase in loans originated during this period, we cannot assure you that we will not experience an increase in delinquencies and losses as these loans continue to mature. The actual amount of future provisions for loan losses cannot be determined at this time and may exceed the amounts of past provisions.

Our future success will depend on our ability to compete effectively in a highly competitive market.

We face substantial competition in all phases of our operations from a variety of different competitors. Our competitors, including commercial banks, community banks, savings and loan associations, mutual savings banks, credit unions, consumer 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 us. Increased competition in our markets may result in reduced loans and deposits.

There is very strong competition for financial services in the market areas in which we conduct our businesses from many local commercial banks as well as numerous regionally based commercial banks. Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than us. If we are unable to offer competitive products and services, our earnings may be negatively affected.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured financial institutions. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and profitability. For more information on the competition we have in our markets, see Business Competition.

Our business would be harmed if we lost the services of any of our senior management team or senior relationship bankers.

We believe that our success to date has been substantially dependent on our senior management team, which includes Robert Sarver, our Chairman, President and Chief Executive Officer and Chief Executive Officer of Bank of Nevada, Dale Gibbons, our Chief Financial Officer, Bruce Hendricks, President of Bank of Nevada, James Lundy, President and Chief Executive Officer of Alliance Bank of Arizona, Gerald Cady, President and Chief Executive Officer of Torrey Pines Bank, Arnold Grisham, President and Chief Executive Officer of Alta Alliance Bank and certain of our senior relationship bankers. We also believe that our prospects for success in the future are dependent on retaining our senior management team and senior relationship bankers. In addition to their skills and experience as bankers, these persons provide us with extensive community ties upon which our competitive strategy is based. Our ability to retain these persons may be hindered by the fact that we have not entered into employment agreements with any of them. The loss of the services of any of these persons, particularly Mr. Sarver, could have an adverse effect on our business if we can t replace them with equally qualified persons who are also familiar with our market areas.

Mr. Sarver s involvement in outside business interests requires substantial time and attention and may adversely affect our ability to achieve our strategic plan and maintain our current growth.

Mr. Sarver joined us in December of 2002 and has been an integral part of our recent growth. He has substantial business interests that are unrelated to us, including his ownership interest in the Phoenix Suns NBA franchise. Mr. Sarver s other business interests demand significant time commitments, the intensity of which may vary throughout the year. Mr. Sarver s other commitments may reduce the amount of time he has available to devote to our business. We believe that Mr. Sarver spends the substantial majority of his business time on matters related to our company. However, a significant reduction in the amount of time Mr. Sarver devotes to our business may adversely affect our ability to achieve our strategic plan and maintain our current growth.

A deterioration in economic conditions generally could adversely affect our business, financial condition, results of operations and prospects.

A deterioration in economic conditions generally could adversely affect our business, financial condition, results of operations and prospects. Such a deterioration could result in a variety of adverse consequences to us, including a reduction in net income and the following:

- Loan delinquencies, non-performing assets and foreclosures may increase, which could result in higher operating costs, as well as increases in our loan loss provisions;
- Demand for our products and services may decline, including the demand for loans, which would adversely affect our revenues; and
- Collateral for loans made by us may decline in value, reducing a customer s borrowing power, and reducing the value of assets and collateral associated with our loans which would cause decreases in net interest income and increasing loan loss provisions.

Economic conditions either nationally or locally in areas in which our operations are concentrated may be less favorable than expected.

Deterioration in local, regional, national or global economic conditions could result in, among other things, an increase in loan delinquencies, a decrease in property values, a change in housing turnover rate or a reduction in the level of bank deposits. Particularly, a weakening of the real estate or employment market in our primary market areas of Las Vegas, San Diego, Tucson, Phoenix and Oakland could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the

collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality.

Terrorist attacks and threats of war or actual war may impact all aspects of our operations, revenues, costs and stock price in unpredictable ways.

Terrorist attacks in the United States, as well as future events occurring in response or in connection to them including, without limitation, future terrorist attacks against United States targets, rumors or threats of war, actual conflicts involving the United States or its allies or military or trade disruptions, may impact our operations. Any of these events could cause consumer confidence and savings to decrease or result in increased volatility in the United States and worldwide financial markets and economy. Any of these occurrences could have an adverse impact on our operating results, revenues and costs and may result in the volatility of the market price for our common stock and impair its future price.

We do not anticipate paying any dividends on our common stock. As a result, capital appreciation, if any, of our common stock may be your sole source of gains in the future.

We have never paid a cash dividend, and do not anticipate paying a cash dividend in the foreseeable future. As a result, you may only receive a return on your investment in the common stock if the market price of the common stock increases.

Risks Related to the Banking Industry

We operate in a highly regulated environment; changes in laws and regulations and accounting principles may adversely affect us.

We are subject to extensive regulation, supervision, and legislation which govern almost all aspects of our operations. See Supervision and Regulation. The laws and regulations applicable to the banking industry could change at any time and are primarily intended for the protection of customers, depositors and the deposit insurance funds. Any changes to these laws or any applicable accounting principles could make it more difficult and expensive for us to comply and could affect the way that we conduct business, which may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors and stockholders.

Changes in interest rates could adversely affect our profitability, business and prospects.

Increases or decreases in prevailing interest rates could have an adverse effect on our business, asset quality and prospects. Our operating income and net income depend to a great extent on our net interest margin. Net interest margin is the difference between the interest yields we receive on loans, securities and other interest earning assets and the interest rates we pay on interest bearing deposits, borrowings and other liabilities. These rates are highly sensitive to many factors beyond our control, including competition, general economic conditions and monetary and fiscal policies of various governmental and regulatory authorities, including the Board of Governors of the Federal Reserve System, referred to as the FRB. If the rate of interest we pay on our interest bearing deposits, borrowings and other liabilities increases more than the rate of interest we receive on loans, securities and other interest earning assets, our net interest income, and therefore our earnings, could be adversely affected. Our earnings could also be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other liabilities.

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. We cannot assure you that we will be able to minimize our 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 we can lend. When interest rates rise, the cost of borrowing increases. Accordingly, changes in market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, business, financial condition, results of operations and cash flows.

We are required to maintain an allowance for loan losses. This allowance for loan losses may have to be adjusted in the future. Any adjustment to the allowance for loan losses, whether due to regulatory changes, economic changes or other factors, may affect our financial condition and earnings.

We maintain an allowance for loan losses. The allowance is established through a provision for loan losses based on our management s evaluation of the risks inherent in our loan portfolio and the general economy. The allowance is based upon a number of factors, including the size of the loan 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, we evaluate all loans identified as problem loans and augment the allowance based upon our estimation of the potential loss associated with those problem loans.

The federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request us to increase our allowance for loan losses, thereby negatively affecting our financial condition and earnings at that time. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our management s control.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

About 78% of our outstanding loan portfolio as of December 31, 2006 was secured by real estate. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We 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 we are the owner or former owner of a contaminated site, we 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 adversely affect our business and prospects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

At December 31, 2006, the Company operated 31 domestic locations of which 14 are owned and 17 are on leased premises. In addition, the Company owns a 36,000 square feet operations facility in Las Vegas, Nevada, has 4 owned and 2 leased properties under construction, owns 3 parcels of land for future development and has 2 leased branches that are not in use. The Company s corporate headquarters in Las Vegas, Nevada is the collateral for a loan in the amount of $9,711,000. For information regarding rental payments, see Note 11 of the Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which Western Alliance is a party or to which any of our properties are subject. There are no material proceedings known to us to be contemplated by any governmental authority. From time to time, we are involved in a variety of litigation matters in the ordinary course of our business and anticipate that we will become involved in new litigation matters in the future.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

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ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Prior to our IPO there had been no public market for our common stock. To our knowledge, there were no trades of our stock from January 1, 2004 through the date of our initial public offering.

IPO shares of our common stock were sold for $22.00 per share. The stock s price at the close of the market on June 30, 2005 was $25.40. The following table sets forth the low and high closing prices for the two quarters in the period from June 30, 2005 through December 31, 2005.

	Closing Prices	
Quarter Ended	Low	High
September 30, 2005	$25.00	$29.87
December 31, 2005	$25.99	$31.45

Our common stock began trading on the New York Stock Exchange under the symbol WAL on June 30, 2005.

The high and low closing sale prices per share of our common stock for each quarter during the year ended December 31, 2006 are shown in the table below.

	Closing Prices	
Quarter Ended	Low	High
March 31, 2006	$28.60	$37.15
June 30, 2006	$31.70	$38.28
September 30, 2006	$32.90	$38.41
December 31, 2006	$31.94	$37.01

Holders

As of February 16, 2007, there were approximately 499 stockholders of record of our common stock. At such date, our directors and executive officers owned approximately 40% of our outstanding shares. There are no other classes of common equity outstanding.

Dividends

Western Alliance is a legal entity separate and distinct from the banks and our other non-bank subsidiaries. Since we are a holding company with no significant assets other than the capital stock of our subsidiaries, we depend upon dividends from our subsidiaries for a substantial part of our revenue. Accordingly, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from our subsidiaries. Our subsidiaries ability to pay dividends to Western Alliance is subject to, among other things, their earnings, financial condition and need for funds, as well as federal and state governmental policies and regulations applicable to us and each of those subsidiaries, which limit the amount that may be paid as dividends without prior approval. See Supervision and Regulation for information regarding our ability to pay cash dividends. In addition, if any required payments on outstanding trust preferred securities are not made, we will be prohibited from paying dividends on our common stock. Western Alliance has never paid a cash dividend on its common stock and does not anticipate paying any cash dividends in the foreseeable future.

Sale of Unregistered Securities

Related to our establishment of Alta Alliance Bank, on September 1, 2006, the Company issued 263,389 shares of common stock at a purchase price of $34.56 per share, and warrants to purchase 131,695 shares of common stock at $34.56 to officers, directors and other interested parties, resulting in

gross proceeds of $9,103,000. For every two full shares purchased by an investor in the offering, the investor received a warrant to purchase an additional share at the same purchase price. The foregoing securities were issued under circumstances that comply with the requirements of Section 4(2) under the Securities Act. The proceeds of the offering were used to partially capitalize Alta Alliance Bank.

Performance Graph

Below is a graph which summarizes the cumulative return earned by the Company s stockholders since its shares of common stock were registered under Section 12 of the Exchange Act in June of 2005, compared with the cumulative total return on the S&P 500 Index and KBW Regional Banking Index. This presentation assumes that the value of the investment in the Company s common stock and each index was $100.00 on June 30, 2005 and that subsequent cash dividends were reinvested.

	Measurement Point			
	Jun 05	Dec 05	Jun 06	Dec 06
Western Alliance Bancorporation	100.00	117.60	136.93	136.89
S&P 500 Index	100.00	105.76	108.61	122.42
KBW Regional Banking Index	100.00	103.38	105.67	112.21

ITEM 6. SELECTED FINANCIAL DATA

The selected financial information in the table below as of and for the years ended December 31, 2006, 2005, 2004, 2003 and 2002 is derived from our audited consolidated financial statements. Results for past periods are not necessarily indicative of results that may be expected for any future period.

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	At or for the Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in thousands, except per share data)				
Selected Income Data:					
Interest income	$ 233,085	$ 134,910	$ 90,855	$ 53,823	$ 39,117
Interest expense	84,297	32,568	19,720	12,798	9,771
Net interest income	148,788	102,342	71,135	41,025	29,346
Provision for loan losses	4,660	6,179	3,914	5,145	1,587
Net interest income after provision for loan losses	144,128	96,163	67,221	35,880	27,759
Investment security gains/(losses)	(4,436)	69	19	(265)	609
Other income, excluding securities gains/(losses)	17,870	12,069	8,707	4,535	3,326
Non-interest expense	96,086	64,864	44,929	27,290	19,050
Income before income taxes	61,476	43,437	31,018	12,860	12,644
Provision for income taxes	21,587	15,372	10,961	4,171	4,235
Net Income	$ 39,889	$ 28,065	$ 20,057	$ 8,689	$ 8,409
Share data:					
Earnings per share basic	$ 1.56	$ 1.36	$ 1.17	$ 0.61	$ 0.79
Earnings per share diluted	$ 1.41	$ 1.24	$ 1.09	$ 0.59	$ 0.78
Book Value per share	$ 15.09	$ 10.71	$ 7.32	$ 5.84	$ 4.85
Tangible Book Value per share	$ 9.61	$ 10.48	$ 7.02	$ 5.80	$ 4.85
Shares outstanding at period end	27,085	22,810	18,250	16,681	13,908
Weighted average shares outstanding basic	25,623	20,583	17,190	14,314	10,678
Weighted average shares outstanding diluted	28,218	22,666	18,405	14,613	10,715
Selected Balance Sheet Data:					