CATHAY GENERAL BANCORP
Form 10-Q
November 09, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
[X]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OFTHE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
OR
[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OFTHE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 0-18630

CATHAY GENERAL BANCORP
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 95-4274680 |
| (State of other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 777 North Broadway, Los Angeles, California | 90012 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (213) 625-4700

---

(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

| | |
|---|---|
| Large accelerated filer þ | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, $.01 par value, 78,751,638 shares outstanding as of October 31, 2012.

1

CATHAY GENERAL BANCORP AND SUBSIDIARIES
3RD QUARTER 2012 REPORT ON FORM 10-Q
TABLE OF CONTENTS

Forward-Looking Statements

In this Quarterly Report on Form 10-Q, the term “Bancorp” refers to Cathay General Bancorp and the term “Bank” refers to Cathay Bank. The terms “Company,” “we,” “us,” and “our” refer to Bancorp and the Bank collectively. The statements i this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management’s beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “could,” “estimates,” “expects,” “hopes,” “intends,” “projects,” “seeks,” “shall,” “should,” “will,” “predicts,” “potential,” “continue,” “possible,” “optimistic,” and variations of th similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- U.S. and international business and economic conditions;
- credit risks of lending activities and deterioration in asset or credit quality;
- current and potential future supervisory action by bank supervisory authorities;
- increased costs of compliance and other risks associated with changes in regulation and the current regulatory environment, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and the potential for substantial changes in the legal, regulatory, and enforcement framework and oversight applicable to financial institutions in reaction to recent adverse financial market events, including changes pursuant to the Dodd-Frank Act;
- potential goodwill impairment;
- liquidity risk;
- fluctuations in interest rates;
- inflation and deflation;
- risks associated with acquisitions and the expansion of our business into new markets;
- real estate market conditions and the value of real estate collateral;
- environmental liabilities;
- the effect of repeal of the federal prohibition on payment of interest on demand deposit accounts;
- our ability to compete with larger competitors;

- the possibility of higher capital requirements, including implementation of the Basel III capital standards of the Basel Committee;
- our ability to retain key personnel;
- successful management of reputational risk;
- natural disasters and geopolitical events;
- general economic or business conditions in California, Asia, and other regions where the Bank has operations;
- restrictions on compensation paid to our executives as a result of our participation in the TARP Capital Purchase Program;
- failures, interruptions or security breaches of systems or data breaches;
- our ability to adapt our systems to technological changes, including successfully implementing our core system conversion;
- changes in accounting standards or tax laws and regulations;
- market disruption and volatility;
- restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
- successfully raising additional capital, if needed, and the resulting dilution of interests of holders of our common stock; and
- the soundness of other financial institutions.

These and other factors are further described in Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2011 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission (“SEC”), and other filings it makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

Bancorp’s filings with the SEC are available at the website maintained by the SEC at http://www.sec.gov, or by request directed to Cathay General Bancorp, 9650 Flair Drive, El Monte, California 91731, Attention: Investor Relations (626) 279-3286.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | (In thousands, except share and per share data) | |
| Assets | | |
| Cash and due from banks | $114,646 | $117,888 |
| Short-term investments and interest bearing deposits | 426,456 | 294,956 |
| Securities held-to-maturity (market value of $908,067 in 2012 and $1,203,977 in 2011) | 849,376 | 1,153,504 |
| Securities available-for-sale (amortized cost of $1,290,212 in 2012 and $1,309,521 in 2011) | 1,293,571 | 1,294,478 |
| Trading securities | 4,619 | 4,542 |
| Loans held for sale | - | 760 |
| Loans | 7,259,930 | 7,059,212 |
| Less: Allowance for loan losses | (184,438) | (206,280) |
| Unamortized deferred loan fees, net | (9,036) | (8,449) |
| Loans, net | 7,066,456 | 6,844,483 |
| Federal Home Loan Bank stock | 45,493 | 52,989 |
| Other real estate owned, net | 60,642 | 92,713 |
| Affordable housing investments, net | 87,076 | 78,358 |
| Premises and equipment, net | 103,456 | 105,961 |
| Customers' liability on acceptances | 30,553 | 37,300 |
| Accrued interest receivable | 29,542 | 32,226 |
| Goodwill | 316,340 | 316,340 |
| Other intangible assets, net | 7,638 | 11,598 |
| Other assets | 168,660 | 206,768 |
| | | |
| Total assets | $10,604,524 | $10,644,864 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Deposits | | |
| Non-interest-bearing demand deposits | $1,245,312 | $1,074,718 |
| Interest-bearing deposits: | | |
| NOW deposits | 569,708 | 451,541 |
| Money market deposits | 1,083,917 | 951,516 |
| Savings deposits | 460,182 | 420,030 |
| Time deposits under $100,000 | 668,051 | 832,997 |
| Time deposits of $100,000 or more | 3,325,871 | 3,498,329 |
| Total deposits | 7,353,041 | 7,229,131 |
| | | |
| Securities sold under agreements to repurchase | 1,350,000 | 1,400,000 |
| Advances from the Federal Home Loan Bank | 21,200 | 225,000 |

| | | |
|---|---|---|
| Other borrowings from financial institutions | - | 880 |
| Other borrowings for affordable housing investments | 18,746 | 18,920 |
| Long-term debt | 171,136 | 171,136 |
| Acceptances outstanding | 30,553 | 37,300 |
| Other liabilities | 53,912 | 46,864 |
| Total liabilities | 8,998,588 | 9,129,231 |
| Commitments and contingencies | - | - |
| Stockholders' Equity | | |
| Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding in 2012 and 2011 | 253,678 | 250,992 |
| Common stock, $0.01 par value, 100,000,000 shares authorized, 82,951,885 issued and 78,744,320 outstanding at September 30, 2012, and 82,860,122 issued and 78,652,557 outstanding at December 31, 2011 | 830 | 829 |
| Additional paid-in-capital | 768,169 | 765,641 |
| Accumulated other comprehensive income/(loss), net | 1,947 | (8,732) |
| Retained earnings | 698,601 | 624,192 |
| Treasury stock, at cost (4,207,565 shares at September 30, 2012, and at December 31, 2011) | (125,736) | (125,736) |
| Total Cathay General Bancorp stockholders' equity | 1,597,489 | 1,507,186 |
| Noncontrolling interest | 8,447 | 8,447 |
| Total equity | 1,605,936 | 1,515,633 |
| Total liabilities and equity | $10,604,524 | $10,644,864 |

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands, except share and per share data) | | | |
| INTEREST AND DIVIDEND INCOME | | | | |
| Loans receivable, including loan fees | $90,024 | $92,590 | $269,486 | $272,940 |
| Investment securities- taxable | 15,157 | 20,304 | 50,046 | 65,274 |
| Investment securities- nontaxable | 1,036 | 1,054 | 3,127 | 3,165 |
| Federal Home Loan Bank stock | 57 | 38 | 190 | 134 |
| Federal funds sold and securities purchased under agreements to resell | 2 | 33 | 18 | 81 |
| Deposits with banks | 471 | 360 | 1,596 | 901 |
| Total interest and dividend income | 106,747 | 114,379 | 324,463 | 342,495 |
| | | | | |
| INTEREST EXPENSE | | | | |
| Time deposits of $100,000 or more | 7,970 | 10,496 | 26,152 | 32,115 |
| Other deposits | 3,261 | 4,777 | 11,045 | 15,871 |
| Securities sold under agreements to repurchase | 13,734 | 14,840 | 42,987 | 45,903 |
| Advances from Federal Home Loan Bank | 74 | 2,101 | 196 | 10,592 |
| Long-term debt | 1,291 | 1,208 | 3,895 | 3,630 |
| Short-term borrowings | - | 4 | - | 11 |
| Total interest expense | 26,330 | 33,426 | 84,275 | 108,122 |
| Net interest income before provision for credit losses | 80,417 | 80,953 | 240,188 | 234,373 |
| Provision/(credit) for loan losses | - | 9,000 | (9,000) | 25,000 |
| Net interest income after provision for loan losses | 80,417 | 71,953 | 249,188 | 209,373 |
| | | | | |
| NON-INTEREST INCOME | | | | |
| Securities gains, net | 8,652 | 8,833 | 13,241 | 20,243 |
| Letters of credit commissions | 1,728 | 1,440 | 4,873 | 4,113 |
| Depository service fees | 1,342 | 1,341 | 4,114 | 4,101 |
| Other operating income | 3,900 | 5,213 | 12,077 | 13,449 |
| Total non-interest income | 15,622 | 16,827 | 34,305 | 41,906 |
| | | | | |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 18,451 | 17,481 | 58,426 | 53,411 |
| Occupancy expense | 3,853 | 3,714 | 10,926 | 10,709 |
| Computer and equipment expense | 2,340 | 2,139 | 7,194 | 6,437 |
| Professional services expense | 5,273 | 4,846 | 15,224 | 13,534 |
| FDIC and State assessments | 2,094 | 2,642 | 6,554 | 9,864 |
| Marketing expense | 519 | 908 | 3,408 | 2,420 |
| Other real estate owned expense | 1,794 | 6,120 | 13,548 | 8,603 |
| | 476 | 2,102 | 4,387 | 6,055 |

| | | | | |
|---|---|---|---|---|
| Operations of affordable housing investments, net | | | | |
| Amortization of core deposit intangibles | 1,404 | 1,461 | 4,265 | 4,402 |
| Cost associated with debt redemption | 3,450 | 4,540 | 6,200 | 18,527 |
| Other operating expense | 8,190 | 2,430 | 12,925 | 7,614 |
| Total non-interest expense | 47,844 | 48,383 | 143,057 | 141,576 |
| Income before income tax expense | 48,195 | 40,397 | 140,436 | 109,703 |
| Income tax expense | 17,686 | 14,162 | 50,852 | 36,802 |
| Net income | 30,509 | 26,235 | 89,584 | 72,901 |
| Less: net income attributable to noncontrolling interest | 151 | 151 | 452 | 452 |
| Net income attributable to Cathay General Bancorp | 30,358 | 26,084 | 89,132 | 72,449 |
| Dividends on preferred stock | (4,123) | (4,111) | (12,361) | (12,323) |
| Net income attributable to common stockholders | 26,235 | 21,973 | 76,771 | 60,126 |
| Other comprehensive income, net of tax | | | | |
| Unrealized holding gain/(loss) arising during the period | 10,650 | (4,753) | 18,353 | 7,264 |
| Less: reclassification adjustments included in net income | 5,015 | 5,120 | 7,674 | 11,733 |
| Total other comprehensive gain/(loss), net of tax | 5,635 | (9,873) | 10,679 | (4,469) |
| Total comprehensive income | $35,993 | $16,211 | $99,811 | $67,980 |
| Net income per common share: | | | | |
| Basic | $0.33 | $0.28 | $0.98 | $0.76 |
| Diluted | $0.33 | $0.28 | $0.98 | $0.76 |
| Cash dividends paid per common share | $0.01 | $0.01 | $0.03 | $0.03 |
| Average common shares outstanding | | | | |
| Basic | 78,729,272 | 78,640,308 | 78,706,150 | 78,628,477 |
| Diluted | 78,731,180 | 78,641,142 | 78,711,235 | 78,637,977 |

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine months ended September 30 | |
|---|---|---|
| | 2012 | 2011 |
| | (In thousands) | |
| Cash Flows from Operating Activities | | |
| Net income | $89,584 | $72,901 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | | |
| Provision (credit) for loan losses | (9,000) | 25,000 |
| Provision for losses on other real estate owned | 10,362 | 9,088 |
| Deferred tax liability | 5,901 | 4,380 |
| Depreciation | 4,435 | 4,577 |
| Net gains on sale and transfer of other real estate owned | (700) | (4,842) |
| Net gains on sale of loans | (618) | (2,851) |
| Proceeds from sales of loans | 58,505 | 20,699 |
| Originations of loans held-for-sale | (57,861) | (10,992) |
| Increase in trading securities, net | (79) | (153,440) |
| Write-downs on venture capital investments | 226 | 57 |
| Gain on sales and calls of securities | (13,241) | (20,243) |
| Decrease in unrealized loss from interest rate swaps mark-to-market | (2,634) | (2,580) |
| Amortization/accretion of security premiums/discounts, net | 3,800 | 2,903 |
| Amortization of other intangible assets | 4,368 | 4,475 |
| Excess tax short-fall from share-based payment arrangements | 679 | 276 |
| Stock based compensation expense | 1,801 | 1,278 |
| Stock issued to officers as compensation | 450 | - |
| Decrease in deferred loan fees, net | 587 | 739 |
| Decrease in accrued interest receivable | 2,684 | 5,463 |
| Decrease in other assets, net | 28,475 | 7,297 |
| (Decrease)/increase in other liabilities | (1,365) | 4,214 |
| Net cash provided by/(used in) operating activities | 126,359 | (31,601) |
| Cash Flows from Investing Activities | | |
| (Increase)/decrease in short-term investments | (131,500) | 172,629 |
| Increase in securities purchased under agreements to resell | - | 30,000 |
| Purchase of investment securities available-for-sale | (317,597) | (371,116) |
| Proceeds from maturities and calls of investment securities available-for-sale | 494,199 | 385,000 |
| Proceeds from sale of investment securities available-for-sale | 60,951 | 503,561 |
| Purchase of mortgage-backed securities available-for-sale | (654,386) | (403,123) |
| Proceeds from repayment of mortgage-backed securities available-for-sale | 78,758 | 83,594 |
| Proceeds from sale of mortgage-backed securities available-for-sale | 368,972 | 759,654 |
| Purchase of mortgage-backed securities held-to-maturity | - | (480,083) |
| Proceeds from maturities and calls of investment securities held-to-maturity | 301,981 | 82,703 |
| Redemptions of Federal Home Loan Bank stock | 7,496 | 7,698 |
| Net increase in loans | (224,244) | (283,232) |
| Purchase of premises and equipment | (2,312) | (1,995) |
| Proceeds from sale of other real estate owned | 33,167 | 50,115 |
| Net increase in investment in affordable housing | (2,639) | (968) |
| Net cash provided by investing activities | 12,846 | 534,437 |

| | | |
|---|---|---|
| Cash Flows from Financing Activities | | |
| Net increase in demand deposits, NOW accounts, money market and savings deposits | 461,314 | 108,622 |
| Net (decrease)/increase in time deposits | (337,224) | 25,062 |
| Net decrease in federal funds purchased and securities sold under agreements to repurchase | (50,000) | (153,500) |
| Advances from Federal Home Loan Bank | 406,200 | 3,473 |
| Repayment of Federal Home Loan Bank borrowings | (610,000) | (348,473) |
| Dividends paid on common stock | (2,361) | (2,359) |
| Dividends paid on preferred stock | (9,675) | (9,675) |
| Repayment of other borrowings | (880) | (5,695) |
| Proceeds from shares issued under Dividend Reinvestment Plan | 211 | 205 |
| Proceeds from exercise of stock options | 647 | 1,306 |
| Excess tax short-fall from share-based payment arrangements | (679) | (276) |
| Net cash used in financing activities | (142,447) | (381,310) |
| (Decrease)/increase in cash and cash equivalents | (3,242) | 121,526 |
| Cash and cash equivalents, beginning of the period | 117,888 | 87,347 |
| Cash and cash equivalents, end of the period | $114,646 | $208,873 |
| | | |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period: | | |
| Interest | $87,383 | $111,300 |
| Income taxes paid | $24,908 | $39,750 |
| Non-cash investing and financing activities: | | |
| Net change in unrealized holding gain/(loss) on securities available-for-sale, net of tax | $10,679 | $(4,469) |
| Loans to facilitate sale of loans | $- | $6,094 |
| Transfers to other real estate owned from loans held for investment | $13,216 | $73,161 |
| Transfers to other real estate owned from loans held for sale | $- | $2,873 |
| Loans transferred from held for investment to held for sale,net | $234 | $4,139 |
| Loans to facilitate the sale of other real estate owned | $1,785 | $7,703 |

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 1. Business

Cathay General Bancorp ("Bancorp") is the holding company for Cathay Bank (the "Bank" and, together, the "Company"), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of September 30, 2012, the Bank operated twenty branches in Southern California, eleven branches in Northern California, eight branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the "FDIC").

## 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The preparation of the condensed consolidated financial statements in accordance with GAAP requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The most significant estimates subject to change are the allowance for loan losses, goodwill impairment, and other-than-temporary impairment.

## 3. Recent Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08 "Intangibles - Goodwill and Other." ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. ASU 2011-08 was effective for interim and annual goodwill impairment tests performed after December 15, 2011. ASU 2011-08 did not have a significant impact on the Company's consolidated financial statements.

4. Earnings per Share

Basic earnings per share exclude dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock that then shared in earnings. Potential dilution is excluded from computation of diluted per-share amounts when a net loss from operations exists.

Outstanding stock options with anti-dilutive effect were not included in the computation of diluted earnings per share. The following table sets forth earnings per common share calculations:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands, except share and per share data) | 2012 | 2011 | 2012 | 2011 |
| Net income attributable to Cathay General Bancorp | $ 30,358 | $ 26,084 | $ 89,132 | $ 72,449 |
| Dividends on preferred stock | (4,123) | (4,111) | (12,361) | (12,323) |
| Net income available to common stockholders | $ 26,235 | $ 21,973 | $ 76,771 | $ 60,126 |
| | | | | |
| Weighted-average shares: | | | | |
| Basic weighted-average number of common shares outstanding | 78,729,272 | 78,640,308 | 78,706,150 | 78,628,477 |
| Dilutive effect of weighted-average outstanding common share equivalents | | | | |
| Stock options | 1,908 | 834 | 5,085 | 9,500 |
| Diluted weighted-average number of common shares outstanding | 78,731,180 | 78,641,142 | 78,711,235 | 78,637,977 |
| | | | | |
| Average stock options and warrants with anti-dilutive effect | 6,080,292 | 6,294,961 | 6,133,089 | 6,265,913 |
| Earnings per common share: | | | | |
| Basic | $ 0.33 | $ 0.28 | $ 0.98 | $ 0.76 |
| Diluted | $ 0.33 | $ 0.28 | $ 0.98 | $ 0.76 |

Options to purchase an additional 4.0 million shares, restricted stock units for an additional 206,818 shares, and warrants to purchase an additional 1.8 million shares at September 30, 2012, compared to options to purchase an additional 4.4 million shares, restricted stock units for an additional 89,570 shares, and warrants to purchase an additional 1.8 million shares at September 30, 2011, were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

5. Stock-Based Compensation

Under the Company's equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock. As of September 30, 2012, the only options granted by the Company were non-statutory stock options to selected Bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company's common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. There were no options granted during 2011 or during the first nine months of 2012.

Option compensation expense totaled $194,000 for the three months ended September 30, 2012, and $194,000 for the three months ended September 30, 2011. For the nine months ended September 30, option compensation expense totaled $581,000 for 2012 and $756,000 for 2011. Stock-based compensation is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $323,000 at September 30, 2012, and is expected to be recognized over the next 5 months.

No stock options were exercised in the third quarter of 2012 or in the same quarter a year ago. For the nine months ended September 30, stock options covering 39,784 shares were exercised in 2012 compared to 86,860 shares in 2011. Cash received totaled $647,000 and the aggregate intrinsic value totaled $34,000 from the exercise of stock options during the nine months ended September 30, 2012, compared to cash received of $1.3 million and the aggregate intrinsic value of $172,000 from the exercise of stock options for the same period a year ago. The table below summarizes stock option activity for the periods indicated:

| | Shares | Weighted-average exercise price | Weighted-average remaining contractual life (in years) | Aggregate intrinsic value (in thousands) |
|---|---|---|---|---|
| Balance, December 31, 2011 | 4,356,985 | $ 28.86 | 3.0 | $ 37 |
| Exercised | (39,784) | 16.28 | | |
| Forfeited | (249,506) | 22.27 | | |
| Balance, March 31, 2012 | 4,067,695 | $ 29.40 | 3.0 | $ 65 |
| Forfeited | (281) | 23.37 | | |
| Balance, June 30, 2012 | 4,067,414 | $ 29.40 | 2.7 | $ 53 |
| Forfeited | (33,604) | 28.92 | | |
| Balance, September 30, 2012 | 4,033,810 | $ 29.41 | 2.5 | $ 61 |
| Exercisable, September 30, 2012 | 3,926,694 | $ 29.57 | 2.4 | $ 61 |

At September 30, 2012, 2,436,865 shares were available under the Company’s 2005 Incentive Plan for future grants.

In 2011, the Company granted restricted stock units for 147,661 shares. The Company granted restricted stock units for 1,943 shares on March 30, 2012, and restricted stock units for 47,314 shares on May 8, 2012. The restricted stock units granted in 2011 and 2012 are scheduled to vest two years from grant date.

The following table presents information relating to the restricted stock units as of September 30, 2012:

| | Units |
|---|---|
| Balance at December 31, 2011 | 171,410 |
| Granted | 49,257 |
| Forfeited | (5,158) |
| Vested | (11,814) |
| Balance at September 30, 2012 | 203,695 |

The compensation expense recorded related to the restricted stock units was $459,000 for the three months ended September 30, 2012, compared to $213,000 for the three months ended September 30, 2011. For the nine months ended September 30, compensation expense recorded related to the restricted stock units was $1.2 million in 2012 and $523,000 in 2011. Unrecognized stock-based compensation expense related to restricted stock units was $1.7 million at September 30, 2012, and is expected to be recognized over the next 1.2 years.

10

The following table summarizes the tax short-fall from share-based payment arrangements:

| (Dollars in thousands) | For the three months ended September 30, 2012 | 2011 | For the nine months ended September 30, 2012 | 2011 |
|---|---|---|---|---|
| Short-fall of tax deductions in excess of grant-date fair value | $ (114 ) | $ (5 ) | $ (679 ) | $ (276 ) |
| Benefit of tax deductions on grant-date fair value | 114 | 5 | 777 | 348 |
| Total benefit of tax deductions | $ - | $ - | $ 98 | $ 72 |

6. Investment Securities

The following table reflects the amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of September 30, 2012, and December 31, 2011:

| | September 30, 2012 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| Securities Held-to-Maturity | | | | |
| State and municipal securities | $ 129,173 | $ 9,392 | $ - | $ 138,565 |
| Mortgage-backed securities | 710,230 | 49,366 | - | 759,596 |
| Corporate debt securities | 9,973 | - | 67 | 9,906 |
| Total securities held-to-maturity | $ 849,376 | $ 58,758 | $ 67 | $ 908,067 |
| | | | | |
| Securities Available-for-Sale | | | | |
| U.S. treasury securities | $ 309,746 | $ 177 | $ 3 | $ 309,920 |
| U.S. government sponsored entities | 50,000 | 103 | - | 50,103 |
| Mortgage-backed securities | 544,579 | 22,176 | 4 | 566,751 |
| Collateralized mortgage obligations | 11,329 | 496 | 44 | 11,781 |
| Asset-backed securities | 151 | - | 5 | 146 |
| Corporate debt securities | 357,873 | - | 20,324 | 337,549 |
| Mutual funds | 6,000 | 149 | - | 6,149 |
| Preferred stock of government sponsored entities | 569 | 318 | - | 887 |
| Trust preferred securities | 9,965 | 320 | - | 10,285 |
| Total securities available-for-sale | $ 1,290,212 | $ 23,739 | $ 20,380 | $ 1,293,571 |
| Total investment securities | $ 2,139,588 | $ 82,497 | $ 20,447 | $ 2,201,638 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| Securities Held-to-Maturity | | | | |
| U.S. government sponsored entities | $ 99,966 | $ 1,406 | $ - | $ 101,372 |
| State and municipal securities | 129,577 | 7,053 | - | 136,630 |
| Mortgage-backed securities | 913,990 | 42,351 | - | 956,341 |
| Corporate debt securities | 9,971 | - | 337 | 9,634 |
| Total securities held-to-maturity | $ 1,153,504 | $ 50,810 | $ 337 | $ 1,203,977 |
| | | | | |
| Securities Available-for-Sale | | | | |
| U.S. government sponsored entities | $ 500,007 | $ 1,226 | $ 7 | $ 501,226 |
| State and municipal securities | 1,869 | 59 | - | 1,928 |
| Mortgage-backed securities | 325,706 | 12,361 | 436 | 337,631 |
| Collateralized mortgage obligations | 16,184 | 540 | 238 | 16,486 |
| Asset-backed securities | 172 | - | 6 | 166 |
| Corporate debt securities | 412,045 | 113 | 31,729 | 380,429 |
| Mutual funds | 6,000 | 48 | 13 | 6,035 |
| Preferred stock of government sponsored entities | 569 | 1,085 | - | 1,654 |
| Trust preferred securities | 45,501 | 486 | 24 | 45,963 |
| Other equity securities | 1,468 | 1,492 | - | 2,960 |
| Total securities available-for-sale | $ 1,309,521 | $ 17,410 | $ 32,453 | $ 1,294,478 |
| Total investment securities | $ 2,463,025 | $ 68,220 | $ 32,790 | $ 2,498,455 |

The amortized cost and fair value of investment securities at September 30, 2012, by contractual maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

| | Securities available-for-sale | | Securities held-to-maturity | |
|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| | (In thousands) | | | |
| Due in one year or less | $ 157,806 | $ 157,804 | $ - | $ - |
| Due after one year through five years | 385,083 | 378,412 | - | - |
| Due after five years through ten years | 241,904 | 233,331 | 57,554 | 61,206 |
| Due after ten years (1) | 505,419 | 524,024 | 791,822 | 846,861 |
| Total | $ 1,290,212 | $ 1,293,571 | $ 849,376 | $ 908,067 |

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were $369.0 million and repayments, maturities and calls of mortgage-backed securities were $280.7 million during the first nine months of 2012 compared to proceeds from sales of $759.7 million and repayments, maturities, and calls of $166.3 million during the same period a year ago. Proceeds from sales of other investment securities were $61.0 million during the first nine months of 2012 compared to $503.6 million during the same period a year ago. Proceeds from maturity and calls of investment securities were $494.2 million during the first nine months of 2012 compared to $385.0 million during the same period a year ago. Gains of $13.8 million and losses of $607,000 were realized on sales and calls of investment securities during the first nine months of 2012 compared to gains of $20.2 million and no losses realized for the same period a year ago.

The Company's unrealized loss on investments in corporate bonds relates to a number of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of September 30, 2012. The unrealized losses were primarily caused by the widening of credit spreads since the dates of acquisition. The contractual terms of those investments do not permit the issuers to settle the security at a price less than the amortized cost of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that these bonds would not be settled at a price less than the amortized cost of the investment. Because the Company does not intend to sell and would not be required to sell these investments until a recovery of fair value, which may be maturity, it does not consider its investments in these corporate bonds to be other-than-temporarily impaired at September 30, 2012.

The temporarily impaired securities represent 17.7% of the fair value of investment securities as of September 30, 2012. Unrealized losses for securities with unrealized losses for less than twelve months represent 2.2%, and securities with unrealized losses for twelve months or more represent 6.2%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rate spreads subsequent to the date that these securities were purchased.

At September 30, 2012, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and will not be required to sell available-for-sale debt securities that have declined below their cost before their anticipated recovery.

The table below shows the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of September 30, 2012, and December 31, 2011:

As of September 30, 2012
Temporarily impaired securities

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| | (Dollars in thousands) | | | | | |
| Securities Held-to-Maturity | | | | | | |
| Corporate debt securities | $ 9,906 | $ 67 | $ - | $ - | $ 9,906 | $ 67 |
| Total securities held-to-maturity | $ 9,906 | $ 67 | $ - | $ - | $ 9,906 | $ 67 |
| Securities Available-for-Sale | | | | | | |
| U.S. treasury securities | $ 49,943 | $ 3 | $ - | $ - | $ 49,943 | $ 3 |
| Mortgage-backed securities | 9 | 1 | 168 | 1 | 177 | 2 |
| Mortgage-backed securities-Non-agency | - | - | 96 | 2 | 96 | 2 |
| Collateralized mortgage obligations | - | - | 519 | 44 | 519 | 44 |
| Asset-backed securities | - | - | 146 | 5 | 146 | 5 |
| Corporate debt securities | 62,266 | 2,707 | 267,383 | 17,617 | 329,649 | 20,324 |
| Total securities available-for-sale | $ 112,218 | $ 2,711 | $ 268,312 | $ 17,669 | $ 380,530 | $ 20,380 |
| Total investment securities | $ 122,124 | $ 2,778 | $ 268,312 | $ 17,669 | $ 390,436 | $ 20,447 |

As of December 31, 2011
Temporarily Impaired Securities

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| | (Dollars in thousands) | | | | | |
| Securities Held-to-Maturity | | | | | | |
| Corporate debt securities | $ 9,635 | $ 337 | $ - | $ - | $ 9,635 | $ 337 |
| Total securities held-to-maturity | $ 9,635 | $ 337 | $ - | $ - | $ 9,635 | $ 337 |
| Securities Available-for-Sale | | | | | | |
| U.S. government sponsored entities | $ 49,993 | $ 7 | $ - | $ - | $ 49,993 | $ 7 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mortgage-backed securities | 564 | 4 | 35 | 1 | 599 | 5 |
| Mortgage-backed securities-Non-agency | - | - | 6,719 | 431 | 6,719 | 431 |
| Collateralized mortgage obligations | - | - | 570 | 238 | 570 | 238 |
| Asset-backed securities | - | - | 166 | 6 | 166 | 6 |
| Corporate debt securities | 185,577 | 14,201 | 172,857 | 17,528 | 358,434 | 31,729 |
| Mutual funds | 1,987 | 13 | - | - | 1,987 | 13 |
| Trust preferred securities | 5,674 | 24 | - | - | 5,674 | 24 |
| Total securities available-for-sale | $ 243,795 | $ 14,249 | $ 180,347 | $ 18,204 | $ 424,142 | $ 32,453 |
| Total investment securities | $ 253,430 | $ 14,586 | $ 180,347 | $ 18,204 | $ 433,777 | $ 32,790 |

Investment securities having a carrying value of $1.57 billion at September 30, 2012, and $1.68 billion at December 31, 2011, were pledged to secure public deposits, other borrowings, treasury tax and loan, Federal Home Loan Bank advances, securities sold under agreements to repurchase, interest rate swaps, and foreign exchange transactions.

7. Loans

Most of the Company's business activity is with Asian customers located in Southern and Northern California; New York City, New York; Houston and Dallas, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; and Hong Kong. The Company has no specific industry concentration, and generally its loans are collateralized with real property or other pledged collateral of the borrowers. Loans are generally expected to be paid off from the operating profits of the borrowers, refinancing by another lender, or through sale by the borrowers of the secured collateral.

The components of loans in the condensed consolidated balance sheets as of September 30, 2012, and December 31, 2011, were as follows:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | (In thousands) | |
| Type of Loans: | | |
| Commercial loans | $2,082,920 | $1,868,275 |
| Residential mortgage loans | 1,073,880 | 972,262 |
| Commercial mortgage loans | 3,704,777 | 3,748,897 |
| Equity lines | 199,403 | 214,707 |
| Real estate construction loans | 187,248 | 237,372 |
| Installment and other loans | 11,702 | 17,699 |
| Gross loans | 7,259,930 | 7,059,212 |
| Less: | | |
| Allowance for loan losses | (184,438) | (206,280) |
| Unamortized deferred loan fees | (9,036) | (8,449) |
| Total loans, net | $7,066,456 | $6,844,483 |
| Loans held for sale | $- | $760 |

No loans were held for sale at September 30, 2012, compared to $760,000 at December 31, 2011. In the first nine months of 2012, we added three new loans of $16.0 million, sold four loans of $16.2 million for a net loss on sale of $26,000, and transferred a loan of $500,000 to held for investment.

At September 30, 2012, recorded investment in impaired loans totaled $265.1 million and was comprised of nonaccrual loans of $94.9 million, and accruing troubled debt restructured ("TDR") loans of $170.2 million. At December 31, 2011, recorded investment in impaired loans totaled $322.0 million and was comprised of nonaccrual loans of $201.2 million, nonaccrual loans held for sale of $760,000, and accruing TDR's of $120.0 million. For impaired loans, the amounts previously charged off represent 22.1% at September 30, 2012, and 25.6% at December 31, 2011, of the contractual balances for impaired loans. The following table presents the average balance and interest income recognized related to impaired loans for the periods indicated:

| | Impaired Loans | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Average Recorded Investment | | | | Interest Income Recognized | | | |
| | For the three months ended September 30, | | For the nine months ended September 30, | | For the three months ended September 30, | | For the nine months ended September 30, | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | | | | | |
| | $ 25,987 | $ 55,599 | $ 33,672 | $ 49,370 | $ 49 | $ 264 | $ 146 | $ 789 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Commercial loans | | | | | | | | |
| Real estate construction loans | 41,404 | 78,307 | 51,176 | 83,011 | 177 | 488 | 531 | 1,461 |
| Commercial mortgage loans | 178,206 | 180,554 | 180,959 | 225,195 | 1,971 | 895 | 5,477 | 3,100 |
| Residential mortgage and equity lines | 18,370 | 17,798 | 18,420 | 17,252 | 49 | 9 | 148 | 28 |
| Total | $ 263,967 | $ 332,258 | $ 284,227 | $ 374,828 | $ 2,246 | $ 1,656 | $ 6,302 | $ 5,378 |

The following table presents impaired loans and the related allowance for credit losses as of the dates indicated:

| | Impaired Loans | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2012 | | | December 31, 2011 | | |
| | Unpaid Principal Balance | Recorded Investment | Allowance | Unpaid Principal Balance | Recorded Investment | Allowance |
| | | | (In thousands) | | | |
| With no allocated allowance | | | | | | |
| Commercial loans | $ 22,832 | $ 17,561 | $ - | $ 46,671 | $ 38,194 | $ - |
| Real estate construction loans | 53,613 | 40,877 | - | 134,836 | 78,767 | - |
| Commercial mortgage loans | 204,549 | 165,440 | - | 187,580 | 149,034 | - |
| Residential mortgage and equity lines | 4,318 | 4,244 | - | 8,555 | 7,987 | - |
| Subtotal | $ 285,312 | $ 228,122 | $ - | $ 377,642 | $ 273,982 | $ - |
| With allocated allowance | | | | | | |
| Commercial loans | $ 15,182 | $ 9,490 | $ 1,791 | $ 11,795 | $ 7,587 | $ 3,336 |
| Real estate construction loans | 9,932 | 779 | 279 | - | - | - |
| Commercial mortgage loans | 13,902 | 12,969 | 1,729 | 29,722 | 28,023 | 2,969 |
| Residential mortgage and equity lines | 16,072 | 13,736 | 1,626 | 13,813 | 12,381 | 1,249 |
| Subtotal | $ 55,088 | $ 36,974 | $ 5,425 | $ 55,330 | $ 47,991 | $ 7,554 |
| Total impaired loans | $ 340,400 | $ 265,096 | $ 5,425 | $ 432,972 | $ 321,973 | $ 7,554 |

The following table presents the aging of the loan portfolio by type as of September 30, 2012, and as of December 31, 2011:

| | As of September 30, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days Past Due | Non-accrual Loans | Total Past Due | Loans Not Past Due | Total |
| Type of Loans: | | | | (In thousands) | | | |
| Commercial loans | $ 4,498 | $ 2,930 | $ - | $ 23,035 | $ 30,463 | $ 2,052,457 | $ 2,082,920 |
| Real estate construction loans | - | 17,095 | - | 9,422 | 26,517 | 160,731 | 187,248 |
| Commercial mortgage loans | 8,424 | 6,523 | - | 48,754 | 63,701 | 3,641,076 | 3,704,777 |
| | 344 | 4,006 | - | 13,733 | 18,083 | 1,255,200 | 1,273,283 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Residential mortgage and equity lines | | | | | | | |
| Installment and other loans | - | 40 | - | - | 40 | 11,662 | 11,702 |
| Total loans | $ 13,266 | $ 30,594 | $ - | $ 94,944 | $ 138,804 | $ 7,121,126 | $ 7,259,930 |

| | As of December 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days Past Due | Non-accrual Loans | Total Past Due | Loans Not Past Due | Total |
| Type of Loans: | | | | (In thousands) | | | |
| Commercial loans | $ 1,683 | $ - | $ - | $ 30,661 | $ 32,344 | $ 1,835,931 | $ 1,868,275 |
| Real estate construction loans | 20,326 | - | - | 46,012 | 66,338 | 171,034 | 237,372 |
| Commercial mortgage loans | 13,627 | 20,277 | 6,726 | 107,784 | 148,414 | 3,600,483 | 3,748,897 |
| Residential mortgage and equity lines | 5,871 | - | - | 16,740 | 22,611 | 1,164,358 | 1,186,969 |
| Installment and other loans | - | - | - | - | - | 17,699 | 17,699 |
| Total loans | $ 41,507 | $ 20,277 | $ 6,726 | $ 201,197 | $ 269,707 | $ 6,789,505 | $ 7,059,212 |

The determination of the amount of the allowance for credit losses for impaired loans is based on management's current judgment about the credit quality of the loan portfolio and takes into consideration known relevant internal and external factors that affect collectibility when determining the appropriate level for the allowance for credit losses. The nature of the process by which the Bank determines the appropriate allowance for credit losses requires the exercise of considerable judgment. This allowance evaluation process is also applied to troubled debt restructurings since trouble debt restructurings are considered to be impaired loans.

A troubled debt restructuring ("TDR") is a formal modification of the terms of a loan when the lender, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including change in the stated interest rate, reduction in the loan balance or accrued interest, or extension of the maturity date that causes significant delay in payment.

TDRs on accrual status are comprised of the loans that have, pursuant to the Bank's policy, performed under the restructured terms and have demonstrated sustained performance under the modified terms for six months before being returned to accrual status. The sustained performance considered by management pursuant to its policy includes the periods prior to the modification if the prior performance met or exceeded the modified terms. This would include cash paid by the borrower prior to the restructure to set up interest reserves.

At September 30, 2012, accruing TDRs were $170.2 million and non-accrual TDRs were $19.1 million compared to accruing TDRs of $120.0 million and non-accrual TDRs of $50.9 million at December 31, 2011. The Company has allocated specific reserves of $1.1 million to accruing TDRs and $208,000 to non-accrual TDRs at September 30, 2012, and $1.4 million to accruing TDRs and $1.6 million to non-accrual TDRs at December 31, 2011. The following table presents TDRs that were modified during the first nine months of 2012 and 2011, their specific reserve at September 30, and charge-offs during the first nine months of 2012 and 2011:

| | For the nine months ended September 30, 2012 | | | | As of September 30, 2012 |
|---|---|---|---|---|---|
| | No. of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Charge-offs | Specific Reserve |
| | (Dollars in thousands) | | | | |
| Commercial loans | 8 | 2,144 | $2,144 | $- | $75 |
| Commercial mortgage loans | 15 | 59,299 | 55,610 | 3,689 | - |
| Residential mortgage and equity lines | 7 | 2,895 | 2,895 | - | 70 |
| Total | 30 | $ 64,338 | $60,649 | $3,689 | $145 |

| | For the nine months ended September 30, 2011 | | | | As of September 30, 2011 |
|---|---|---|---|---|---|
| | No. of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Charge-offs | Specific Reserve |
| | (Dollars in thousands) | | | | |
| Commercial loans | 11 | $ 39,584 | $39,584 | $- | $112 |
| Real estate construction loans | 2 | 26,175 | 25,317 | 858 | - |
| Commercial mortgage loans | 3 | 3,176 | 3,176 | - | 1 |
| Residential mortgage and equity lines | 3 | 1,577 | 1,577 | - | 116 |

| | | | | | |
|---|---|---|---|---|---|
| Total | 19 | $ 70,512 | $69,654 | $858 | $229 |

Modifications of the loan terms during the first nine months of 2012 and 2011 were in the form of changes in the stated interest rate, multiple note structure, or extensions of the maturity date. The length of time for which modifications involving a reduction of the stated interest rate were documented ranged from two months to seven years from the existing maturity date. Modifications involving an extension of the maturity date were for periods ranging from two months to seven years from the existing maturity date.

Accruing TDRs at September 30, 2012, were comprised of loans collateralized by eighteen retail shopping and commercial use buildings of $94.7 million, ten office and commercial use buildings of $37.4 million, two hotels of $12.6 million, fifteen single family residences of $19.0 million, two pieces of land of $2.4 million, two warehouses of $1.6 million, six unsecured commercial loans of $1.4 million, and three multi-family residences of $1.1 million. We expect that the troubled debt restructuring loans on accruing status as of September 30, 2012, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. A summary of TDRs by type of concession, and by type of loan as of September 30, 2012, and as of December 31, 2011, is shown below:

| | As of September 30, 2012 | | | | |
|---|---|---|---|---|---|
| Accruing TDRs | Principal Deferral | Rate Reduction | Rate Reduction and Forgiveness of Principal | Rate Reduction and Payment Deferral | Total |
| | (In thousands) | | | | |
| Commercial loans | $ 553 | $ 3,044 | $ - | $ 418 | $ 4,015 |
| Real estate construction loans | 16,820 | 9,581 | - | 5,834 | 32,235 |
| Commercial mortgage loans | 27,091 | 16,597 | 1,138 | 84,829 | 129,655 |
| Residential mortgage loans | 1,465 | 1,027 | - | 1,754 | 4,246 |
| Total accruing TDRs | $ 45,929 | $ 30,249 | $ 1,138 | $ 92,835 | $ 170,151 |

| | | | As of September 30, 2012 | | |
|---|---|---|---|---|---|
| Non-accrual TDRs | Interest Deferral | Principal Deferral | Rate Reduction | Rate Reduction and Payment Deferral | Total |
| | | | (In thousands) | | |
| Commercial loans | $ - | $ 669 | $ - | $ - | $ 669 |
| Commercial mortgage loans | 2,584 | 1,140 | 5,743 | 6,123 | 15,590 |
| Residential mortgage loans | 283 | 1,600 | 595 | 339 | 2,817 |
| Total non-accrual TDRs | $ 2,867 | $ 3,409 | $ 6,338 | $ 6,462 | $ 19,076 |

| | | | As of December 31, 2011 | | |
|---|---|---|---|---|---|
| Accruing TDRs | Principal Deferral | Rate Reduction | Rate Reduction and Forgiveness of Principal | Rate Reduction and Payment Deferral | Total |

| | (In thousands) | | | | |
|---|---|---|---|---|---|
| Commercial loans | $ 12,933 | $ 1,756 | $ - | $ 431 | $ 15,120 |
| Real estate construction loans | 16,820 | 9,659 | - | 5,776 | 32,255 |
| Commercial mortgage loans | 471 | 37,796 | 2,071 | 28,935 | 69,273 |
| Residential mortgage loans | 1,294 | 587 | - | 1,487 | 3,368 |
| Total accruing TDRs | $ 31,518 | $ 49,798 | $ 2,071 | $ 36,629 | $ 120,016 |

| | As of December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| Non-accrual TDRs | Interest Deferral | Principal Deferral | Rate Reduction | Rate Reduction and Forgiveness of Principal | Rate Reduction and Payment Deferral | Total |
| | (In thousands) | | | | | |
| Commercial loans | $ - | $ 616 | $ 1,859 | $ 1,506 | $ - | $ 3,981 |
| Real estate construction loans | - | 13,579 | 12,376 | - | - | 25,955 |
| Commercial mortgage loans | 2,633 | 9,727 | - | - | 5,076 | 17,436 |
| Residential mortgage loans | 311 | 2,427 | 449 | - | 311 | 3,498 |
| Total non-accrual TDRs | $ 2,944 | $ 26,349 | $ 14,684 | $ 1,506 | $ 5,387 | $ 50,870 |

The activity within our TDR loans for the period indicated are shown below:

| Accruing TDRs | For the three months ended September 30, 2012 | 2011 | For the nine months ended September 30, 2012 | 2011 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Beginning balance | $153,249 | $116,328 | $120,016 | $136,800 |
| New restructurings | 14,765 | 43,182 | 53,524 | 57,181 |
| Restructured loans restored to accrual status | 3,957 | 34 | 6,810 | 1,071 |
| Charge-offs | (251) | (1) | (251) | (660) |
| Payments | (1,569) | (33,273) | (4,124) | (37,347) |
| Restructured loans placed on nonaccrual | - | - | (5,824) | (30,042) |
| Expiration of loan concession | - | - | - | (733) |
| Ending balance | $170,151 | $126,270 | $170,151 | $126,270 |

| Non-accrual TDRs | For the three months ended September 30, 2012 | 2011 | For the nine months ended September 30, 2012 | 2011 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Beginning balance | $23,285 | $38,230 | $50,870 | $28,147 |
| New restructurings | 1,153 | 8,918 | 7,124 | 12,474 |
| Restructured loans placed on nonaccrual | - | 1 | 5,824 | 30,042 |
| Charge-offs | - | (1,279) | (4,285) | (6,108) |
| Payments | (1,405) | (929) | (33,647) | (11,332) |
| Foreclosures | - | (832) | - | (8,077) |
| Restructured loans restored to accrual status | (3,957) | (34) | (6,810) | (1,071) |
| Ending balance | $19,076 | $44,075 | $19,076 | $44,075 |

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. Four commercial mortgage TDRs of $12.0 million, one land TDR of $1.2 million, one residential mortgage TDR of $1.2 million, and one commercial TDR of $234,000 had payment defaults within the twelve months ended September 30, 2012. The TDRs that subsequently defaulted incurred no charge-offs within the twelve months ended September 30, 2012.

Under the Company's internal underwriting policy, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification in order to determine whether a borrower is experiencing financial difficulty.

As of September 30, 2012, there were no commitments to lend additional funds to those borrowers whose loans have been restructured, were considered impaired, or were on non-accrual status.

As part of the on-going monitoring of the credit quality of our loan portfolio, the Company utilizes a risk grading matrix to assign a risk grade to each loan. The risk rating categories can be generally described by the following grouping for non-homogeneous loans:

- Pass/Watch – These loans range from minimal credit risk to lower than average, but still acceptable, credit risk.

- Special Mention – Borrower is fundamentally sound and loan is currently protected but adverse trends are apparent that, if not corrected, may affect ability to repay. Primary source of loan repayment remains viable but there is increasing reliance on collateral or guarantor support.

- Substandard – These loans are inadequately protected by current sound net worth, paying capacity or pledged collateral. Well-defined weaknesses exist that could jeopardize repayment of debt. Loss may not be imminent, but if weaknesses are not corrected, there is a good possibility of some loss.

- Doubtful – The possibility of loss is extremely high, but due to identifiable and important pending events (which may strengthen the loan) a loss classification is deferred until the situation is better defined.

- Loss – These loans are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

The following table presents loan portfolio by risk rating as of September 30, 2012, and as of December 31, 2011:

| | As of September 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Total |
| | | | (In thousands) | | |
| Commercial loans | $ 1,900,049 | $ 77,797 | $ 90,684 | $ 14,390 | $ 2,082,920 |
| Real estate construction loans | 114,649 | 21,718 | 43,022 | 7,859 | 187,248 |
| Commercial mortgage loans | 3,276,291 | 165,415 | 263,071 | - | 3,704,777 |
| Residential mortgage and equity lines | 1,256,683 | 344 | 16,115 | 141 | 1,273,283 |
| Installment and other loans | 11,702 | - | - | - | 11,702 |
| Total gross loans | $ 6,559,374 | $ 265,274 | $ 412,892 | $ 22,390 | $ 7,259,930 |
| Loans held for sale | $ - | $ - | $ - | $ - | $ - |

| | As of December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Total |
| | (In thousands) | | | | |
| Commercial loans | $ 1,689,842 | $ 64,290 | $ 108,858 | $ 5,285 | $ 1,868,275 |
| Real estate construction loans | 115,538 | 23,555 | 90,132 | 8,147 | 237,372 |
| Commercial mortgage loans | 3,275,431 | 69,925 | 403,541 | - | 3,748,897 |
| Residential mortgage and equity lines | 1,149,225 | 4,439 | 33,160 | 145 | 1,186,969 |
| Installment and other loans | 17,636 | 63 | - | - | 17,699 |
| Total gross loans | $ 6,247,672 | $ 162,272 | $ 635,691 | $ 13,577 | $ 7,059,212 |
| Loans held for sale | $ - | $ - | $ 260 | $ 500 | $ 760 |

The allowance for loan losses and the reserve for off-balance sheet credit commitments are significant estimates that can and do change based on management's process in analyzing the loan portfolio and on management's assumptions about specific borrowers, underlying collateral, and applicable economic and environmental conditions, among other factors.

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of September 30, 2012, and as of December 31, 2011.

| | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage Loans and Equity Lines | Consumer and Other Loans | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| September 30, 2012 | | | | | | |
| Loans individually evaluated for impairment | | | | | | |
| Allowance | $ 1,791 | $ 279 | $ 1,729 | $ 1,626 | $ - | $ 5,425 |
| Balance | $ 27,051 | $ 41,656 | $ 178,409 | $ 17,980 | $ - | $ 265,096 |
| | | | | | | |
| Loans collectively evaluated for impairment | | | | | | |
| Allowance | $ 63,947 | $ 15,849 | $ 90,282 | $ 8,902 | $ 33 | $ 179,013 |
| Balance | $ 2,055,869 | $ 145,592 | $ 3,526,368 | $ 1,255,303 | $ 11,702 | $ 6,994,834 |
| | | | | | | |
| Total allowance | $ 65,738 | $ 16,128 | $ 92,011 | $ 10,528 | $ 33 | $ 184,438 |
| Total balance | $ 2,082,920 | $ 187,248 | $ 3,704,777 | $ 1,273,283 | $ 11,702 | $ 7,259,930 |
| | | | | | | |
| December 31, 2011 | | | | | | |
| Loans individually evaluated for impairment | | | | | | |
| Allowance | $ 3,336 | $ - | $ 2,969 | $ 1,247 | $ - | $ 7,552 |
| Balance | $ 45,781 | $ 78,766 | $ 177,058 | $ 20,368 | $ - | $ 321,973 |
| | | | | | | |
| Loans collectively evaluated for impairment | | | | | | |
| Allowance | $ 62,322 | $ 21,749 | $ 105,052 | $ 9,548 | $ 57 | $ 198,728 |
| Balance | $ 1,822,494 | $ 158,606 | $ 3,571,839 | $ 1,166,601 | $ 17,699 | $ 6,737,239 |
| | | | | | | |
| Total allowance | $ 65,658 | $ 21,749 | $ 108,021 | $ 10,795 | $ 57 | $ 206,280 |
| Total balance | $ 1,868,275 | $ 237,372 | $ 3,748,897 | $ 1,186,969 | $ 17,699 | $ 7,059,212 |

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2012, and September 30, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

For the three months ended September 30, 2012 and 2011

| | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage and Equity Lines | Installment and Other Loans | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| June 30, 2011 Ending Balance | $ 65,860 | $ 37,683 | $ 117,014 | $ 9,307 | $ 36 | $ 229,900 |
| Provision/(credit) for possible credit losses | (1,366 ) | 9,324 | 951 | (224 ) | (1 ) | 8,684 |
| Charge-offs | (1,219 ) | (23,539 ) | (5,264 ) | (818 ) | - | (30,840 ) |
| Recoveries | 513 | 408 | 373 | 78 | - | 1,372 |
| Net (charge-offs)/recoveries | (706 ) | (23,131 ) | (4,891 ) | (740 ) | - | (29,468 ) |
| September 30, 2011 Ending Balance | $ 63,788 | $ 23,876 | $ 113,074 | $ 8,343 | $ 35 | $ 209,116 |
| June 30, 2012 Ending Balance | $ 66,595 | $ 16,360 | $ 99,009 | $ 10,254 | $ 56 | $ 192,274 |
| Provision/(credit) for possible credit losses | 6,199 | (670 ) | (6,350 ) | 740 | (23 ) | (104 ) |
| Charge-offs | (7,387 ) | (39 ) | (966 ) | (477 ) | - | (8,869 ) |
| Recoveries | 331 | 477 | 318 | 11 | - | 1,137 |
| Net (charge-offs)/recoveries | (7,056 ) | 438 | (648 ) | (466 ) | - | (7,732 ) |
| September 30, 2012 Ending Balance | $ 65,738 | $ 16,128 | $ 92,011 | $ 10,528 | $ 33 | $ 184,438 |

For the nine months ended September 30, 2012 and 2011

| | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage and Equity Lines | Installment and OthLoans | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| January 1, 2011 Beginning Balance | $ 63,919 | $ 43,261 | $ 128,347 | $ 9,668 | $ 36 | $ 245,231 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Provision/(credit) for possible credit losses | | 9,516 | | 10,713 | | 5,704 | | (458 ) | | (1 ) | | 25,474 |
| Charge-offs | | (11,215 ) | | (34,394 ) | | (24,083 ) | | (1,044 ) | | - | | (70,736 ) |
| Recoveries | | 1,568 | | 4,296 | | 3,106 | | 177 | | - | | 9,147 |
| Net (charge-offs)/recoveries | | (9,647 ) | | (30,098 ) | | (20,977 ) | | (867 ) | | - | | (61,589 ) |
| | | | | | | | | | | | | |
| September 30, 2011 Ending Balance | $ | 63,788 | $ | 23,876 | $ | 113,074 | $ | 8,343 | $ | 35 | $ | 209,116 |
| Reserve for impaired loans | $ | 2,270 | $ | - | $ | 3,930 | $ | 1,203 | $ | - | $ | 7,403 |
| Reserve for non-impaired loans | $ | 61,518 | $ | 23,876 | $ | 109,144 | $ | 7,140 | $ | 35 | $ | 201,713 |
| Reserve for off-balance sheet credit commitments | $ | 757 | $ | 967 | $ | 103 | $ | 34 | $ | 2 | $ | 1,863 |
| | | | | | | | | | | | | |
| January 1 2012, Beginning Balance | $ | 65,658 | $ | 21,749 | $ | 108,021 | $ | 10,795 | $ | 57 | $ | 206,280 |
| Provision/(credit) for possible credit losses | | 13,329 | | (10,081 ) | | (12,937 ) | | 1,150 | | (2 ) | | (8,541 ) |
| Charge-offs | | (14,479 ) | | (1,165 ) | | (10,647 ) | | (1,805 ) | | (25 ) | | (28,121 ) |
| Recoveries | | 1,230 | | 5,625 | | 7,574 | | 388 | | 3 | | 14,820 |
| Net (charge-offs)/recoveries | | (13,249 ) | | 4,460 | | (3,073 ) | | (1,417 ) | | (22 ) | | (13,301 ) |
| | | | | | | | | | | | | |
| September 30, 2012 Ending Balance | $ | 65,738 | $ | 16,128 | $ | 92,011 | $ | 10,528 | $ | 33 | $ | 184,438 |
| Reserve for impaired loans | $ | 1,791 | $ | 279 | $ | 1,729 | $ | 1,626 | $ | - | $ | 5,425 |
| Reserve for non-impaired loans | $ | 63,947 | $ | 15,849 | $ | 90,282 | $ | 8,902 | $ | 33 | $ | 179,013 |
| Reserve for off-balance sheet credit commitments | $ | 801 | $ | 668 | $ | 104 | $ | 34 | $ | 3 | $ | 1,610 |

8. Commitments and Contingencies

The Company is involved in various litigation concerning transactions entered into during the normal course of business. Management, after consultation with legal counsel, does not believe that the resolution of such litigation will have a material effect upon its consolidated financial condition, results of operations, or liquidity taken as a whole. Although the Company establishes accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, the Company does not have accruals for all legal proceedings where there is a risk of loss. In addition, amounts accrued may not represent the ultimate loss to the Company from the legal proceedings in question. Thus, ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued for legal loss contingencies.

In the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans, or through commercial or standby letters of credit, and financial guarantees. These instruments represent varying degrees of exposure to risk in excess of the amounts included in the accompanying condensed consolidated balance sheets. The contractual or notional amount of these instruments indicates a level of activity associated with a particular class of financial instrument and is not a reflection of the level of expected losses, if any.

9. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were $1.4 billion with a weighted average rate of 3.89% at September 30, 2012, compared to $1.4 billion with a weighted average rate of 4.14% at December 31, 2011. In May 2011, the Company prepaid a security sold under an agreement to repurchase of $50 million with a rate of 4.83% and incurred a prepayment penalty of $1.7 million. In the second quarter of 2012, the Company modified $100.0 million of securities sold under agreements to repurchase by extending the term by an additional four years, reducing the rate of these agreements by an average of 150 basis points and removing the callable feature of these borrowings. In July 2012, the Company prepaid a security sold under an agreement to repurchase of $50 million with a rate of 4.43% and incurred a prepayment penalty of $3.5 million. In the third quarter of 2012, the Company modified two separate $50.0 million of securities sold under agreements to repurchase by extending the term by an additional two and an additional three years, respectively, reducing the rate by an average of 185 basis points and removing the callable feature of these borrowings. Nine floating-to-fixed rate agreements totaling $500.0 million have initial floating rates for a period of time ranging from six months to one year, with floating rates ranging from the three-month LIBOR minus 100 basis points to three-month LIBOR minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.35% to 5.07%. After the initial floating rate term, the counter parties have the right to terminate the transaction at par at the fixed rate reset date and quarterly thereafter. Thirteen fixed-to-floating rate agreements totaling $650.0 million have initial fixed rates ranging from 1.00% to 3.50% with initial fixed rate terms ranging from six months to 18 months. For the remainder of the seven year term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.25% to 3.79% and minimum rate of 0.0%. After the initial fixed rate term, the counter parties have the right to terminate the transaction at par at the floating rate reset date and quarterly thereafter. The table below provides summary data for the $1.15 billion of callable securities sold under agreements to repurchase as of September 30, 2012:

| (Dollars in million) | Fixed-to-floating | | | | | | Floating-to-fixed | Total |
|---|---|---|---|---|---|---|---|---|
| Rate type | Float Rate | | | | | | Fixed Rate | |
| Rate index | 8% minus 3 month LIBOR | | | | | | | |
| | 3.79 % | 3.53 % | 3.50 % | 3.50 % | 3.53 % | 3.25 % | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Maximum rate | | | | | | | | | |
| Minimum rate | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | | | |
| No. of agreements | 3 | 1 | 4 | 3 | 1 | 1 | 5 | 4 | 22 |
| Amount | $ 150.0 | $ 50.0 | $ 200.0 | $ 150.0 | $ 50.0 | $ 50.0 | $ 300.0 | $ 200.0 | $ 1,150.0 |
| Weighted average rate | 3.78 % | 3.53 % | 3.50 % | 3.50 % | 3.53 % | 3.25 % | 4.61 % | 5.00 % | 4.08 % |
| Final maturity | 2014 | 2014 | 2014 | 2015 | 2015 | 2015 | 2014 | 2017 | |

23

The table below provides summary data for non-callable fixed rate securities sold under agreements to repurchase as of September 30, 2012:

| Maturity (years) | No. of Agreements | | Amount (In thousands) | Weighted Average Interest Rate | |
|---|---|---|---|---|---|
| 3 to 5 | 2 | $ | 100,000 | 2.71 | % |
| Over 5 | 2 | | 100,000 | 2.86 | % |
| Total | 4 | $ | 200,000 | 2.79 | % |

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral for the repurchase agreements, as necessary. The underlying collateral pledged for the repurchase agreements consists of U.S. Treasury securities, U.S. government agency security debt, and mortgage-backed securities with a fair value of $1.5 billion as of September 30, 2012, and $1.6 billion as of December 31, 2011.

10. Income Taxes

Income tax expense totaled $50.9 million, or an effective tax rate of 36.3%, for the first nine months of 2012, compared to an income tax expense of $36.8 million, or an effective tax rate of 33.7%, for the same period a year ago. The effective tax rate includes the impact of the utilization of low income housing tax credits and recognition of other tax credits for both years.

As of December 31, 2011, the Company had income tax receivables of approximately $39.3 million, of which $11.2 million relates to the carryback of the Company’s net operating loss for 2009 to the 2007 tax year and $9.1 million relates to the carryback of the Company’s low income housing tax credits for 2009 to the 2008 tax year. The refunds from the carryback of the Company’s net operating loss for 2009 were issued in January 2012. These income tax receivables are included in other assets in the accompanying condensed consolidated balance sheets.

The Company’s tax returns are open for audits by the Internal Revenue Service back to 2010 and by the California Franchise Tax Board back to 2003. The Company is under audit by the California Franchise Tax Board for the years 2003 to 2007. As the Company is presently under audit by a number of tax authorities, it is reasonably possible that unrecognized tax benefits could change significantly over the next twelve months. The Company does not expect that any such changes would have a material impact on its annual effective tax rate.

11. Fair Value Measurements

The Company adopted ASC Topic 820 on January 1, 2008, and determined the fair values of our financial instruments based on the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.
- Level 3 – Unobservable inputs based on the Company's own judgments about the assumptions that a market participant would use.

The Company uses the following methodologies to measure the fair value of its financial assets and liabilities on a recurring basis:

Securities Available for Sale. For certain actively traded agency preferred stocks, mutual funds, and U.S. Treasury securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement.  The Company also measures securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.  This category generally includes U.S. Government agency securities, state and municipal securities, mortgage-backed securities ("MBS"), commercial MBS, collateralized mortgage obligations, asset-backed securities, corporate bonds and trust preferred securities.

Trading Securities. The Company measures the fair value of trading securities based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures the fair value for other trading securities based on quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

Warrants. The Company measures the fair value of warrants based on unobservable inputs based on assumption and management judgment, a Level 3 measurement.

Currency Option and Foreign Exchange Contracts. The Company measures the fair value of currency option and foreign exchange contracts based on dealer quotes on a recurring basis, a Level 2 measurement.

Interest Rate Swaps. Fair value of interest rate swaps is derived from observable market prices for similar assets on a recurring basis, a Level 2 measurement.

The valuation techniques for the assets and liabilities valued on a nonrecurring basis are as follows:

Impaired Loans. The Company does not record loans at fair value on a recurring basis.  However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Loans Held for Sale. The Company records loans held for sale at fair value based on quoted prices from third party sale analyses, existing sale agreements or appraisal reports adjusted by sales commission assumptions, a Level 3 measurement.

Goodwill. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The two-step impairment testing process, if needed, begins by assigning net assets and goodwill to our three reporting units— Commercial Lending, Retail Banking, and East Coast Operations. The Company then completes "step one" of the impairment test by comparing the fair value of each reporting unit (as determined based on the discussion below) with the recorded book value (or "carrying amount") of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and "step two" of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit's goodwill to the "implied fair value" of that goodwill. The implied fair value of goodwill is computed by assuming that all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as an adjustment to goodwill. This adjusted goodwill balance is the implied fair value used in step two. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value. In connection with the determination of fair value, certain data and information is utilized, including earnings forecasts at the reporting unit level for the next four years. Other key assumptions include terminal values based on future growth rates and discount rates for valuing the cash flows, which have inputs for the risk-free rate, market risk premium and adjustments to reflect inherent risk and required market returns. Because of the significance of unobservable inputs in the valuation of goodwill impairment, goodwill subject to nonrecurring fair value adjustments is classified as a Level 3 measurement.

Core Deposit Intangibles. Core deposit intangibles is initially recorded at fair value based on a valuation of the core deposits acquired and is amortized over its estimated useful life to its residual value in proportion to the economic benefits consumed. The Company assesses the recoverability of this intangible asset on a nonrecurring basis using the core deposits remaining at the assessment date and the fair value of cash flows expected to be generated from the core deposits, a Level 3 measurement.

Other Real Estate Owned. Real estate acquired in the settlement of loans is initially recorded at fair value based on the appraised value of the property on the date of transfer, less estimated costs to sell, a Level 2 measurement. From time to time, nonrecurring fair value adjustments are made to other real estate owned based on the current updated appraised value of the property, also a Level 2 measurement, or management's judgment and estimation of value reported on old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Investments in Venture Capital. The Company periodically reviews its investments in venture capital for other-than-temporary impairment on a nonrecurring basis. Investments in venture capital were written down to their fair value based on available financial reports from venture capital partnerships and management's judgment and estimation, a Level 3 measurement.

Equity Investments. The Company records equity investments at fair value on a nonrecurring basis based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement.

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis at September 30, 2012, and at December 31, 2011:

| As of September 30, 2012 | Fair Value Measurements Using | | | Total at |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Assets | | (In thousands) | | |
| Securities available-for-sale | | | | |
| U.S. Treasury securities | $ 309,920 | $ - | $ - | $ 309,920 |
| U.S. government sponsored entities | - | 50,103 | - | 50,103 |
| Mortgage-backed securities | - | 566,751 | - | 566,751 |
| Collateralized mortgage obligations | - | 11,781 | - | 11,781 |
| Asset-backed securities | - | 146 | - | 146 |
| Corporate debt securities | - | 337,549 | - | 337,549 |
| Mutual funds | 6,149 | - | - | 6,149 |
| Preferred stock of government sponsored entities | - | 887 | - | 887 |
| Trust preferred securities | - | 10,285 | - | 10,285 |
| Total securities available-for-sale | 316,069 | 977,502 | - | 1,293,571 |
| Trading securities | - | 4,619 | - | 4,619 |
| Warrants | - | - | 114 | 114 |
| Option contracts | - | 56 | - | 56 |
| Foreign exchange contracts | - | 2,401 | - | 2,401 |
| Total assets | $ 316,069 | $ 984,578 | $ 114 | $ 1,300,761 |
| | | | | |
| Liabilities | | | | |
| | | | | |
| Option contracts | $ - | $ 49 | $ - | $ 49 |
| Foreign exchange contracts | - | 1,018 | - | 1,018 |
| Total liabilities | $ - | $ 1,067 | $ - | $ 1,067 |

| As of December 31, 2011 | Fair Value Measurements Using | | | Total at |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Assets | | (In thousands) | | |
| Securities available-for-sale | | | | |
| U.S. government sponsored entities | $ - | $ 501,226 | $ - | $ 501,226 |
| State and municipal securities | - | 1,928 | - | 1,928 |
| Mortgage-backed securities | - | 337,631 | - | 337,631 |
| Collateralized mortgage obligations | - | 16,486 | - | 16,486 |
| Asset-backed securities | - | 166 | - | 166 |
| Corporate debt securities | - | 380,429 | - | 380,429 |
| Mutual funds | 6,035 | - | - | 6,035 |
| Preferred stock of government sponsored entities | - | 1,654 | - | 1,654 |
| Trust preferred securities | - | 45,963 | - | 45,963 |
| Other equity securities | 2,960 | - | - | 2,960 |
| Total securities available-for-sale | 8,995 | 1,285,483 | - | 1,294,478 |
| Trading securities | 2 | 4,540 | - | 4,542 |
| Warrants | - | - | 218 | 218 |
| Option contracts | - | 34 | - | 34 |
| Foreign exchange contracts | - | 2,151 | - | 2,151 |
| Total assets | $ 8,997 | $ 1,292,208 | $ 218 | $ 1,301,423 |
| Liabilities | | | | |
| Interest rate swaps | $ - | $ 2,634 | $ - | $ 2,634 |
| Option contracts | - | 5 | - | 5 |
| Foreign exchange contracts | - | 486 | - | 486 |
| Total liabilities | $ - | $ 3,125 | $ - | $ 3,125 |

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value of warrants was $114,000 at September 30, 2012, compared to $218,000 at December 31, 2011. The fair value adjustment of warrants was included in other operating income in the first nine months of 2012.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the balance sheet at September 30, 2012, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets at September 30, 2012, and at December 31, 2011, and the total losses for the periods indicated:

| | As of September 30, 2012 | | | | Total Losses | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value measurements using | | | Total at | For the three months ended | | For the nine months ended | |
| | Level 1 | Level 2 | Level 3 | fair value | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Assets | (In thousands) | | | | | | | |
| Impaired loans by type: | | | | | | | | |
| Commercial loans | $- | $- | $7,699 | $7,699 | $1,983 | $ - | $2,848 | $ 1,868 |
| Construction loans-residential | - | - | 500 | 500 | - | - | - | - |
| Real estate loans | - | - | 10,087 | 10,087 | - | - | 301 | 532 |
| Land loans | - | - | 1,154 | 1,154 | - | - | - | - |
| Residential mortgage loans | - | - | 12,109 | 12,109 | 251 | 73 | 782 | 73 |
| Total impaired loans | - | - | 31,549 | 31,549 | 2,234 | 73 | 3,931 | 2,473 |
| Other real estate owned (1) | - | 36,833 | 7,487 | 44,320 | 2,875 | 4,125 | 10,602 | 6,505 |
| Investments in venture capital | - | - | 9,118 | 9,118 | 39 | 50 | 226 | 337 |
| Equity investments | 280 | - | - | 280 | - | 199 | 43 | 199 |
| Total assets | $280 | $36,833 | $48,154 | $85,267 | $5,148 | $ 4,447 | $14,802 | $ 9,514 |

(1) Other real estate owned balance of $60.6 million in the condensed consolidated balance sheets is net of estimated disposal costs.

| | As of December 31, 2011 | | | | Total Losses | |
|---|---|---|---|---|---|---|
| | Fair value measurements using | | | Total at | For the twelve months ended | |
| | Level 1 | Level 2 | Level 3 | Fair Value | December 31, 2011 | December 31, 2010 |
| Assets | (In thousands) | | | | | |
| Impaired loans by type: | | | | | | |
| Commercial loans | $ - | $ - | $ 4,251 | $ 4,251 | $ 877 | $ 3,411 |
| Construction loans-residential | - | - | - | - | - | 1,295 |
| Real estate loans | - | - | 35,576 | 35,576 | 820 | 1,407 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Land loans | - | - | 611 | 611 | 46 | 1,003 |
| Total impaired loans | - | - | 40,438 | 40,438 | 1,743 | 7,116 |
| Loans held-for-sale | - | - | 760 | 760 | - | 3,160 |
| Other real estate owned (1 | - | 79,029 | 1,093 | 80,122 | 7,003 | 20,139 |
| Investments in venture capital | - | - | 8,693 | 8,693 | 379 | 760 |
| Equity investments | 323 | - | - | 323 | 200 | 304 |
| Total assets | $ 323 | $ 79,029 | $ 50,984 | $ 130,336 | $ 9,325 | $ 31,479 |

(1) Other real estate owned balance of $92.7 million in the condensed consolidated balance sheets is net of estimated disposal costs.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans was primarily based on the appraised value of collateral adjusted by estimated sales cost and commissions.  The Company generally obtains new appraisal reports every six months.  As the Company's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. During the reported periods, collateral discounts ranged from 45% in the case of accounts receivable collateral to 65% in the case of inventory collateral.

The significant unobservable inputs used in the fair value measurement of loans held for sale was primarily based on the quoted price or sale price adjusted by estimated sales cost and commissions.  The significant unobservable inputs used in the fair value measurement of other real estate owned ("OREO") was primarily based on the appraised value of OREO adjusted by estimated sales cost and commissions.

The Company applies estimated sales cost and commission ranging from 3% to 6% to collateral value of impaired loans, quoted price or loan sale price of loans held for sale, and appraised value of OREOs.

The significant unobservable inputs in the Black-Scholes option pricing model for the fair value of warrants are the expected life of warrant ranging from 1 to 5 years, risk-free interest rate from 0.24% to 0.61%, and stock volatility of the Company from 14.81% to 22.6%.

12. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents. For cash and cash equivalents, the carrying amount was assumed to be a reasonable estimate of fair value, a Level 1 measurement.

Short-term Investments. For short-term investments, the carrying amount was assumed to be a reasonable estimate of fair value, a Level 1 measurement.

Securities Purchased under Agreements to Resell. The fair value of securities purchased under agreements to resell is based on dealer quotes, a Level 2 measurement.

Securities. For securities, including securities held-to-maturity, available-for-sale and for trading, fair values were based on quoted market prices at the reporting date. If a quoted market price was not available, fair value was estimated using quoted market prices for similar securities or dealer quotes. For certain actively traded agency preferred stocks and U.S. Treasury securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes U.S. Government agency securities, state and municipal securities, mortgage-backed securities (“MBS”), commercial MBS, collateralized mortgage obligations, asset-backed securities, and corporate bonds.

Loans Held for Sale. The Company records loans held for sale at fair value based on quoted prices from third party sources, or appraisal reports adjusted by sales commission assumptions, a Level 3 measurement.

Loans. Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

The fair value of performing loans was calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan, a Level 3 measurement.

The fair value of impaired loans was calculated based on the net realizable fair value of the collateral or the observable market price of the most recent sale or quoted price from loans held for sale. The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on the current appraised value of the collateral, a Level 2 measurement.

Deposit Liabilities.  The fair value of demand deposits, savings accounts, and certain money market deposits was assumed to be the amount payable on demand at the reporting date.  The fair value of fixed-maturity certificates of deposit was estimated using the rates currently offered for deposits with similar remaining maturities, a Level 3 measurement.

Securities Sold under Agreements to Repurchase.  The fair value of securities sold under agreements to repurchase is based on dealer quotes, a Level 2 measurement.

Advances from Federal Home Loan Bank.  The fair value of the advances is based on quotes from the FHLB to settle the advances, a Level 2 measurement.

Other Borrowings.  This category includes borrowings from other financial institutions.  The fair value of other borrowings is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk, a Level 3 measurement.

Long-term Debt.  The fair value of long-term debt is estimated based on the quoted market prices or dealer quotes, a Level 2 measurement.

Currency Option and Foreign Exchange Contracts. The Company measures the fair value of currency option and foreign exchange contracts based on dealer quotes, a Level 2 measurement.

Interest Rate Swaps. Fair value of interest rate swaps was derived from observable market prices for similar assets, a Level 2 measurement.

Off-Balance-Sheet Financial Instruments.  The fair value of commitments to extend credit, standby letters of credit, and financial guarantees written were estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties.  The fair value of guarantees and letters of credit was based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counter parties at the reporting date.  Off-balance-sheet financial instruments were fair valued based on the assumptions that a market participant would use, a Level 3 measurement.

Fair value was estimated in accordance with ASC Topic 825, formerly SFAS 107. Fair value estimates were made at specific points in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates were subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following table presents the estimated fair value of financial instruments at September 30, 2012, and at December 31, 2011:

| | As of September 30, 2012 | | As of December 31, 2011 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In thousands) | | | |
| Financial Assets | | | | |
| Cash and due from banks | $ 114,646 | $ 114,646 | $ 117,888 | $ 117,888 |
| Short-term investments | 426,456 | 426,456 | 294,956 | 294,956 |
| Securities held-to-maturity | 849,376 | 908,067 | 1,153,504 | 1,203,977 |
| Securities available-for-sale | 1,293,571 | 1,293,571 | 1,294,478 | 1,294,478 |
| Trading securities | 4,619 | 4,619 | 4,542 | 4,542 |
| Loans held-for-sale | - | - | 760 | 760 |
| Loans, net | 7,066,456 | 7,015,190 | 6,844,483 | 6,825,571 |
| Investment in Federal Home Loan Bank stock | 45,493 | 45,493 | 52,989 | 52,989 |
| Warrants | 114 | 114 | 218 | 218 |
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Option contracts | $ 6,424 | $ 56 | $ 3,026 | $ 34 |
| Foreign exchange contracts | 184,711 | 2,401 | 238,581 | 2,151 |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Liabilities | | | | |
| Deposits | $ 7,353,041 | $ 7,359,427 | $ 7,229,131 | $ 7,240,857 |
| Securities sold under agreements to repurchase | 1,350,000 | 1,477,535 | 1,400,000 | 1,547,900 |
| Advances from Federal Home Loan Bank | 21,200 | 21,843 | 225,000 | 227,825 |
| Other borrowings | 18,746 | 16,069 | 19,800 | 19,801 |
| Long-term debt | 171,136 | 98,392 | 171,136 | 98,676 |
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Option contracts | $ 7,097 | $ 49 | $ 1,282 | $ 5 |
| Interest rate swaps | - | - | 300,000 | 2,634 |
| Foreign exchange contracts | 142,234 | 1,018 | 128,215 | 486 |

| | Notional Amount | Fair Value | Notional Amount | Fair Value |
|---|---|---|---|---|
| Off-Balance Sheet Financial Instruments | | | | |
| Commitments to extend credit | $ 1,734,352 | $ (1,457 ) | $ 1,626,523 | $ (1,253 ) |
| Standby letters of credit | 43,282 | (244 ) | 62,076 | (367 ) |
| Other letters of credit | 83,311 | (39 ) | 64,233 | (38 ) |
| Bill of lading guarantees | 9 | - | 187 | - |

13. Goodwill and Goodwill Impairment

The Company's policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Accounting standards require management to estimate the fair value of each reporting unit in making the assessment of impairment at least annually.

The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The two-step impairment testing process conducted by us, if needed, begins by assigning net assets and goodwill to our three reporting units— Commercial Lending, Retail Banking, and East Coast Operations. The Company then completes "step one" of the impairment test by comparing the fair value of each reporting unit (as determined based on the discussion below) with the recorded book value (or "carrying amount") of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and "step two" of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit's goodwill to the "implied fair value" of that goodwill. The implied fair value of goodwill is computed by assuming that all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as an adjustment to goodwill. This adjusted goodwill balance is the implied fair value used in step two. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value.

At September 30, 2012, the Company's market capitalization was above book value and there was no triggering event that required the Company to assess goodwill for impairment as of an interim date.

14. Financial Derivatives

It is the policy of the Company not to speculate on the future direction of interest rates. However, the Company enters into financial derivatives in order to seek mitigation of exposure to interest rate risks related to our interest-earning assets and interest-bearing liabilities. We believe that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in the Company's assets or liabilities and against risk in specific transactions. In such instances, the Company may protect its position through the purchase or sale of interest rate futures contracts for a specific cash or interest rate risk position. Other hedge transactions may be implemented using interest rate swaps, interest rate caps, floors, financial futures, forward rate agreements, and options on futures or bonds. Prior to considering any hedging activities, we seek to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All hedges will require an assessment of basis risk and must be approved by the Bank's Investment Committee.

The Company follows ASC Topic 815 which establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts, and hedging activities. It requires the recognition of all financial derivatives as assets or liabilities in the Company's consolidated balance sheet and measurement of those financial derivatives at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a financial derivative is designated as a hedge and, if so, the type of hedge.

As of December 31, 2011, we had five interest rate swap agreements with two major financial institutions in the notional amount of $300.0 million for a period of three years. These interest rate swaps were not structured to hedge against inherent interest rate risks related to our interest-earning assets and interest-bearing liabilities. These five interest rate swap agreements all matured in the third quarter of 2012. The net amount accrued on these interest rate swaps and the changes in the market value of these interest rate swaps were recorded as a reduction to other non-interest income in the amount of $288,000 for the first nine months of 2012 compared to $1.2 million in the same period a year ago.

The Company enters into foreign exchange forward contracts and foreign currency option contracts with various counter parties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit, foreign exchange contracts, or foreign currency option contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our condensed consolidated balance sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit, foreign exchange contracts or foreign currency option contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. At September 30, 2012, the notional amount of option contracts totaled $13.5 million with a net positive fair value of $7,500. Spot and forward contracts in the total notional amount of $184.7 million had a positive fair value of $2.4 million at September 30, 2012. Spot and forward contracts in the total notional amount of $142.2 million had a negative fair value of $1.0 million at September 30, 2012. At December 31, 2011, the notional amount of option contracts totaled $4.3 million with a net positive fair value of $29,000. Spot and forward contracts in the total notional amount of $238.6 million had a positive fair value, in the amount of $2.2 million, at December 31, 2011. Spot and forward contracts in the total notional amount of $128.2 million had a negative fair value, in the amount of $486,000, at December 31, 2011.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion is given based on the assumption that the reader has access to and has read the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

### Critical Accounting Policies

The discussion and analysis of the Company's unaudited condensed consolidated balance sheets and results of operations are based upon its unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Management of the Company considers the following to be critical accounting policies:

Accounting for the allowance for credit losses involves significant judgments and assumptions by management, which have a material impact on the carrying value of net loans. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances as described under the heading "Accounting for the Allowance for Loan Losses" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Accounting for investment securities involves significant judgments and assumptions by management, which have a material impact on the carrying value of securities and the recognition of any "other-than-temporary" impairment to our investment securities. The judgments and assumptions used by management are described under the heading "Investment Securities" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Accounting for income taxes involves significant judgments and assumptions by management, which have a material impact on the amount of taxes currently payable and the income tax expense recorded in the financial statements. The judgments and assumptions used by management are described under the heading "Income Taxes" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Accounting for goodwill and goodwill impairment involves significant judgments and assumptions by management, which have a material impact on the amount of goodwill and noninterest expense recorded in the financial statements. The judgments and assumptions used by management are described under the heading "Goodwill and Goodwill Impairment" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Accounting for other real estate owned involves significant judgments and assumptions by management, which have a material impact on the value of other real estate owned and noninterest expense recorded in the financial statements. The judgments and assumptions used by management are described under the heading "Valuation of Other Real Estate Owned" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Highlights

- Improved profitability – Third quarter net income was $30.4 million, an increase of $4.3 million, or 16.4%, compared to net income of $26.1 million in the same quarter a year ago.
- Decrease in non-performing assets – Non-performing assets decreased $145.0 million, or 48.2%, to $155.6 million at September 30, 2012, from $300.6 million at December 31, 2011, and decreased $42.4 million, or 21.4%, from $198.0 million at June 30, 2012.

Quarterly Statement of Operations Review

Net Income

Net income available to common stockholders for the quarter ended September 30, 2012, was $26.2 million, an increase of $4.2 million, or 19.4%, compared to a net income available to common stockholders of $22.0 million for the same quarter a year ago. Diluted earnings per share available to common stockholders for the quarter ended September 30, 2012, was $0.33 compared to $0.28 for the same quarter a year ago due primarily to decreases in the provision for credit losses, decreases in other real estate owned ("OREO") expenses, decreases in prepayment penalties on the repayment of Federal Home Loan Bank ("FHLB") advances and securities sold under agreements to repurchase, and decreases in operations expenses of affordable housing investments, which were partially offset by decreases in gains on sales of loans, increases in litigation settlement expenses, increases in salaries and employee benefits, and increases in income tax expense.

Return on average stockholders' equity was 7.62% and return on average assets was 1.14% for the quarter ended September 30, 2012, compared to a return on average stockholders' equity of 6.91% and a return on average assets of 0.98% for the same quarter a year ago.

Financial Performance

| | Third Quarter | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Net income (in millions) | $ 30.4 | | $ 26.1 | |
| Net income available to common stockholders (in millions) | $ 26.2 | | $ 22.0 | |
| Basic earnings per common share | $ 0.33 | | $ 0.28 | |
| Diluted earnings per common share | $ 0.33 | | $ 0.28 | |
| Return on average assets | 1.14 | % | 0.98 | % |
| Return on average total stockholders' equity | 7.62 | % | 6.91 | % |
| Efficiency ratio | 49.82 | % | 49.48 | % |

Net Interest Income Before Provision for Credit Losses

Net interest income before provision for credit losses decreased $536,000, or 0.7%, to $80.4 million during the third quarter of 2012 compared to $81.0 million during the same quarter a year ago. The decrease was due primarily to the decreases in yield and volume on investment securities and decreases in yield on loans offset by decreases in rates paid on time certificates of deposit, the prepayment of FHLB advances, and maturities of securities sold under agreements to repurchase.

The net interest margin, on a fully taxable-equivalent basis, was 3.26% for the third quarter of 2012, an increase of 2 basis points from 3.24% for the second quarter of 2012, and a decrease of 6 basis points from 3.32% for the third quarter of 2011. The decrease in yields on investment securities and loans offset by decrease in the rate on interest bearing deposits and the prepayment of FHLB advances and decreases in securities sold under agreements to repurchase caused the decrease in the net interest margin from the same quarter a year ago.

For the third quarter of 2012, the yield on average interest-earning assets was 4.32%, on a fully taxable-equivalent basis, the cost of funds on average interest-bearing liabilities was 1.35%, and the cost of interest bearing deposits was 0.72%. In comparison, for the third quarter of 2011, the yield on average interest-earning assets was 4.68%, on a fully taxable-equivalent basis, the cost of funds on average interest-bearing liabilities was 1.66%, and the cost of interest bearing deposits was 0.99%. The interest spread, defined as the difference between the yield on average interest-earning assets and the cost of funds on average interest-bearing liabilities, decreased 5 basis points to 2.97% for the quarter ended September 30, 2012, from 3.02% for the same quarter a year ago, primarily for the reasons discussed above.

Average daily balances for the three months ended September 30, 2012, and September 30, 2011, together with the total dollar amounts, on a taxable-equivalent basis, of interest income and interest expense, and the weighted-average interest rate and net interest margin are as follows:

Interest-Earning Assets and Interest-Bearing Liabilities

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (Dollars in thousands) | Average Balance | Interest Income/ Expense | Average Yield/ Rate (1)(2) | Average Balance | Interest Income/ Expense | Average Yield/ Rate (1)(2) |
| Interest earning assets: | | | | | | |
| Commercial loans | $1,996,906 | $21,057 | 4.20 % | $1,734,406 | $18,985 | 4.34 % |
| Residential mortgage loans | 1,241,308 | 15,059 | 4.85 | 1,165,889 | 14,801 | 5.08 |
| Commercial mortgage loans | 3,684,719 | 51,217 | 5.53 | 3,759,783 | 55,207 | 5.83 |
| Real estate construction loans | 184,629 | 2,596 | 5.59 | 303,671 | 3,498 | 4.57 |
| Other loans and leases | 15,007 | 95 | 2.52 | 17,633 | 99 | 2.23 |
| Total loans and leases (1) | 7,122,569 | 90,024 | 5.03 | 6,981,382 | 92,590 | 5.26 |
| Taxable securities | 2,188,205 | 15,157 | 2.76 | 2,308,509 | 20,303 | 3.49 |
| Tax-exempt securities (3) | 131,024 | 1,594 | 4.84 | 134,735 | 1,621 | 4.77 |
| Federal Home Loan Bank stock | 46,702 | 57 | 0.49 | 57,439 | 38 | 0.26 |
| Interest bearing deposits | 394,830 | 471 | 0.47 | 64,897 | 360 | 2.20 |
| Federal funds sold & securities purchased under agreements to resell | 6,413 | 2 | 0.12 | 207,174 | 33 | 0.06 |
| Total interest-earning assets | 9,889,743 | 107,305 | 4.32 | 9,754,136 | 114,945 | 4.68 |
| Non-interest earning assets: | | | | | | |
| Cash and due from banks | 138,581 | | | 214,540 | | |
| Other non-earning assets | 810,595 | | | 866,057 | | |
| Total non-interest earning assets | 949,176 | | | 1,080,597 | | |
| Less: Allowance for loan losses | (192,192) | | | (231,486) | | |
| Deferred loan fees | (8,859) | | | (7,881) | | |
| Total assets | $10,637,868 | | | $10,595,366 | | |
| | | | | | | |
| Interest bearing liabilities: | | | | | | |
| Interest bearing demand accounts | $535,708 | $207 | 0.15 | $431,016 | $185 | 0.17 |
| Money market accounts | 1,041,986 | 1,440 | 0.55 | 948,678 | 1,698 | 0.71 |
| Savings accounts | 464,091 | 92 | 0.08 | 454,780 | 112 | 0.10 |
| Time deposits | 4,129,075 | 9,492 | 0.91 | 4,306,331 | 13,278 | 1.22 |
| Total interest-bearing deposits | 6,170,860 | 11,231 | 0.72 | 6,140,805 | 15,273 | 0.99 |
| | | | | | | |
| Securities sold under agreements to repurchase | 1,358,152 | 13,734 | 4.02 | 1,411,332 | 14,840 | 4.17 |
| Other borrowings | 40,030 | 74 | 0.74 | 283,996 | 2,105 | 2.94 |
| Long-term debt | 171,136 | 1,291 | 3.00 | 171,136 | 1,208 | 2.80 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total interest-bearing liabilities | 7,740,178 | 26,330 | 1.35 | | 8,007,269 | 33,426 | 1.66 | |
| Non-interest bearing liabilities: | | | | | | | | |
| Demand deposits | 1,209,253 | | | | 1,013,859 | | | |
| Other liabilities | 95,741 | | | | 69,082 | | | |
| Total equity | 1,592,696 | | | | 1,505,156 | | | |
| Total liabilities and equity | $10,637,868 | | | | $10,595,366 | | | |
| Net interest spread (4) | | | 2.97 | % | | | 3.02 | % |
| Net interest income (4) | | $80,975 | | | | $81,519 | | |
| Net interest margin (4) | | | 3.26 | % | | | 3.32 | % |

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.
(2) Calculated by dividing net interest income by average outstanding interest-earning assets.
(3) The average yield has been adjusted to a fully taxable-equivalent basis for certain securities of states and political subdivisions and other securities held using a statutory Federal income tax rate of 35%.
(4) Net interest income, net interest spread, and net interest margin on interest-earning assets have been adjusted to a fully taxable-equivalent basis using a statutory Federal income tax rate of 35%.

The following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates:

Taxable-Equivalent Net Interest Income — Changes Due to Rate and Volume(1)

| | Three months ended September 30, 2012-2011 Increase (Decrease) in Net Interest Income Due to: | | |
|---|---|---|---|
| (Dollars in thousands) | Changes in Volume | Changes in Rate | Total Change |
| Interest-earning assets: | | | |
| Loans and leases | 1,748 | (4,314) | (2,566) |
| Taxable securities | (1,022) | (4,124) | (5,146) |
| Tax-exempt securities (2) | (48) | 21 | (27) |
| Federal Home Loan Bank stock | (8) | 27 | 19 |
| Deposits with other banks | 581 | (470) | 111 |
| Federal funds sold and securities purchased under agreements to resell | (47) | 16 | (31) |
| Total decrease in interest income | 1,204 | (8,844) | (7,640) |
| Interest-bearing liabilities: | | | |
| Interest bearing demand accounts | 41 | (19) | 22 |
| Money market accounts | 152 | (410) | (258) |
| Savings accounts | 2 | (22) | (20) |
| Time deposits | (531) | (3,255) | (3,786) |
| Securities sold under agreements to repurchase | (568) | (538) | (1,106) |
| Other borrowed funds | (1,084) | (947) | (2,031) |
| Long-term debts | - | 83 | 83 |
| Total decrease in interest expense | (1,988) | (5,108) | (7,096) |
| Changes in net interest income | $ 3,192 | $ (3,736) | $ (544) |

(1)Changes in interest income and interest expense attributable to changes in both volume and rate have beenallocated proportionately to changes due to volume and changes due to rate.

(2)The amount of interest earned on certain securities of states and political subdivisions and other securitiesheld has been adjusted to a fully taxable-equivalent basis using a statutory Federal income tax rate of 35%.

38

Provision for Credit Losses

There was no change in the provision for credit losses for the third quarter of 2012 compared to a credit of $5.0 million for the second quarter of 2012 and a charge of $9.0 million in the third quarter of 2011. The provision for credit losses was based on the review of the adequacy of the allowance for loan losses at September 30, 2012. The provision for credit losses represents the charge against or benefit toward current earnings that is determined by management, through a credit review process, as the amount needed to establish an allowance that management believes to be sufficient to absorb credit losses inherent in the Company's loan portfolio, including unfunded commitments. The following table summarizes the charge-offs and recoveries for the periods indicated:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Charge-offs: | | | | |
| Commercial loans | $ 7,387 | $ 1,219 | $ 14,479 | $ 11,215 |
| Construction loans- residential | - | 10,923 | 391 | 18,349 |
| Construction loans- other | 39 | 12,616 | 774 | 16,045 |
| Real estate loans (1) | 1,441 | 5,560 | 12,351 | 24,119 |
| Real estate- land loans | 2 | 522 | 101 | 1,008 |
| Installment and other loans | - | - | 25 | - |
| Total charge-offs | 8,869 | 30,840 | 28,121 | 70,736 |
| Recoveries: | | | | |
| Commercial loans | 331 | 513 | 1,230 | 1,568 |
| Construction loans- residential | 449 | 6 | 3,712 | 3,667 |
| Construction loans- other | 28 | 402 | 1,913 | 629 |
| Real estate loans (1) | 317 | 426 | 6,784 | 2,665 |
| Real estate- land loans | 12 | 25 | 1,178 | 618 |
| Installment and other loans | - | - | 3 | - |
| Total recoveries | 1,137 | 1,372 | 14,820 | 9,147 |
| Net charge-offs | $ 7,732 | $ 29,468 | $ 13,301 | $ 61,589 |

(1) Real estate loans include commercial mortgage loans, residential mortgage loans and equity lines.

Non-Interest Income

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, securities gains (losses), gains (losses) on loan sales, wire transfer fees, and other sources of fee income, was $15.6 million for the third quarter of 2012, a decrease of $1.2 million, or 7.2%, compared to $16.8 million for the third quarter of 2011. The decrease in non-interest income in the third quarter of 2012 was primarily due to decreases of $1.6 million from gains on sale of loans offset by a $513,000 increase in revenue from trading securities.

Non-Interest Expense

Non-interest expense decreased $539,000, or 1.1%, to $47.8 million in the third quarter of 2012 compared to $48.4 million in the same quarter a year ago. The efficiency ratio was 49.82% in the third quarter of 2012 compared to 49.48% for the same quarter a year ago.

OREO expenses decreased $4.3 million to $1.8 million in the third quarter of 2012 compared to $6.1 million in the same quarter a year ago primarily due to decreases in provisions for OREO write-downs, higher OREO gains, and decreases in OREO expenses. Operations expense on affordable housing investments also decreased $1.6 million in the third quarter of 2012 compared to the same quarter a year ago primarily due to gains realized from sales of properties owned by an affordable housing limited partnership. Prepayment penalties decreased by $1.1 million, or 24.0%, in the third quarter of 2012 compared to the same quarter a year ago. FDIC and State assessments decreased $548,000, or 20.7%, to $2.1 million in the third quarter of 2012 from $2.6 million for the same quarter a year ago.

Offsetting the above decreases was an increase in the accrual for legal proceedings of $5.8 million. The Bank is the subject of a jury verdict awarding damages against it of $11.2 million relating to a construction loan made to the plaintiff in the lawsuit. The verdict is not final and is subject to further legal proceedings. The Bank has filed a cross complaint for the $19 million unpaid balance of the construction loan, as to which the Bank retained a 50% participation. Salaries and employee benefits increased $970,000, or 5.5%, in the third quarter of 2012 compared to the same quarter a year ago primarily due to the hiring of new employees. Professional services expense increased $427,000, or 8.8%, primarily due to increases in consulting expenses related to the upcoming core system conversion.

Income Taxes

The effective tax rate for the third quarter of 2012 was 36.8% compared to 35.2% in the third quarter of 2011. The effective tax rate includes the impact of the utilization of low income housing tax credits and the recognition of other tax credits.

Year-to-Date Statement of Operations Review

Net income attributable to common stockholders for the nine months ended September 30, 2012, was $76.8 million, an increase of $16.7 million, or 27.7%, compared to net income attributable to common stockholders of $60.1 million for the same period a year ago due primarily to decreases in the provision for loan losses, decreases in prepayment penalties on the repayment of FHLB advances and the prepayment of securities sold under an agreement to repurchase, decreases in gains on sale of securities, decreases in operation expenses of affordable housing investments, and decreases in FDIC and State assessments, which were partially offset by increases in income tax expenses, increases in litigation accrual expenses, increases in OREO expenses, and increases in salaries and incentive compensation expense. Diluted earnings per share was $0.98 compared to $0.76 per share for the same period a year ago. The net interest margin for the nine months ended September 30, 2012, increased 9 basis points to 3.28% compared to 3.19% for the same period a year ago.

Return on average stockholders' equity was 7.65% and return on average assets was 1.12% for the nine months ended September 30, 2012, compared to a return on average stockholders' equity of 6.59% and a return on average assets of 0.91% for the same period of 2011. The efficiency ratio for the nine months ended September 30, 2012, was 52.12% compared to 51.24% for the same period a year ago.

The average daily balances, together with the total dollar amounts, on a taxable-equivalent basis, of interest income and interest expense, and the weighted-average interest rates, the net interest spread and the net interest margins are as follows:

Interest-Earning Assets and Interest-Bearing Liabilities

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (Dollars in thousands) | Average Balance | Interest Income/ Expense | Average Yield/ Rate (1)(2) | Average Balance | Interest Income/ Expense | Average Yield/ Rate (1)(2) |
| Interest earning assets: | | | | | | |
| Commercial loans | $1,905,101 | $60,181 | 4.22 % | $1,593,893 | $52,296 | 4.39 % |
| Residential mortgage loans | 1,207,048 | 44,855 | 4.95 | 1,126,253 | 42,630 | 5.05 |
| Commercial mortgage loans | 3,690,115 | 156,204 | 5.65 | 3,847,865 | 166,228 | 5.78 |
| Real estate construction loans | 200,836 | 7,952 | 5.29 | 340,749 | 11,447 | 4.49 |
| Other loans and leases | 16,874 | 294 | 2.33 | 17,873 | 339 | 2.54 |
| Total loans and leases (1) | 7,019,974 | 269,486 | 5.13 | 6,926,633 | 272,940 | 5.27 |
| Taxable securities | 2,287,967 | 50,046 | 2.92 | 2,541,139 | 65,273 | 3.43 |
| Tax-exempt securities (3) | 131,732 | 4,811 | 4.88 | 134,377 | 4,869 | 4.84 |
| Federal Home Loan Bank stock | 49,499 | 190 | 0.51 | 60,402 | 134 | 0.30 |
| Interest bearing deposits | 354,268 | 1,596 | 0.60 | 121,406 | 901 | 0.99 |
| Federal funds sold & securities purchased under agreements to resell | 20,018 | 18 | 0.12 | 109,890 | 81 | 0.10 |
| Total interest-earning assets | 9,863,458 | 326,147 | 4.42 | 9,893,847 | 344,198 | 4.65 |
| Non-interest earning assets: | | | | | | |
| Cash and due from banks | 124,037 | | | 153,108 | | |
| Other non-earning assets | 827,091 | | | 869,877 | | |
| Total non-interest earning assets | 951,128 | | | 1,022,985 | | |
| Less: Allowance for loan losses | (197,638 ) | | | (240,957 ) | | |
| Deferred loan fees | (8,289 ) | | | (7,694 ) | | |
| Total assets | $10,608,659 | | | $10,668,181 | | |
| | | | | | | |
| Interest bearing liabilities: | | | | | | |
| Interest bearing demand accounts | $498,613 | $568 | 0.15 | $420,214 | $589 | 0.19 |
| Money market accounts | 1,012,603 | 4,287 | 0.57 | 986,984 | 5,833 | 0.79 |
| Savings accounts | 444,882 | 275 | 0.08 | 408,776 | 390 | 0.13 |
| Time deposits | 4,278,222 | 32,067 | 1.00 | 4,327,742 | 41,174 | 1.27 |
| Total interest-bearing deposits | 6,234,320 | 37,197 | 0.80 | 6,143,716 | 47,986 | 1.04 |
| | | | | | | |
| Federal funds purchased | - | - | - | 37 | 0 | 1.25 |
| Securities sold under agreements to repurchase | 1,385,949 | 42,987 | 4.14 | 1,462,277 | 45,903 | 4.20 |
| Other borrowings | 36,518 | 196 | 0.72 | 368,893 | 10,603 | 3.84 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Long-term debt | 171,136 | 3,895 | 3.04 | | 171,136 | 3,630 | 2.84 | |
| Total interest-bearing liabilities | 7,827,923 | 84,275 | 1.44 | | 8,146,059 | 108,122 | 1.77 | |
| Non-interest bearing liabilities: | | | | | | | | |
| Demand deposits | 1,130,830 | | | | 977,246 | | | |
| Other liabilities | 86,113 | | | | 67,140 | | | |
| Total equity | 1,563,793 | | | | 1,477,736 | | | |
| Total liabilities and equity | $10,608,659 | | | | $10,668,181 | | | |
| Net interest spread (4) | | | 2.98 | % | | | 2.88 | % |
| Net interest income (4) | | $241,872 | | | | $236,076 | | |
| Net interest margin (4) | | | 3.28 | % | | | 3.19 | % |

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.

(2) Calculated by dividing net interest income by average outstanding interest-earning assets.

(3) The average yield has been adjusted to a fully taxable-equivalent basis for certain securities of states and political subdivisionsand other securities held using a statutory Federal income tax rate of 35%.

(4) Net interest income, net interest spread, and net interest margin on interest-earning assets have been adjusted to a fully taxable-equivalent basis using a statutory Federal income tax rate of 35%.

The following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates:

Taxable-Equivalent Net Interest Income — Changes Due to Rate and Volume(1)

| | Nine months ended September 30, 2012-2011 Increase (Decrease) in Net Interest Income Due to: | | |
|---|---|---|---|
| (Dollars in thousands) | Changes in Volume | Changes in Rate | Total Change |
| Interest-earning assets: | | | |
| Loans and leases | 3,742 | (7,196 ) | (3,454 ) |
| Taxable securities | (6,096 ) | (9,131 ) | (15,227 ) |
| Tax-exempt securities (2) | (93 ) | 35 | (58 ) |
| Federal Home Loan Bank stock | (28 ) | 84 | 56 |
| Deposits with other banks | 1,167 | (472 ) | 695 |
| Federal funds sold and securities purchased under agreements to resell | (78 ) | 15 | (63 ) |
| Total decrease in interest income | (1,386 ) | (16,665 ) | (18,051 ) |
| | | | |
| Interest-bearing liabilities: | | | |
| Interest bearing demand accounts | 100 | (121 ) | (21 ) |
| Money market accounts | 149 | (1,695 ) | (1,546 ) |
| Savings accounts | 32 | (147 ) | (115 ) |
| Time deposits | (465 ) | (8,642 ) | (9,107 ) |
| Securities sold under agreements to repurchase | (2,340 ) | (576 ) | (2,916 ) |
| Other borrowed funds | (5,469 ) | (4,938 ) | (10,407 ) |
| Long-term debts | - | | |