CITY NATIONAL CORP
Form 10-Q
August 08, 2012
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# 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) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2012**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM TO**

**COMMISSION FILE NUMBER: 1-10521**

# CITY NATIONAL CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| **Delaware** | **95-2568550** |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

**City National Plaza**

**555 South Flower Street, Los Angeles, California, 90071**

(Address of principal executive offices)(Zip Code)

**(213) 673-7700**

(Registrant s telephone number, including area code)

(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 the filing requirements for at least the past 90 days. Yes x 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 x 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act). (Check one):

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

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

As of July 31, 2012, there were 53,570,205 shares of Common Stock outstanding (including unvested restricted shares).

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CITY NATIONAL CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

| (in thousands, except share amounts) | | June 30, 2012 (Unaudited) | | December 31, 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and due from banks | $ | 162,893 | $ | 168,376 |
| Due from banks - interest-bearing | | 106,109 | | 76,438 |
| Federal funds sold | | 162,000 | | |
| Securities available-for-sale - cost $6,723,761 and $7,445,999 at June 30, 2012 and December 31, 2011, respectively: | | | | |
| Securities pledged as collateral | | 42,789 | | 37,861 |
| Held in portfolio | | 6,823,092 | | 7,534,040 |
| Securities held-to-maturity - fair value $1,127,053 and $473,903 at June 30, 2012 and December 31, 2011, respectively | | 1,100,229 | | 467,680 |
| Trading securities | | 62,585 | | 61,975 |
| Loans and leases, excluding covered loans | | 13,507,209 | | 12,309,385 |
| Less: Allowance for loan and lease losses | | 269,534 | | 262,557 |
| Loans and leases, excluding covered loans, net | | 13,237,675 | | 12,046,828 |
| Covered loans, net of allowance for loan losses | | 1,216,988 | | 1,417,289 |
| Net loans and leases | | 14,454,663 | | 13,464,117 |
| Premises and equipment, net | | 147,245 | | 143,641 |
| Deferred tax asset | | 147,503 | | 155,529 |
| Goodwill | | 556,149 | | 486,383 |
| Customer-relationship intangibles, net | | 32,965 | | 36,370 |
| Affordable housing investments | | 145,582 | | 121,039 |
| Customers acceptance liability | | 1,746 | | 1,702 |
| Other real estate owned ($82,834 and $98,550 covered by FDIC loss share at June 30, 2012 and December 31, 2011, respectively) | | 117,501 | | 129,340 |
| FDIC indemnification asset | | 170,654 | | 204,259 |
| Other assets | | 568,268 | | 577,541 |
| Total assets | $ | 24,801,973 | $ | 23,666,291 |
| **Liabilities** | | | | |
| Demand deposits | $ | 12,187,075 | $ | 11,146,627 |
| Interest checking deposits | | 1,849,588 | | 2,034,815 |
| Money market deposits | | 5,714,258 | | 5,954,886 |
| Savings deposits | | 368,544 | | 339,858 |
| Time deposits-under $100,000 | | 222,368 | | 251,782 |
| Time deposits-$100,000 and over | | 767,219 | | 659,614 |
| Total deposits | | 21,109,052 | | 20,387,582 |
| Short-term borrowings | | 322,077 | | 50,000 |
| Long-term debt | | 712,280 | | 697,778 |
| Reserve for off-balance sheet credit commitments | | 24,351 | | 23,097 |
| Acceptances outstanding | | 1,746 | | 1,702 |
| Other liabilities | | 335,203 | | 316,640 |

| | | | | |
|---|---|---|---|---|
| Total liabilities | | 22,504,709 | | 21,476,799 |
| **Redeemable noncontrolling interest** | | 41,899 | | 44,643 |
| **Commitments and contingencies** | | | | |
| **Shareholders Equity** | | | | |
| Common stock, par value $1.00 per share; 75,000,000 shares authorized; 53,885,886 shares issued at June 30, 2012 and December 31, 2011 | | 53,886 | | 53,886 |
| Additional paid-in capital | | 491,439 | | 489,200 |
| Accumulated other comprehensive income | | 82,807 | | 72,372 |
| Retained earnings | | 1,686,163 | | 1,611,969 |
| Treasury shares, at cost - 1,063,534 and 1,386,705 shares at June 30, 2012 and December 31, 2011, respectively | | (58,930) | | (82,578) |
| Total shareholders equity | | 2,255,365 | | 2,144,849 |
| Total liabilities and shareholders equity | $ | 24,801,973 | $ | 23,666,291 |

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**CITY NATIONAL CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**

**(Unaudited)**

| (in thousands, except per share amounts) | For the three months ended June 30, 2012 | For the three months ended June 30, 2011 | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 |
|---|---|---|---|---|
| **Interest income** | | | | |
| Loans and leases | $ 186,071 | $ 169,992 | $ 354,173 | $ 332,931 |
| Securities | 43,549 | 39,639 | 88,935 | 77,058 |
| Due from banks - interest-bearing | 173 | 407 | 266 | 705 |
| Federal funds sold and securities purchased under resale agreements | 96 | 98 | 107 | 252 |
| Total interest income | 229,889 | 210,136 | 443,481 | 410,946 |
| **Interest expense** | | | | |
| Deposits | 3,566 | 10,016 | 7,599 | 20,206 |
| Federal funds purchased and securities sold under repurchase agreements | 1 | 2 | 32 | 2 |
| Subordinated debt | 4,308 | 4,635 | 8,369 | 9,283 |
| Other long-term debt | 5,535 | 4,656 | 10,289 | 9,338 |
| Total interest expense | 13,410 | 19,309 | 26,289 | 38,829 |
| **Net interest income** | 216,479 | 190,827 | 417,192 | 372,117 |
| Provision for credit losses on loans and leases, excluding covered loans | 1,000 | | 1,000 | |
| Provision for losses on covered loans | 13,293 | 1,716 | 20,759 | 20,832 |
| Net interest income after provision | 202,186 | 189,111 | 395,433 | 351,285 |
| **Noninterest income** | | | | |
| Trust and investment fees | 34,067 | 36,687 | 67,721 | 72,325 |
| Brokerage and mutual fund fees | 5,293 | 4,864 | 10,321 | 10,525 |
| Cash management and deposit transaction charges | 11,475 | 10,905 | 22,643 | 22,630 |
| International services | 10,017 | 9,015 | 18,802 | 17,331 |
| FDIC loss sharing expense, net | (6,026) | (10,684) | (5,160) | (2,079) |
| Gain on disposal of assets | 3,011 | 8,422 | 5,202 | 10,846 |
| (Loss) gain on sale of securities | (279) | 1,689 | 170 | 1,819 |
| Gain on acquisition | | 8,164 | | 8,164 |
| Other | 17,388 | 23,169 | 30,947 | 44,727 |
| Impairment loss on securities: | | | | |
| Total other-than-temporary impairment loss on securities | (4,129) | (4,132) | (4,129) | (4,296) |
| Less: Portion of loss recognized in other comprehensive income | 3,951 | 3,838 | 3,951 | 3,838 |
| Net impairment loss recognized in earnings | (178) | (294) | (178) | (458) |
| Total noninterest income | 74,768 | 91,937 | 150,468 | 185,830 |
| **Noninterest expense** | | | | |
| Salaries and employee benefits | 115,035 | 112,139 | 235,280 | 223,151 |
| Net occupancy of premises | 14,056 | 13,665 | 27,742 | 27,011 |
| Legal and professional fees | 11,359 | 14,790 | 23,239 | 24,867 |
| Information services | 8,539 | 8,335 | 16,688 | 15,832 |
| Depreciation and amortization | 8,013 | 6,904 | 15,441 | 13,652 |
| Amortization of intangibles | 1,518 | 2,104 | 3,404 | 4,272 |
| Marketing and advertising | 7,597 | 7,626 | 14,413 | 14,144 |
| Office services and equipment | 4,492 | 4,672 | 8,440 | 9,278 |
| Other real estate owned | 7,541 | 22,162 | 19,635 | 36,651 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FDIC assessments | | 4,523 | | 8,524 | | 9,002 | | 18,330 |
| Other operating | | 11,843 | | 10,911 | | 21,952 | | 22,041 |
| Total noninterest expense | | 194,516 | | 211,832 | | 395,236 | | 409,229 |
| Income before income taxes | | 82,438 | | 69,216 | | 150,665 | | 127,886 |
| Income taxes | | 27,271 | | 20,650 | | 48,990 | | 38,536 |
| **Net income** | $ | 55,167 | $ | 48,566 | $ | 101,675 | $ | 89,350 |
| Less: Net income attributable to noncontrolling interest | | 409 | | 1,095 | | 652 | | 2,187 |
| **Net income attributable to City National Corporation** | $ | 54,758 | $ | 47,471 | $ | 101,023 | $ | 87,163 |
| Net income per share, basic | $ | 1.02 | $ | 0.89 | $ | 1.88 | $ | 1.64 |
| Net income per share, diluted | $ | 1.01 | $ | 0.88 | $ | 1.87 | $ | 1.62 |
| Shares used to compute net income per share, basic | | 53,105 | | 52,462 | | 52,923 | | 52,392 |
| Shares used to compute net income per share, diluted | | 53,373 | | 52,977 | | 53,217 | | 52,931 |
| Dividends per share | $ | 0.25 | $ | 0.20 | $ | 0.50 | $ | 0.40 |

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**CITY NATIONAL CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

| (in thousands) | For the three months ended June 30, 2012 | 2011 | For the six months ended June 30, 2012 | 2011 |
|---|---|---|---|---|
| Net income | $ 55,167 | $ 48,566 | $ 101,675 | $ 89,350 |
| Other comprehensive income, net of tax: | | | | |
| Securities available for sale: | | | | |
| Net unrealized gains arising during the period | 3,815 | 33,254 | 11,971 | 23,541 |
| Reclassification adjustment for net gains included in net income | (10) | (1,048) | (239) | (1,099) |
| Non-credit related impairment loss | (2,299) | (2,233) | (2,299) | (2,233) |
| Net change on cash flow hedges (1) | (41) | (248) | (83) | (834) |
| Pension liability adjustment | | 33 | 1,085 | 65 |
| Total other comprehensive income | 1,465 | 29,758 | 10,435 | 19,440 |
| Comprehensive income | $ 56,632 | $ 78,324 | $ 112,110 | $ 108,790 |
| Less: Comprehensive income attributable to noncontrolling interest | 409 | 1,095 | 652 | 2,187 |
| Comprehensive income attributable to City National Corporation | $ 56,223 | $ 77,229 | $ 111,458 | $ 106,603 |

(1) See Note 12 for additional information on other comprehensive income related to cash flow hedges.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**CITY NATIONAL CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| (in thousands) | For the six months ended June 30, 2012 | 2011 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | $ 101,675 | $ 89,350 |
| Adjustments to net income: | | |
| Provision for credit losses on loans and leases, excluding covered loans | 1,000 | |
| Provision for losses on covered loans | 20,759 | 20,832 |
| Amortization of intangibles | 3,404 | 4,272 |
| Depreciation and amortization | 15,441 | 13,652 |
| Share-based employee compensation expense | 8,968 | 9,468 |
| Deferred income tax benefit | 1,276 | 2,686 |
| Gain on disposal of assets | (5,202) | (10,846) |
| Gain on sale of securities | (170) | (1,819) |
| Gain on acquisition | | (8,164) |
| Impairment loss on securities | 178 | 458 |
| Other, net | (19,467) | (9,418) |
| Net change in: | | |
| Trading securities | (851) | 129,818 |
| Other assets and other liabilities, net | 40,111 | 51,709 |
| Net cash provided by operating activities | 167,122 | 291,998 |
| **Cash Flows From Investing Activities** | | |
| Purchase of securities available-for-sale | (1,331,692) | (2,017,983) |
| Sales of securities available-for-sale | 5,189 | 53,304 |
| Maturities and paydowns of securities available-for-sale | 2,031,596 | 1,367,512 |
| Purchase of securities held-to-maturity | (638,006) | |
| Maturities and paydowns of securities held-to-maturity | 4,617 | |
| Loan originations, net of principal collections | (671,623) | (108,530) |
| Net payments for premises and equipment | (14,703) | (19,637) |
| Net cash (paid) acquired in acquisitions | (69,987) | 28,066 |
| Other investing activities, net | 28,527 | 59,628 |
| Net cash used in investing activities | (656,082) | (637,640) |
| **Cash Flows From Financing Activities** | | |
| Net increase in deposits | 721,470 | 961,463 |
| Net increase in federal funds purchased and securities sold under repurchase agreements | 60,000 | |
| Net decrease in short-term borrowings, net of transfers from long-term debt | (95,691) | (3,105) |
| Net increase (decrease) in long-term debt | 7,707 | (757) |
| Proceeds from exercise of stock options | 9,044 | 4,507 |
| Tax benefit from exercise of stock options | 1,180 | 992 |
| Cash dividends paid | (26,632) | (21,211) |
| Other financing activities, net | (1,930) | (1,429) |
| Net cash provided by financing activities | 675,148 | 940,460 |
| Net increase in cash and cash equivalents | 186,188 | 594,818 |
| Cash and cash equivalents at beginning of year | 244,814 | 434,689 |
| Cash and cash equivalents at end of period | $ 431,002 | $ 1,029,507 |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Cash paid during the period for: | | |
| Interest | $ 25,674 | $ 40,129 |

| | | | | |
|---|---|---|---|---|
| Income taxes | | 30,373 | | 26,072 |
| Non-cash investing activities: | | | | |
| Transfer of loans to other real estate owned | $ | 41,728 | $ | 64,191 |
| Transfer of SERP liability to equity | | 8,348 | | |
| Assets acquired (liabilities assumed) in acquisitions: | | | | |
| Securities available-for-sale | $ | | $ | 10,441 |
| Loans and leases | | 318,301 | | |
| Covered loans | | | | 55,313 |
| Covered other real estate owned | | | | 7,463 |
| Deposits | | | | (126,795) |
| Other borrowings | | (320,856) | | (3,165) |

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**CITY NATIONAL CORPORATION**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**(Unaudited)**

| | City National Corporation Shareholders Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(in thousands, except share amounts)** | **Common shares issued** | **Common stock** | **Additional paid-in capital** | **Accumulated other comprehensive income (loss)** | **Retained earnings** | **Treasury shares** | **Non-controlling interest** | **Total equity** |
| Balance, January 1, 2011 | 53,885,886 | $ 53,886 | $ 487,868 | $ 36,853 | $ 1,482,037 | $ (101,065) | $ 25,139 | $ 1,984,718 |
| Net income (1) | | | | | 87,163 | | 1,067 | 88,230 |
| Other comprehensive income, net of tax | | | | 19,440 | | | | 19,440 |
| Dividends and distributions to noncontrolling interest | | | | | | | (1,067) | (1,067) |
| Issuance of shares under share-based compensation plans | | | (14,229) | | | 16,754 | | 2,525 |
| Share-based employee compensation expense | | | 9,363 | | | | | 9,363 |
| Tax benefit from share-based compensation plans | | | 1,037 | | | | | 1,037 |
| Common stock dividends | | | | | (21,211) | | | (21,211) |
| Net change in deferred compensation plans | | | 600 | | | | | 600 |
| Change in redeemable noncontrolling interest | | | 349 | | | | | 349 |
| Other | | | 76 | | | | (50) | 26 |
| Balance, June 30, 2011 | 53,885,886 | $ 53,886 | $ 485,064 | $ 56,293 | $ 1,547,989 | $ (84,311) | $ 25,089 | $ 2,084,010 |
| | | | | | | | | |
| Balance, January 1, 2012 | 53,885,886 | $ 53,886 | $ 489,200 | $ 72,372 | $ 1,611,969 | $ (82,578) | $ | $ 2,144,849 |
| Net income (1) | | | | | 101,023 | | | 101,023 |
| Other comprehensive income, net of tax | | | | 10,435 | | | | 10,435 |
| Issuance of shares under share-based compensation plans | | | (16,506) | | | 23,646 | | 7,140 |
| Share-based employee compensation expense | | | 8,502 | | | | | 8,502 |
| Tax benefit from share-based compensation plans | | | 400 | | | | | 400 |
| Common stock dividends | | | | | (26,829) | | | (26,829) |
| Net change in deferred compensation plans | | | 703 | | | 2 | | 705 |
| Change in redeemable noncontrolling interest | | | 792 | | | | | 792 |
| Other (2) | | | 8,348 | | | | | 8,348 |
| Balance, June 30, 2012 | 53,885,886 | $ 53,886 | $ 491,439 | $ 82,807 | $ 1,686,163 | $ (58,930) | $ | $ 2,255,365 |

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $652 and $1,120 for the six month periods ended June 30, 2012 and 2011, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 17 of the Notes to the Unaudited Consolidated Financial Statements.

(2) Conversion of pension liability to equity due to SERP amendment. See Note 14 for additional information.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**CITY NATIONAL CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Summary of Significant Accounting Policies**

*Organization*

City National Corporation (the Corporation ) is the holding company for City National Bank (the Bank ). The Bank delivers banking, trust and investment services through 78 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of June 30, 2012, the Corporation had five consolidated investment advisory affiliates and one unconsolidated subsidiary, Business Bancorp Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

*Consolidation*

The consolidated financial statements of the Company include the accounts of the Corporation, its non-bank subsidiaries, the Bank and the Bank s wholly owned subsidiaries, after the elimination of all material intercompany transactions. It also includes noncontrolling interest, which is the portion of equity in a subsidiary not attributable to a parent. Preferred stock of consolidated bank affiliates that is owned by third parties is reflected as Noncontrolling interest in the equity section of the consolidated balance sheets. This preferred stock was liquidated or redeemed in full by the Bank in the third quarter of 2011. Redeemable noncontrolling interest includes noncontrolling ownership interests that are redeemable at the option of the holder or outside the control of the issuer. The redeemable equity ownership interests of third parties in the Corporation s investment advisory affiliates are not considered to be permanent equity and are reflected as Redeemable noncontrolling interest in the mezzanine section between liabilities and equity in the consolidated balance sheets. Noncontrolling interests share of subsidiary earnings is reflected as Net income attributable to noncontrolling interest in the consolidated statements of income.

The Company s investment management and wealth advisory affiliates are organized as limited liability companies. The Corporation generally owns a majority position in each affiliate and certain management members of each affiliate own the remaining shares. The Corporation has contractual arrangements with its affiliates whereby a percentage of revenue is allocable to fund affiliate operating expenses ( operating share ) while the remaining portion of revenue ( distributable revenue ) is allocable to the Corporation and the noncontrolling owners. All majority-owned affiliates that meet the prescribed criteria for consolidation are consolidated. The Corporation s interests in investment management affiliates in which it holds a noncontrolling share are accounted for using the equity method. Additionally, the Company has various interests in variable interest entities ( VIEs ) that are not required to be consolidated. See Note 16 for a more detailed discussion on VIEs.

*Use of Estimates*

The Company s accounting and reporting policies conform to generally accepted accounting principles ( GAAP ) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Circumstances and events that differ significantly from those underlying the Company s estimates and assumptions could cause actual financial results to differ from those estimates. The material estimates included in the financial statements relate to the allowance for loan and lease losses, the reserve for off-balance sheet credit commitments, valuation of stock options and restricted stock, income taxes, goodwill and intangible asset impairment, securities impairment, private equity and alternative investment impairment, valuation of assets and liabilities acquired in business combinations, subsequent valuations of acquired impaired loans, Federal Deposit Insurance Corporation ( FDIC ) indemnification assets, valuation of noncontrolling interest and the valuation of financial assets and liabilities reported at fair value.

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**Note 1. Summary of Significant Accounting Policies (Continued)**

The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements. The Company s estimates and assumptions are expected to change as changes in market conditions and the Company s portfolio occur in subsequent periods.

*Basis of Presentation*

The Company is on the accrual basis of accounting for income and expenses. The results of operations reflect any adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q, and which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented. In accordance with the usual practice of banks, assets and liabilities of individual trust, agency and fiduciary funds have not been included in the financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

The results for the 2012 interim period are not necessarily indicative of the results expected for the full year. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2011 Annual Report other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2012. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2012.

Certain prior period amounts have been reclassified to conform to the current period presentation.

*Accounting Pronouncements*

During the six months ended June 30, 2012, the following accounting pronouncements applicable to the Company were issued or became effective:

- In April 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* ( ASU 2011-03 ). Accounting Standards Codification ( ASC ) Topic 860, *Transfers and Servicing*, provides the criteria for determining whether a transfer of financial assets under a repurchase agreement is accounted for as a secured borrowing or as a sale. In a typical repurchase transaction, an entity transfers financial assets to a counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. Under the guidance, an entity that maintains effective control over transferred assets must account for the transfer as a secured borrowing. ASU 2011-03 eliminates the requirement for entities to consider whether a transferor has the ability to repurchase the financial assets in a repurchase agreement for purposes of determining whether the transferor has maintained effective control. The ASU does not change the other criteria applicable to the assessment of effective control. Adoption of ASU 2011-03 on January 1, 2012 did not have a material effect on the Company s consolidated financial statements.

- In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ( ASU 2011-04 ). ASU 2011-04 represents the converged guidance of the FASB and International Accounting Standards Board on fair value. The new guidance establishes a common framework for measuring fair value and for disclosing information about fair value measurements. While ASU 2011-04 is largely consistent with existing fair value measurement principles, it does expand disclosure requirements and amends certain guidance. Under the revised guidance, the highest and best use and valuation premise concepts only apply to measuring the fair value of nonfinancial assets. The highest and best use of a nonfinancial asset is one that is physically possible, legally permissible and financially feasible. The valuation premise guidance provides that the highest and best use of a nonfinancial asset is either on a stand-alone basis or in combination with other assets as a group. The ASU provides a framework for considering whether a premium or discount can be applied in a fair value measurement and provides a model for measuring the fair value of an instrument classified in shareholders equity. ASU 2011-04 requires entities to make an accounting policy election regarding fair value measurements of financial assets and liabilities, such as derivatives, for which the exposure to market or counterparty credit risks is managed on a net or portfolio basis.

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**Note 1. Summary of Significant Accounting Policies (Continued)**

The Company elected to continue measuring derivative instruments that are subject to master netting agreements on the net risk exposure at the measurement date.

The expanded disclosure requirements include more detailed disclosures about the valuation processes used in fair value measurements within Level 3 of the fair value hierarchy, and categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which fair value is required to be disclosed in accordance with ASC Topic 825, *Financial Instruments*. The Company adopted ASU 2011-04 and expanded its disclosures starting with its first quarter 2012 reporting. Adoption of the new guidance did not have a significant impact on the Company s consolidated financial statements.

• In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income* ( ASU 2011-05 ). ASU 2011-05 revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items out of Accumulated Other Comprehensive Income in ASU 2011*-05 ( ASU 2011-12 ). ASU 2011-12 indefinitely defers the provision of ASU 2011-05 that would have required entities to present reclassification adjustments out of accumulated other comprehensive income ( AOCI ) by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. ASU 2011-05 and ASU 2011-12 became effective for the Company for first quarter 2012 reporting. The Company elected to report components of comprehensive income in two separate but consecutive statements. The new guidances were applied retrospectively for all periods presented.

**Note 2. Business Combinations**

*First American Equipment Finance*

The Company acquired First American Equipment Finance ( FAEF ), a privately owned equipment leasing company, in an all-cash transaction on April 30, 2012. Headquartered in Rochester, New York, FAEF leases technology and office equipment nationwide. Its clients include educational institutions, hospitals and health systems, large law firms, insurance underwriters, enterprise businesses, professional service businesses and nonprofit organizations. FAEF operates as a wholly owned subsidiary of the Bank.

Excluding the effects of acquisition accounting adjustments, the Company acquired approximately $343.0 million in assets and assumed $325.0 million in liabilities. The Company acquired lease receivables with a fair value of $318.3 million and assumed borrowings and nonrecourse debt with a fair value of $320.9 million. The Company recognized goodwill of approximately $68.4 million and acquisition-related expense of $0.6 million. This expense is included in Legal and professional fees in the consolidated statements of income.

The consolidated statement of income for 2012 includes the operating results produced by the acquired assets and assumed liabilities of FAEF from its acquisition date through June 30, 2012, which are not material to total operating results for the three and six month periods ended June 30, 2012. Further, the historical results of the acquired entity are not material to the Company s results, and consequently, no pro forma information is presented.

*Nevada Commerce Bank*

On April 8, 2011, the Bank acquired the banking operations of Nevada Commerce Bank ( NCB ), based in Las Vegas, Nevada, in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $138.9 million in assets and assumed $121.9 million in liabilities. The Bank acquired most of NCB s assets, including loans and other real estate owned ( OREO ) with a fair value of $56.4 million and $7.5 million, respectively, and assumed deposits with a fair value of $118.4 million. The Bank received approximately $2.7 million in cash from the FDIC at acquisition and recognized a gain of $8.2 million on the acquisition of NCB in the second quarter of 2011.

In connection with the acquisition of NCB, the Bank entered into loss-sharing agreements with the FDIC under which the FDIC will reimburse the Bank for 80 percent of eligible losses with respect to covered assets. Covered assets include acquired loans ( covered loans ) and OREO ( covered OREO ) that are covered under loss-sharing agreements with the FDIC.

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**Note 2. Business Combinations (Continued)**

The term of the loss-sharing agreements is 10 years for single-family residential loans and eight years for all other loans. The expected reimbursements under the loss-sharing agreements were recorded as an indemnification asset at their estimated fair value of $33.8 million. The difference between the fair value of the FDIC indemnification asset and the undiscounted cash flow the Bank expects to collect from the FDIC is accreted into noninterest income.

**Note 3. Fair Value Measurements**

The following tables summarize assets and liabilities measured at fair value as of June 30, 2012 and December 31, 2011 by level in the fair value hierarchy:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| **(in thousands)** | **Balance as of June 30, 2012** | **Quoted Prices in Active Markets Level 1** | **Significant Other Observable Inputs Level 2** | **Significant Unobservable Inputs Level 3** |
| **Measured on a Recurring Basis** | | | | |
| **Assets** | | | | |
| Securities available-for-sale: | | | | |
| U.S. Treasury | $ 17,208 | $ 17,208 | $ | $ |
| Federal agency - Debt | 999,207 | | 999,207 | |
| Federal agency - MBS | 691,672 | | 691,672 | |
| CMOs - Federal agency | 4,477,264 | | 4,477,264 | |
| CMOs - Non-agency | 65,466 | | 65,466 | |
| State and municipal | 383,650 | | 336,483 | 47,167 |
| Other debt securities | 229,908 | | 210,724 | 19,184 |
| Equity securities and mutual funds | 1,506 | 1,506 | | |
| Trading securities | 62,585 | 55,034 | 7,551 | |
| Mark-to-market derivatives (1) | 66,659 | 3,177 | 63,482 | |
| **Total assets at fair value** | $ 6,995,125 | $ 76,925 | $ 6,851,849 | $ 66,351 |
| | | | | |
| **Liabilities** | | | | |
| Mark-to-market derivatives (2) | $ 61,400 | $ 1,690 | $ 59,710 | $ |
| Other liabilities | 417 | | 417 | |
| **Total liabilities at fair value** | $ 61,817 | $ 1,690 | $ 60,127 | $ |
| | | | | |
| **Measured on a Nonrecurring Basis** | | | | |
| **Assets** | | | | |
| Collateral dependent impaired loans (3): | | | | |
| Commercial (4) | $ 1,671 | $ | $ | $ 1,671 |
| Commercial real estate mortgages | 13,238 | | 12,565 | 673 |
| Residential mortgages | 7,899 | | 7,435 | 464 |
| Real estate construction | 7,499 | | | 7,499 |
| Equity lines of credit | 790 | | | 790 |
| Installment | 550 | | 550 | |
| Other real estate owned (5) | 48,550 | | 37,865 | 10,685 |

| | | | | |
|---|---|---|---|---|
| Private equity and alternative investments | 3,455 | | | 3,455 |
| **Total assets at fair value** | $ 83,652 | $ | $ 58,415 | $ 25,237 |

(1) Reported in Other assets in the consolidated balance sheets.

(2) Reported in Other liabilities in the consolidated balance sheets.

(3) Impaired loans for which fair value was calculated using the collateral valuation method.

(4) Includes lease financing.

(5) Other real estate owned balance of $117.5 million in the consolidated balance sheets includes $82.8 million of covered OREO and is net of estimated disposal costs.

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**Note 3. Fair Value Measurements (Continued)**

| (in thousands) | Balance as of December 31, 2011 | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| **Measured on a Recurring Basis** | | | | |
| **Assets** | | | | |
| Securities available-for-sale: | | | | |
| U.S. Treasury | $ 19,182 | $ 19,182 | $ | $ |
| Federal agency - Debt | 1,973,862 | | 1,973,862 | |
| Federal agency - MBS | 681,044 | | 681,044 | |
| CMOs - Federal agency | 4,326,907 | | 4,326,907 | |
| CMOs - Non-agency | 69,001 | | 69,001 | |
| State and municipal | 401,604 | | 401,604 | |
| Other debt securities | 99,074 | | 79,491 | 19,583 |
| Equity securities and mutual funds | 1,227 | 1,227 | | |
| Trading securities | 61,975 | 61,922 | 53 | |
| Mark-to-market derivatives (1) | 62,230 | 2,552 | 59,678 | |
| **Total assets at fair value** | $ 7,696,106 | $ 84,883 | $ 7,591,640 | $ 19,583 |
| | | | | |
| **Liabilities** | | | | |
| Mark-to-market derivatives (2) | $ 52,881 | $ 1,542 | $ 51,339 | $ |
| Other liabilities | 263 | | 263 | |
| **Total liabilities at fair value** | $ 53,144 | $ 1,542 | $ 51,602 | $ |
| | | | | |
| **Measured on a Nonrecurring Basis** | | | | |
| **Assets** | | | | |
| Collateral dependent impaired loans (3): | | | | |
| Commercial (4) | $ 2,484 | $ | $ | $ 2,484 |
| Commercial real estate mortgages | 6,830 | | 6,830 | |
| Residential mortgages | 5,555 | | 5,084 | 471 |
| Real estate construction | 18,528 | | 9,680 | 8,848 |
| Equity lines of credit | 3,471 | | 2,588 | 883 |
| Installment | 675 | | 675 | |
| Collateral dependent impaired covered loans (3): | | | | |
| Commercial | 422 | | | 422 |
| Other real estate owned (5) | 66,837 | | 56,898 | 9,939 |
| Private equity and alternative investments | 6,558 | | | 6,558 |
| **Total assets at fair value** | $ 111,360 | $ | $ 81,755 | $ 29,605 |

(1) Reported in Other assets in the consolidated balance sheets.

(2) Reported in Other liabilities in the consolidated balance sheets.

(3) Impaired loans for which fair value was calculated using the collateral valuation method.

(4) Includes lease financing.

(5) Other real estate owned balance of $129.3 million in the consolidated balance sheets includes $98.6 million of covered OREO and is net of estimated disposal costs.

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**Note 3. Fair Value Measurements (Continued)**

At June 30, 2012, $7.00 billion, or approximately 28 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $7.70 billion, or 33 percent, at December 31, 2011. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than 1 percent of total assets were measured using Level 3 inputs. At June 30, 2012, $61.8 million of the Company s total liabilities were recorded at fair value using Level 1 or Level 2 inputs, compared with $53.1 million at December 31, 2011. There were no transfers between Level 1 and Level 2 of the fair value hierarchy for assets or liabilities measured on a recurring basis during the six months ended June 30, 2012. At June 30, 2012, $83.7 million, or approximately 0.3 percent, of the Company s total assets, were recorded at fair value on a nonrecurring basis, compared with $111.4 million, or approximately 0.5 percent, at December 31, 2011. These assets were measured using Level 2 and Level 3 inputs.

*Recurring Fair Value Measurements*

Assets and liabilities for which fair value measurement is based on significant unobservable inputs are classified as Level 3 in the fair value hierarchy. The following table provides a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2012 and 2011.

**Level 3 Assets Measured on a Recurring Basis**

| | For the six months ended | | | |
|---|---|---|---|---|
| **(in thousands)** | **June 30, 2012 Securities Available-for-Sale** | | **June 30, 2011 Securities Available-for-Sale** | |
| Balance, beginning of period | $ | 19,583 | $ | 20,982 |
| Total realized/unrealized gains (losses): | | | | |
| Included in other comprehensive income | | 1,221 | | 1,585 |
| Settlements | | (1,664) | | (1,728) |
| Transfers into Level 3 | | 47,165 | | |
| Other (1) | | 46 | | (33) |
| Balance, end of period | $ | 66,351 | $ | 20,806 |

(1) Other rollforward activity consists of amortization of premiums and accretion of discounts recognized on the initial purchase of the securities available-for-sale.

Level 3 assets measured at fair value on a recurring basis consist of municipal auction rate securities and collateralized debt obligation senior notes that are included in securities available-for-sale. During the six months ended June 30, 2012, municipal auction rate securities totaling $47.2 million were transferred from Level 2 to Level 3 of the fair value hierarchy as a result of a change in the method used to value these securities. The valuation methodology was revised due to the prolonged period of inactivity in the market for auction rate securities. At June 30, 2012, these securities were valued using an average yield on California variable rate notes that were comparable in credit rating and maturity to the securities held, plus a liquidity premium. Senior notes totaling $19.2 million at June 30, 2012 were valued using the discounted cash flow method with the following unobservable inputs: (1) risk-adjusted discount rate consistent with similarly-rated securities, (2) prepayment rate of 2 percent, (3) default rate of 0.75 percent of performing collateral, and (4) 15 percent recovery rate with a 2-year lag. The Company had no liabilities with fair value measurements categorized as Level 3 at June 30, 2012 or 2011.

There were no purchases, sales, or transfers out of Level 3 assets measured on a recurring basis during the six months ended June 30, 2012 and 2011. Paydowns of $1.7 million were received on Level 3 assets measured on a recurring basis for the six months ended June 30, 2012 and 2011, respectively. There were no gains or losses for the six months ended June 30, 2012 and 2011 included in earnings that were attributable to the change in unrealized gains or losses relating to Level 3 assets still held as of June 30, 2012 and 2011.

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**Note 3. Fair Value Measurements (Continued)**

*Nonrecurring Fair Value Measurements*

Assets measured at fair value on a nonrecurring basis using significant unobservable inputs include certain collateral dependent impaired loans, OREO for which fair value is not solely based on market observable inputs, and certain private equity and alternative investments. Private equity and alternative investments do not have readily determinable fair values. These investments are carried at cost and evaluated for impairment on a quarterly basis. Due to the lack of readily determinable fair values for these investments, the impairment assessment is based primarily on a review of investment performance and the likelihood that the capital invested would be recovered.

The table below provides information about valuation method, inputs and assumptions for nonrecurring Level 3 fair value measurements. The weight assigned to each input is based on the facts and circumstances that exist at the date of measurement.

**Information About Nonrecurring Level 3 Fair Value Measurements**

| (in thousands) | | Fair Value at June 30, 2012 | Valuation Method | Unobservable Inputs |
|---|---|---|---|---|
| Collateral dependent impaired loans | $ | 11,097 | Market | - Adjustments to external or internal appraised values<br>- Probability weighting of broker price opinions<br>- Management assumptions regarding market trends or other relevant factors |
| Other real estate owned | $ | 10,685 | Market | - Adjustments to external or internal appraised values<br>- Probability weighting of broker price opinions<br>- Management assumptions regarding market trends or other relevant factors |
| Private equity and alternative investments | $ | 3,455 | Cost Recovery | - Management s assumptions regarding recoverability of investment based on fund financial performance, market conditions and other relevant factors |

Market-based valuation methods use prices and other relevant information generated by market transactions involving identical or comparable assets. Under the cost recovery approach, fair value represents an estimate of the amount of an asset expected to be recovered. The Company only employs the cost recovery approach for assets that are not readily marketable and for which minimal market-based information exists.

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**Note 3. Fair Value Measurements (Continued)**

For assets measured at fair value on a nonrecurring basis, the following table presents the total net (losses) gains, which include charge-offs, recoveries, specific reserves, OREO valuation write-downs and write-ups, gains and losses on sales of OREO, and impairment write-downs on private equity investments, recognized in the three and six months ended June 30, 2012 and 2011:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2012** | **2011** | **2012** | **2011** |
| Collateral dependent impaired loans: | | | | |
| Commercial | $ | $ | $ (367) | $ (606) |
| Commercial real estate mortgages | (1,572) | 340 | (1,937) | 7,454 |
| Residential mortgages | (540) | (47) | (1,122) | (189) |
| Real estate construction | (281) | (3,417) | (6,753) | (1,199) |
| Equity lines of credit | (115) | (546) | (62) | (510) |
| Installment | | 197 | (107) | (4,317) |
| Other real estate owned (1) | (3,700) | (16,869) | (12,165) | (25,991) |
| Private equity and alternative investments | (333) | (200) | (460) | (200) |
| Total net losses recognized | $ (6,541) | $ (20,542) | $ (22,973) | $ (25,558) |

(1) Net losses on OREO includes $3.5 million and $11.0 million of net losses related to covered OREO for the three and six months ended June 30, 2012, respectively, and $14.6 million and $22.8 million of net losses for the three and six months ended June 30, 2011, respectively. A significant portion of net losses on covered OREO is reimbursable by the FDIC.

*Fair Value of Financial Instruments*

A financial instrument is broadly defined as cash, evidence of an ownership interest in another entity, or a contract that imposes a contractual obligation on one entity and conveys a corresponding right to a second entity to require delivery or exchange of a financial instrument. The table below summarizes the estimated fair values for the Company s financial instruments as of June 30, 2012 and December 31, 2011. The table also provides information on the level in the fair value hierarchy for inputs used in the fair value of financial assets and financial liabilities. Refer to Note 1, *Summary of Significant Accounting Policies,* in the Company s 2011 Form 10-K for additional information on fair value measurements. Most financial assets and financial liabilities for which carrying amount equals fair value are considered by the Company to be Level 1 measurements in the fair value hierarchy. Additional detail on assets and liabilities that are categorized in multiple levels of the fair value hierarchy is provided in the above tables of this Note.

The disclosure does not include estimated fair value amounts for assets and liabilities which are not defined as financial instruments but which have significant value. These assets and liabilities include the value of customer-relationship intangibles, goodwill, affordable housing investments carried at cost, other assets, deferred taxes and other liabilities. Accordingly, the total of the fair values presented does not represent the underlying value of the Company.

Following is a description of the methods and assumptions used in estimating the fair values for each class of financial instrument:

*Cash and due from banks, Due from banks interest bearing and Federal funds sold* For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

*Securities available-for-sale, Securities held-to-maturity and Trading securities* For securities held as available-for-sale and held-to-maturity, the fair value is determined by quoted market prices, where available, or on observable market inputs appropriate for the type of security. If quoted market prices or observable market inputs are not available, discounted cash flows or market valuations of comparable securities with similar credit risk and maturities may be used to determine an appropriate fair value. Fair values for trading securities are based on quoted market prices or dealer quotes. The fair value of trading securities for which quoted prices are not available is based on observable market inputs.

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**Note 3. Fair Value Measurements (Continued)**

*Loans and leases* Loans and leases, excluding covered loans, are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. Due to the lack of activity in the secondary market for the types of loans in the Company s portfolio, a model-based approach is used for determining the fair value of loans for purposes of the disclosures in the following table. The fair value of loans is estimated by discounting future cash flows using discount rates that incorporate the Company s assumptions concerning current market yields, credit risk and liquidity premiums. Loan cash flow projections are based on contractual loan terms adjusted for the impact of current interest rate levels on borrower behavior, including prepayments. Loan prepayment assumptions are based on industry standards for the type of loans being valued. Projected cash flows are discounted using yield curves based on current market conditions. Yield curves are constructed by product type using the Bank s loan pricing model for like-quality credits. The discount rates used in the Company s model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans.

*Covered loans* The fair value of covered loans is based on estimates of future loan cash flows and appropriate discount rates, which incorporate the Company s assumptions about market funding cost and liquidity premium. The estimates of future loan cash flows are determined using the Company s assumptions concerning the amount and timing of principal and interest payments, prepayments and credit losses.

*FDIC indemnification asset* The fair value of the FDIC indemnification asset is estimated by discounting estimated future cash flows based on estimated current market rates.

*Investment in FHLB and FRB stock* Investments in government agency stock are recorded at cost. Ownership of these securities is restricted to member banks and the securities do not have a readily determinable market value. Purchases and sales of these securities are at par value with the issuer. The fair value of investments in FRB and FHLB stock is equal to the carrying amount.

*Derivative contracts* The fair value of non-exchange traded (over-the-counter) derivatives is obtained from third party market sources. The Company provides client data to the third party source for purposes of calculating the credit valuation component of the fair value measurement of client derivative contracts. The fair values of interest rate contracts include interest receivable and payable and cash collateral, if any.

*Deposits* The fair value of demand and interest checking deposits, savings deposits, and certain money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit ( CD ) is determined by discounting expected future cash flows using the rates offered by the Bank for deposits of similar type and remaining maturity at the measurement date. This value is compared to the termination value of each CD given the Bank s standard early withdrawal penalties. The fair value reported is the higher of the discounted present value of each CD and the termination value after the recovery of prepayment penalties. The Bank reviews pricing for its CD products weekly. This review gives consideration to market pricing for products of similar type and maturity offered by other financial institutions.

*Federal funds purchased and Securities sold under repurchase agreements* The carrying amount is a reasonable estimate of fair value.

*Other short-term borrowings* The fair value of the current portion of long-term debt classified in short-term borrowings is obtained through third-party pricing sources. The fair value of nonrecourse debt is determined by discounting estimated future cash flows based on estimated current market rates. The carrying amount of the remaining other short-term borrowings is a reasonable estimate of fair value.

*Long-term debt* The fair value of long-term debt, excluding nonrecourse debt, is obtained through third-party pricing sources. The fair value of nonrecourse debt is determined by discounting estimated future cash flows based on estimated current market rates.

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**Note 3. Fair Value Measurements (Continued)**

*FDIC clawback liability* The FDIC clawback liability represents an estimated payment by the Company to the FDIC if actual cumulative losses on acquired covered assets are lower than the cumulative losses originally estimated by the FDIC at the time of acquisition. The fair value of the FDIC clawback liability is estimated by discounting estimated future cash flows based on estimated current market rates.

Off-balance sheet commitments, which include commitments to extend credit, are excluded from the table below. A reasonable estimate of fair value for these instruments is the carrying amount of deferred fees and the reserve for any credit losses related to these off-balance sheet instruments. This estimate is not material to the Company s financial position.

| | | June 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|---|
| **(in millions)** | **Fair Value Level** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Financial Assets: | | | | | |
| Cash and due from banks | 1 | $ 162.9 | $ 162.9 | $ 168.4 | $ 168.4 |
| Due from banks - interest bearing | 1 | 106.1 | 106.1 | 76.4 | 76.4 |
| Federal funds sold | 1 | 162.0 | 162.0 | | |
| Securities available-for-sale | 1, 2, 3 | 6,865.9 | 6,865.9 | 7,571.9 | 7,571.9 |
| Securities held-to-maturity | 2 | 1,100.2 | 1,127.1 | 467.7 | 473.9 |
| Trading securities | 1, 2 | 62.6 | 62.6 | 62.0 | 62.0 |
| Loans and leases, net of allowance | 3 | 13,237.7 | 13,694.6 | 12,046.8 | 12,400.5 |
| Covered loans, net of allowance | 3 | 1,217.0 | 1,282.2 | 1,417.3 | 1,472.6 |
| FDIC indemnification asset | 3 | 170.7 | 149.4 | 204.3 | 184.3 |
| Investment in FHLB and FRB stock | 2 | 99.7 | 99.7 | 107.4 | 107.4 |
| Derivative assets | 1, 2 | 66.7 | 66.7 | 62.2 | 62.2 |
| | | | | | |
| Financial Liabilities: | | | | | |
| Deposits | 2, 3 | $ 21,109.1 | $ 21,112.9 | $ 20,387.6 | $ 20,392.3 |
| Federal funds purchased and securities sold under repurchase agreements | 1 | 110.0 | 110.0 | 50.0 | 50.0 |
| Other short-term borrowings | 2, 3 | 212.1 | 216.0 | | |
| Long-term debt | 2, 3 | 712.3 | 758.2 | 697.8 | 718.7 |
| Derivative liabilities | 1, 2 | 61.4 | 61.4 | 52.9 | 52.9 |
| FDIC clawback liability | 3 | 9.2 | 9.2 | 8.1 | 8.1 |

**Note 4. Securities**

At June 30, 2012, the Company had total securities of $8.03 billion, comprised of securities available-for-sale at fair value of $6.87 billion, securities held-to-maturity at amortized cost of $1.10 billion and trading securities at fair value of $62.6 million. At December 31, 2011, the Company had total securities of $8.10 billion, comprised of securities available-for-sale at fair value of $7.57 billion, securities held-to-maturity at amortized cost of $467.7 million and trading securities at fair value of $62.0 million.

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**Note 4. Securities (Continued)**

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale and securities held-to-maturity at June 30, 2012 and December 31, 2011:

| (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **June 30, 2012** | | | | |
| **Securities available-for-sale:** | | | | |
| U.S. Treasury | $ 17,223 | $ 1 | $ (16) | $ 17,208 |
| Federal agency - Debt | 994,268 | 4,954 | (15) | 999,207 |
| Federal agency - MBS | 655,384 | 36,288 | | 691,672 |
| CMOs - Federal agency | 4,388,817 | 89,297 | (850) | 4,477,264 |
| CMOs - Non-agency | 70,702 | 839 | (6,075) | 65,466 |
| State and municipal | 365,236 | 18,515 | (101) | 383,650 |
| Other debt securities | 231,795 | 5,291 | (7,178) | 229,908 |
| Total debt securities | 6,723,425 | 155,185 | (14,235) | 6,864,375 |
| Equity securities and mutual funds | 336 | 1,170 | | 1,506 |
| Total securities available-for-sale | $ 6,723,761 | $ 156,355 | $ (14,235) | $ 6,865,881 |
| | | | | |
| **Securities held-to-maturity (1):** | | | | |
| Federal agency - Debt | $ 103,439 | $ 2,002 | $ | $ 105,441 |
| Federal agency - MBS | 200,763 | 5,520 | (99) | 206,184 |
| CMOs - Federal agency | 642,102 | 18,384 | (22) | 660,464 |
| State and municipal | 153,925 | 2,248 | (1,209) | 154,964 |
| Total securities held-to-maturity | $ 1,100,229 | $ 28,154 | $ (1,330) | $ 1,127,053 |
| | | | | |
| **December 31, 2011** | | | | |
| **Securities available-for-sale:** | | | | |
| U.S. Treasury | $ 19,163 | $ 24 | $ (5) | $ 19,182 |
| Federal agency - Debt | 1,967,928 | 6,230 | (296) | 1,973,862 |
| Federal agency - MBS | 650,091 | 31,040 | (87) | 681,044 |
| CMOs - Federal agency | 4,239,205 | 89,926 | (2,224) | 4,326,907 |
| CMOs - Non-agency | 79,999 | 322 | (11,320) | 69,001 |
| State and municipal | 383,210 | 18,767 | (373) | 401,604 |
| Other debt securities | 106,051 | 1,896 | (8,873) | 99,074 |
| Total debt securities | 7,445,647 | 148,205 | (23,178) | 7,570,674 |
| Equity securities and mutual funds | 352 | 875 | | 1,227 |
| Total securities available-for-sale | $ 7,445,999 | $ 149,080 | $ (23,178) | $ 7,571,901 |
| | | | | |
| **Securities held-to-maturity (1):** | | | | |
| Federal agency - Debt | $ 40,423 | $ 780 | $ | $ 41,203 |
| Federal agency - MBS | 75,231 | 1,632 | | 76,863 |
| CMOs - Federal agency | 292,547 | 2,580 | (195) | 294,932 |
| State and municipal | 59,479 | 1,463 | (37) | 60,905 |
| Total securities held-to-maturity | $ 467,680 | $ 6,455 | $ (232) | $ 473,903 |

(1) Securities held-to-maturity are presented in the consolidated balance sheets at amortized cost.

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**Note 4. Securities (Continued)**

Proceeds from sales of securities available-for-sale were $5.2 million for the three and six months ended June 30, 2012, respectively, compared with $47.2 million and $53.3 million for the three and six months ended June 30, 2011, respectively. There were no sales of securities held-to-maturity during the three and six months ended June 30, 2012 and June 30, 2011. The following table provides the gross realized gains and losses on the sales and calls of securities (including trading securities):

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| (in thousands) | 2012 | 2011 | 2012 | 2011 |
| Gross realized gains | $ 40 | $ 2,621 | $ 536 | $ 2,781 |
| Gross realized losses | (319) | (932) | (366) | (962) |
| Net realized (losses) gains | $ (279) | $ 1,689 | $ 170 | $ 1,819 |

Interest income on securities (including trading securities) for the three months ended June 30, 2012 and 2011 is comprised of: (i) taxable interest income of $39.3 million and $36.3 million, respectively (ii) nontaxable interest income of $4.0 million and $2.9 million, respectively, and (iii) dividend income of $0.2 million and $0.4 million, respectively. Interest income on securities (including trading securities) for the six months ended June 30, 2012 and 2011 is comprised of: (i) taxable interest income of $80.9 million and $70.6 million, respectively (ii) nontaxable interest income of $7.8 million and $5.9 million, respectively, and (iii) dividend income of $0.2 million and $0.6 million, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at June 30, 2012. The maturities of mortgage-backed securities are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

| (in thousands) | One year or less | Over 1 year through 5 years | Over 5 years through 10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| **Securities available-for-sale:** | | | | | |
| U.S. Treasury | $ 5,003 | $ 12,205 | $ | $ | $ 17,208 |
| Federal agency - Debt | 663,719 | 335,488 | | | 999,207 |
| Federal agency - MBS | 11 | 455,069 | 236,592 | | 691,672 |
| CMOs - Federal agency | 309,857 | 4,012,348 | 155,059 | | 4,477,264 |
| CMOs - Non-agency | 12,442 | 20,992 | 32,032 | | 65,466 |
| State and municipal | 47,369 | 218,736 | 67,047 | 50,498 | 383,650 |
| Other | 3,416 | 184,044 | 42,448 | | 229,908 |
| Total debt securities available-for-sale | $ 1,041,817 | $ 5,238,882 | $ 533,178 | $ 50,498 | $ 6,864,375 |
| | | | | | |
| Amortized cost | $ 1,035,552 | $ 5,130,739 | $ 506,789 | $ 50,345 | $ 6,723,425 |
| | | | | | |
| **Securities held-to-maturity:** | | | | | |
| Federal agency - Debt | $ 10,947 | $ | $ | $ 92,492 | $ 103,439 |
| Federal agency - MBS | | 2,663 | 198,100 | | 200,763 |
| CMOs - Federal agency | | 92,378 | 549,724 | | 642,102 |
| State and municipal | 500 | 10,386 | 96,733 | 46,306 | 153,925 |
| | $ 11,447 | $ 105,427 | $ 844,557 | $ 138,798 | $ 1,100,229 |

Total debt securities held-to-maturity at amortized cost

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**Note 4. Securities (Continued)**

*Impairment Assessment*

The Company performs a quarterly assessment of the debt and equity securities in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that an investor will be unable to recover the cost of an investment. The Company s impairment assessment takes into consideration factors such as the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer, including events specific to the issuer or industry; defaults or deferrals of scheduled interest, principal or dividend payments; external credit ratings and recent downgrades; and whether the Company intends to sell the security and whether it is more likely than not it will be required to sell the security prior to recovery of its amortized cost basis. If a decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

When there are credit losses associated with an impaired debt security and the Company does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis, the Company will separate the amount of the impairment into the amount that is credit-related and the amount related to non-credit factors. The credit-related impairment is recognized in Net impairment loss recognized in earnings in the consolidated statements of income. The non-credit-related impairment is recognized in AOCI.

*Securities Deemed to be Other-Than-Temporarily Impaired*

Through the impairment assessment process, the Company determined that certain non-agency CMOs were other-than-temporarily impaired at June 30, 2012. See *Non-Agency CMOs* below. The Company recorded impairment losses in earnings on securities available-for-sale of $0.2 million for the three and six months ended June 30, 2012. Impairment losses recognized in earnings on securities available-for-sale during the three and six months ended June 30, 2011 were $0.3 million and $0.5 million, respectively. The Company recognized $4.0 million and $3.8 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at June 30, 2012 and 2011, respectively. There were no impairment losses recognized in earnings or AOCI for securities held-to-maturity during the three and six months ended June 30, 2012.

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three and six months ended June 30, 2012 and 2011. Credit-related other-than-temporary impairment that was recognized in earnings is reflected as an Initial credit-related impairment if the period reported is the first time the security had a credit impairment. A credit-related other-than-temporary impairment is reflected as a Subsequent credit-related impairment if the period reported is not the first time the security had a credit impairment. Cumulative impairment is reduced for securities with previously recognized credit-related impairment that were sold during the period. Cumulative impairment is further reduced for increases in expected cash flows.

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2012** | **2011** | **2012** | **2011** |

| | | | | |
|---|---|---|---|---|
| Balance, beginning of period | $ 17,369 | $ 17,550 | $ 17,531 | $ 17,923 |
| Subsequent credit-related impairment | 178 | 294 | 178 | 458 |
| Reduction for securities sold | | (455) | | (455) |
| Reduction for net increase in expected cash flows on securities for which OTTI was previously recognized | (181) | (96) | (343) | (633) |
| Balance, end of period | $ 17,366 | $ 17,293 | $ 17,366 | $ 17,293 |

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**Note 4. Securities (Continued)**

*Non-Agency CMOs*

The Company held $44.3 million of variable rate non-agency CMOs at June 30, 2012, of which $19.3 million of these securities were other-than-temporarily impaired because the present value of expected cash flows was less than cost. These CMOs have a fixed interest rate for an initial period after which they become variable-rate instruments with annual rate resets. For purposes of projecting future cash flows, the current fixed coupon was used through the reset date for each security. The prevailing LIBOR/Treasury forward curve as of the measurement date was used to project all future floating-rate cash flows based on the characteristics of each security. Other factors considered in the projection of future cash flows include the current level of subordination from other CMO classes, anticipated prepayment rates, cumulative defaults and loss given default. The Company recognized credit-related impairment losses in earnings on its investments in certain variable rate non-agency CMOs totaling $0.2 million for the three and six months ended June 30, 2012. The Company recognized credit-related impairment losses of $0.3 million and $0.5 million in earnings for the three and six months ended June 30, 2011, respectively. The non-credit portion of other-than-temporary impairment for these securities at June 30, 2012 and 2011 was recognized in AOCI and is attributed to external market conditions, primarily the lack of liquidity in these securities, resulting in an increase in interest rate spreads for these securities. The Company also holds $21.2 million in fixed rate non-agency CMOs at June 30, 2012, none of which have experienced any other-than-temporary impairment.

The following table provides a summary of the gross unrealized losses and fair value of investment securities that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of June 30, 2012 and December 31, 2011. The table also includes investment securities that had both a credit-related impairment recognized in earnings and a non-credit-related impairment recognized in AOCI.

| | Less than 12 months | | 12 months or greater | | Total | |
|---|---|---|---|---|---|---|
| (in thousands) | Fair Value | Estimated Unrealized Loss | Fair Value | Estimated Unrealized Loss | Fair Value | Estimated Unrealized Loss |
| **June 30, 2012** | | | | | | |
| **Securities available-for-sale:** | | | | | | |
| U.S. Treasury | $ 12,206 | $ 16 | $ | $ | $ 12,206 | $ 16 |
| Federal agency - Debt | 54,606 | 15 | | | 54,606 | 15 |
| CMOs - Federal agency | 416,059 | 850 | | | 416,059 | 850 |
| CMOs - Non-agency | 3,918 | 19 | 33,743 | 6,056 | 37,661 | 6,075 |
| State and municipal | 4,006 | 60 | 1,415 | 41 | 5,421 | 101 |
| Other debt securities | 13,244 | 3 | 15,768 | 7,175 | 29,012 | 7,178 |
| Total securities available-for-sale | $ 504,039 | $ 963 | $ 50,926 | $ 13,272 | $ 554,965 | $ 14,235 |
| | | | | | | |
| **Securities held-to-maturity:** | | | | | | |
| Federal agency - MBS | $ 9,852 | $ 99 | $ | $ | $ 9,852 | $ 99 |
| CMOs - Federal agency | 5,121 | 22 | | | 5,121 | 22 |
| State and municipal | 66,954 | 1,209 | | | 66,954 | 1,209 |
| Total securities held-to-maturity | $ 81,927 | $ 1,330 | $ | $ | $ 81,927 | $ 1,330 |

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**Note 4. Securities (Continued)**

| (in thousands) | Less than 12 months Fair Value | Less than 12 months Estimated Unrealized Loss | 12 months or greater Fair Value | 12 months or greater Estimated Unrealized Loss | Total Fair Value | Total Estimated Unrealized Loss |
|---|---|---|---|---|---|---|
| **December 31, 2011** | | | | | | |
| **Securities available-for-sale:** | | | | | | |
| U.S. Treasury | $ 4,145 | $ 5 | $ | $ | $ 4,145 | $ 5 |
| Federal agency - Debt | 409,129 | 296 | | | 409,129 | 296 |
| Federal agency - MBS | 24,519 | 87 | | | 24,519 | 87 |
| CMOs - Federal agency | 744,737 | 2,224 | | | 744,737 | 2,224 |
| CMOs - Non-agency | 20,094 | 833 | 31,400 | 10,487 | 51,494 | 11,320 |
| State and municipal | 42,164 | 268 | 2,023 | 105 | 44,187 | 373 |
| Other debt securities | 34,153 | 508 | 14,718 | 8,365 | 48,871 | 8,873 |
| Total securities available-for-sale | $ 1,278,941 | $ 4,221 | $ 48,141 | $ 18,957 | $ 1,327,082 | $ 23,178 |
| | | | | | | |
| **Securities held-to-maturity:** | | | | | | |
| CMOs - Federal agency | $ 32,256 | $ 195 | $ | $ | $ 32,256 | $ 195 |
| State and municipal | 5,784 | 37 | | | 5,784 | 37 |
| Total securities held-to-maturity | $ 38,040 | $ 232 | $ | $ | $ 38,040 | $ 232 |

At June 30, 2012, the Company had $555.0 million of securities available-for-sale in an unrealized loss position, consisting of $535.7 million of temporarily impaired securities and $19.3 million of securities that had non-credit-related impairment recognized in AOCI. The Company had $81.9 million of securities held-to-maturity in an unrealized loss position. At June 30, 2012, the Company had 141 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position include 4 U.S. Treasury securities, 2 federal agency debt securities, 1 federal agency MBS, 20 federal agency CMOs, 7 non-agency CMOs, 105 state and municipal securities and 2 other debt securities.

The unrealized loss on non-agency CMOs reflects the lack of liquidity in this sector of the market. The Company only holds the most senior tranches of each non-agency issue which provides protection against defaults. The Company expects to receive principal and interest payments equivalent to or greater than the current cost basis of its portfolio of debt securities. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment. The mortgages in these asset pools are well diversified geographically. Over the past year, the real estate market has stabilized somewhat, though performance varies substantially by geography and borrower. Though reduced, a significant weakening of economic fundamentals coupled with a return to elevated unemployment rates and substantial deterioration in the value of high-end residential properties could increase the probability of default and related credit losses. These conditions could cause the value of these securities to decline and trigger the recognition of further other-than-temporary impairment charges.

Other debt securities include the Company s investments in highly rated corporate debt and collateralized bond obligations backed by trust preferred securities ( CDOs ) issued by a geographically diverse pool of small- and medium-sized financial institutions. The CDOs held in securities available-for-sale at June 30, 2012 are the most senior tranches of each issue. Trading activity for the type of CDO held by the Company has been limited since 2008. Accordingly, the fair values of these securities were determined using an internal pricing model that incorporates assumptions about discount rates in an illiquid market, projected cash flows and collateral performance. The CDOs had a $7.0 million net unrealized loss at June 30, 2012, which the Company attributes to the illiquid credit markets. The CDOs have collateral that well exceeds the outstanding debt. Security valuations reflect the current and prospective performance of the issuers whose debt is contained in these asset pools. The Company expects to receive all contractual principal and interest payments due on its CDOs. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment.

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**Note 4. Securities (Continued)**

At December 31, 2011, the Company had $1.33 billion of securities available-for-sale in an unrealized loss position consisting of $1.32 billion of temporarily impaired securities and $9.2 million of securities that had non-credit-related impairment recognized in AOCI. The Company had $38.0 million of securities held-to-maturity in an unrealized loss position. At December 31, 2011, the Company had 90 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position included 2 U.S. Treasury securities, 12 federal agency debt securities, 3 federal agency MBS, 36 federal agency CMOs, 12 non-agency CMOs, 19 state and municipal securities and 6 other debt securities.

**Note 5. Other Investments**

*Federal Home Loan Bank of San Francisco and Federal Reserve Bank Stock*

The Company s investment in stock issued by the Federal Home Loan Bank of San Francisco ( FHLB ) and Federal Reserve Bank ( FRB ) totaled $99.7 million and $107.4 million at June 30, 2012 and December 31, 2011, respectively. Ownership of government agency securities is restricted to member banks, and the securities do not have readily determinable market values. The Company records investments in FHLB and FRB stock at cost in Other assets of the consolidated balance sheets and evaluates these investments for impairment. The Company expects to recover the full amount invested in FHLB and FRB stock and does not consider its investments to be impaired at June 30, 2012.

*Private Equity and Alternative Investments*

The Company has ownership interests in a limited number of private equity, venture capital, real estate and hedge funds that are not publicly traded and do not have readily determinable fair values. These investments are carried at cost in the Other assets section of the consolidated balance sheets and are net of impairment write-downs, if applicable. The Company s investments in these funds totaled $40.2 million at June 30, 2012 and $39.9 million at December 31, 2011. A summary of investments by fund type is provided below:

| **(in thousands)**<br>**Fund Type** | **June 30,**<br>**2012** | **December 31,**<br>**2011** |
|---|---|---|
| Private equity and venture capital | $ 23,306 | $ 23,093 |
| Real estate | 10,711 | 10,541 |
| Hedge | 2,866 | 2,883 |
| Other | 3,355 | 3,402 |
| Total | $ 40,238 | $ 39,919 |

Management reviews these investments quarterly for impairment. The impairment assessment includes a review of the most recent financial statements and investment reports for each fund and discussions with fund management. An impairment loss is recognized if it is deemed probable that the Company will not recover the cost of an investment. The impairment loss is recognized in Other noninterest income in the consolidated statements of income. The new cost basis of the investment is not adjusted for subsequent recoveries in value. The Company recognized impairment losses totaling $0.3 million and $0.5 million on its investments during the three and six months ended June 30, 2012, respectively. The Company recognized impairment losses totaling $0.2 million on its investments during the three and six months ended June 30, 2011.

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**Note 5. Other Investments (Continued)**

The table below provides information as of June 30, 2012 on private equity and alternative investments measured at fair value on a nonrecurring basis due to the recognition of impairment:

**Alternative Investments Measured at Fair Value on a Nonrecurring Basis**

| (in thousands)<br>Fund Type | | Fair<br>Value | | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption<br>Notice Period |
|---|---|---|---|---|---|---|
| Private equity and venture capital (2) | $ | 42 | $ | | None (1) | N/A |
| Real estate (3) | | 3,413 | | 506 | None (1) | N/A |
| Total | $ | 3,455 | $ | 506 | | |

(1) Funds make periodic distributions of income but do not permit redemptions prior to the end of the investment term.

(2) Funds invest in securities and other instruments of public and private companies, including corporations, partnerships, limited liability companies and joint ventures.

(3) Funds invest in commercial, industrial and retail projects and select multi-family housing opportunities which are part of mixed use projects in low and moderate income neighborhoods.

**Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments**

The following is a summary of the major categories of loans:

**Loans and Leases**

| (in thousands) | | June 30,<br>2012 | | December 31,<br>2011 |
|---|---|---|---|---|
| Commercial | $ | 5,379,489 | $ | 4,846,594 |
| Commercial real estate mortgages | | 2,424,333 | | 2,110,749 |
| Residential mortgages | | 3,822,630 | | 3,763,218 |
| Real estate construction | | 301,829 | | 315,609 |
| Equity lines of credit | | 741,270 | | 741,081 |
| Installment | | 130,200 | | 132,647 |
| Lease financing | | 707,458 | | 399,487 |
| Loans and leases, excluding covered loans | | 13,507,209 | | 12,309,385 |

| | | | | |
|---|---|---|---|---|
| Less: Allowance for loan and lease losses | | (269,534) | | (262,557) |
| Loans and leases, excluding covered loans, net | | 13,237,675 | | 12,046,828 |
| | | | | |
| Covered loans | | 1,260,135 | | 1,481,854 |
| Less: Allowance for loan losses | | (43,147) | | (64,565) |
| Covered loans, net | | 1,216,988 | | 1,417,289 |
| | | | | |
| Total loans and leases | $ | 14,767,344 | $ | 13,791,239 |
| Total loans and leases, net | $ | 14,454,663 | $ | 13,464,117 |

The loan amounts above include unamortized fees, net of deferred costs, of $5.0 million and $7.5 million as of June 30, 2012 and December 31, 2011, respectively.

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**Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company s lending activities are predominantly in California, and to a lesser extent, New York and Nevada, the Company has various specialty lending businesses that lend to businesses located throughout the United States of America. Excluding covered loans, at June 30, 2012, California represented 81 percent of total loans outstanding and New York and Nevada represented 7 percent and 3 percent, respectively. The remaining 9 percent of total loans outstanding represented other states. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Credit performance also depends, to a lesser extent, on economic conditions in the San Francisco Bay area, New York and Nevada. Within the Company s covered loan portfolio at June 30, 2012, the five states with the largest concentration were California (39 percent), Texas (12 percent), Nevada (8 percent), Arizona (4 percent) and Ohio (4 percent). The remaining 33 percent of total covered loans outstanding represented other states.

*Covered Loans*

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements. Covered loans were $1.26 billion as of June 30, 2012 and $1.48 billion as of December 31, 2011. Covered loans, net of allowance for loan losses, were $1.22 billion at June 30, 2012 and $1.42 billion at December 31, 2011.

The following is a summary of the major categories of covered loans:

| **(in thousands)** | | **June 30, 2012** | | **December 31, 2011** |
|---|---|---|---|---|
| Commercial | $ | 22,772 | $ | 30,911 |
| Commercial real estate mortgages | | 1,135,071 | | 1,288,352 |
| Residential mortgages | | 5,766 | | 14,931 |
| Real estate construction | | 90,196 | | 140,992 |
| Equity lines of credit | | 5,265 | | 5,167 |
| Installment | | 1,065 | | 1,501 |
| Covered loans | | 1,260,135 | | 1,481,854 |
| Less: Allowance for loan losses | | (43,147) | | (64,565) |
| Covered loans, net | $ | 1,216,988 | $ | 1,417,289 |

The Company evaluated the acquired loans from its FDIC-assisted acquisitions and concluded that all loans, with the exception of a small population of acquired loans, would be accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ( ASC 310-30 ). Loans are accounted for under ASC 310-30 when there is evidence of credit deterioration since origination and for which it is probable, at acquisition, that the Company would be unable to collect all contractually required payments. Interest income is recognized on all acquired impaired loans through accretion of the difference between the carrying amount of the loans and their expected cash flows.

As of NCB s acquisition date in 2011, the estimates of the contractually required payments receivable for all acquired impaired covered loans of NCB were $107.4 million, the cash flows expected to be collected were $66.2 million, and the fair value of the acquired impaired loans was $55.3 million. The above amounts were determined based on the estimated performance over the remaining life of the underlying loans, which included the effects of estimated prepayments. Fair value of the acquired loans included estimated credit losses.

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**Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

The excess of cash flows expected to be collected over the carrying value of the underlying acquired impaired loans is referred to as the accretable yield. This amount is not reported in the consolidated balance sheets, but is accreted into interest income at a level yield over the remaining estimated lives of the underlying pools of loans. Changes in the accretable yield for acquired impaired loans were as follows for the six months ended June 30, 2012 and 2011:

| | For the six months ended June 30, | |
|---|---|---|
| **(in thousands)** | **2012** | **2011** |
| Balance, beginning of period | $ 436,374 | $ 562,826 |
| Additions | | 10,871 |
| Accretion | (43,085) | (54,558) |
| Reclassifications (to) from nonaccretable yield | (10,212) | 13,461 |
| Disposals and other | (36,944) | (27,127) |
| Balance, end of period | $ 346,133 | $ 505,473 |

The factors that most significantly affect estimates of cash flows expected to be collected, and accordingly the accretable yield balance, include: (i) changes in credit assumptions, including both credit loss amounts and timing; (ii) changes in prepayment assumptions; and (iii) changes in interest rates for variable-rate loans. Reclassifications between accretable yield and nonaccretable yield may vary from period to period as the Company periodically updates its cash flow projections. The reclassification of accretable yield to nonaccretable yield during 2012 was principally driven by negative changes in future cash flows, both timing and amount, which were primarily a result of changes in credit assumptions.

The Company recorded an indemnification asset related to its FDIC-assisted acquisitions, which represents the present value of the expected reimbursement from the FDIC for expected losses on acquired loans, OREO and unfunded commitments. The FDIC indemnification asset from all FDIC-assisted acquisitions was $170.7 million at June 30, 2012 and $204.3 million at December 31, 2011.

***Credit Quality on Loans and Leases, Excluding Covered Loans***

*Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments*

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses, reserve for off-balance sheet credit commitments and provision for credit losses. The provision is the expense recognized in the consolidated statements of income to adjust the allowance and reserve to the levels deemed appropriate by management, as determined through application of the Company s allowance methodology procedures. The provision for credit losses reflects management s judgment of the adequacy of the allowance for loan and lease losses and the reserve for off-balance sheet credit commitments. It is determined through quarterly analytical reviews of the loan and commitment portfolios and consideration of such other factors as the Company s loan and lease loss experience, trends in problem loans, concentrations of credit risk, underlying collateral values, and current economic conditions, as well as the results of the Company s ongoing credit review process. As conditions change, the Company s level of provisioning and the allowance for loan and lease losses and reserve for off-balance sheet credit commitments may change.

For commercial, non-homogenous loans that are not impaired, the Bank derives loss factors via a process that begins with estimates of probable losses inherent in the portfolio based upon various statistical analyses. The factors considered in the analysis include loan type, migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, as well as analyses that reflect current trends and conditions. Each portfolio of smaller balance homogeneous loans, including residential first mortgages, installment, revolving credit and most other consumer loans, is collectively evaluated for loss potential. Management also establishes a qualitative reserve that considers overall portfolio indicators, including current and historical credit losses; delinquent, nonperforming and criticized loans; portfolio concentrations, trends in volumes and terms of loans; and economic trends in the broad market and in specific industries.

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**Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

The allowance for loan and lease losses attributed to impaired loans considers all available evidence, including as appropriate, the probability that a specific loan will default, the expected exposure of a loan at default, an estimate of loss given default, the present value of expected future cash flows discounted using the loan s contractual effective rate, the secondary market value of the loan and the fair value of collateral.

The quantitative portion of the allowance for loan and lease losses is adjusted for qualitative factors to account for model imprecision and to incorporate the range of probable outcomes inherent in the estimates used for the allowance. The qualitative portion of the allowance attempts to incorporate the risks inherent in the portfolio, economic uncertainties, competition, regulatory requirements and other subjective factors including industry trends, changes in underwriting standards, and existence of concentrations.

The relative significance of risk considerations vary by portfolio segment. For commercial loans, the primary risk consideration is a borrower s ability to generate sufficient cash flows to repay their loan. Secondary considerations include the creditworthiness of guarantors and the valuation of collateral. In addition to the creditworthiness of a borrower, the type and location of real estate collateral is an important risk factor for commercial real estate and real estate construction loans. The primary risk considerations for consumer loans are a borrower s personal cash flow and liquidity, as well as collateral value.

Generally, commercial, commercial real estate and real estate construction loans are charged off immediately when it is determined that advances to the borrower are in excess of the calculated current fair value of the collateral or if a borrower is deemed incapable of repayment of unsecured debt, there is little or no prospect for near term improvement and no realistic strengthening action of significance pending. Consumer loans are charged-off based on delinquency, ranging from 60 days for overdrafts to 180 days for secured consumer loans, or earlier when it is determined that the loan is uncollectible due to a triggering event, such as bankruptcy, fraud or death.

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**Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

The following tables provide a summary of activity in the allowance for loan and lease losses and the period-end recorded investment balances of loans evaluated for impairment, excluding covered loans, for the three and six months ended June 30, 2012 and 2011. Activity is provided by loan type which is consistent with the Company s methodology for determining the allowance for loan and lease losses.

| (in thousands) | Commercial (1) | Commercial Real Estate Mortgages | Residential Mortgages | Real Estate Construction | Equity Lines of Credit | Installment | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **Three months ended June 30, 2012** | | | | | | | | |
| **Allowance for loan and lease losses:** | | | | | | | | |
| Beginning balance | $ 84,087 | $ 46,586 | $ 13,803 | $ 22,096 | $ 8,032 | $ 1,938 | $ 89,535 | $ 266,077 |
| Provision for credit losses (2) | 1,228 | (51) | (846) | 326 | 386 | 100 | (427) | 716 |
| Charge-offs | (1,302) | (181) | (749) | (7,858) | (846) | (617) | | (11,553) |
| Recoveries | 9,394 | 1,294 | 206 | 3,019 | 38 | 343 | | 14,294 |
| Net (charge-offs) recoveries | 8,092 | 1,113 | (543) | (4,839) | (808) | (274) | | 2,741 |
| Ending balance | $ 93,407 | $ 47,648 | $ 12,414 | $ 17,583 | $ 7,610 | $ 1,764 | $ 89,108 | $ 269,534 |
| **Six months ended June 30, 2012** | | | | | | | | |
| **Allowance for loan and lease losses:** | | | | | | | | |
| Beginning balance | $ 82,965 | $ 45,967 | $ 14,029 | $ 23,347 | $ 8,024 | $ 1,959 | $ 86,266 | $ 262,557 |
| Provision for credit losses (2) | (2,933) | 1,234 | (578) | (1,029) | 548 | (338) | 2,842 | (254) |
| Charge-offs | (10,219) | (873) | (1,303) | (9,459) | (1,035) | (826) | | (23,715) |
| Recoveries | 23,594 | 1,320 | 266 | 4,724 | 73 | 969 | | 30,946 |
| Net (charge-offs) recoveries | 13,375 | 447 | (1,037) | (4,735) | (962) | 143 | | 7,231 |
| Ending balance | $ 93,407 | $ 47,648 | $ 12,414 | $ 17,583 | $ 7,610 | $ 1,764 | $ 89,108 | $ 269,534 |
| Ending balance of allowance: | | | | | | | | |
| Individually evaluated for impairment | $ 2,850 | $ 2,282 | $ 398 | $ 1,866 | $ 154 | $ | $ | $ 7,550 |
| Collectively evaluated for impairment | 90,557 | 45,366 | 12,016 | 15,717 | 7,456 | 1,764 | 89,108 | 261,984 |
| **Loans and leases, excluding covered loans** | | | | | | | | |
| Ending balance of loans and leases: | | | | | | | | |
| Loans and leases, excluding covered loans | $ 6,086,947 | $ 2,424,333 | $ 3,822,630 | $ 301,829 | $ 741,270 | $ 130,200 | $ | $ 13,507,209 |
| Individually evaluated for impairment | 43,144 | 45,491 | 13,634 | 66,529 | 4,434 | 550 | | 173,782 |
| Collectively evaluated for impairment | 6,043,803 | 2,378,842 | 3,808,996 | 235,300 | 736,836 | 129,650 | | 13,333,427 |

(1) Includes lease financing loans.
(2) Provision for credit losses in the allowance rollforward for the three months ended June 30, 2012 includes total provision expense of $1.0 million and total transfers to the reserve for off-balance sheet credit commitments of $0.3 million. Provision for credit losses for the six months ended June 30, 2012 includes total provision expense of $1.0 million and total transfers to the reserve for off-balance sheet credit commitments of $1.3 million.

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**Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

| (in thousands) | Commercial (1) | Commercial Real Estate Mortgages | Residential Mortgages | Real Estate Construction | Equity Lines of Credit | Installment | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **Three months ended June 30, 2011** | | | | | | | | |
| **Allowance for loan and lease losses:** | | | | | | | | |
| Beginning balance | $ 75,661 | $ 47,519 | $ 13,527 | $ 36,693 | $ 6,445 | $ 5,445 | $ 78,066 | $ 263,356 |
| Provision for credit losses (2) | 7,440 | 272 | (401) | (7,815) | 343 | (3,600) | 2,143 | (1,618) |
| Charge-offs | (3,446) | (98) | (375) | (1,897) | (128) | (131) | | (6,075) |
| Recoveries | 6,062 | 1,367 | 122 | 2,474 | 8 | 237 | | 10,270 |
| Net charge-offs (recoveries) | 2,616 | 1,269 | (253) | 577 | (120) | 106 | | 4,195 |
| Ending balance | $ 85,717 | $ 49,060 | $ 12,873 | $ 29,455 | $ 6,668 | $ 1,951 | $ 80,209 | $ 265,933 |
| **Six months ended June 30, 2011** | | | | | | | | |
| **Allowance for loan and lease losses:** | | | | | | | | |
| Beginning balance | $ 82,451 | $ 52,516 | $ 16,753 | $ 40,824 | $ 7,229 | $ 3,931 | $ 53,303 | $ 257,007 |
| Provision for credit losses (2) | 2,587 | (10,937) | (3,012) | (15,772) | 316 | (1,884) | 26,906 | (1,796) |
| Charge-offs | (6,684) | (2,897) | (1,022) | (2,463) | (921) | (455) | | (14,442) |
| Recoveries | 7,363 | 10,378 | 154 | 6,866 | 44 | 359 | | 25,164 |
| Net charge-offs (recoveries) | 679 | 7,481 | (868) | 4,403 | (877) | (96) | | 10,722 |
| Ending balance | $ 85,717 | $ 49,060 | $ 12,873 | $ 29,455 | $ 6,668 | $ 1,951 | $ 80,209 | $ 265,933 |
| Ending balance of allowance: | | | | | | | | |
| Individually evaluated for impairment | $ 7,605 | $ 1,150 | $ 56 | $ 1,853 | $ 404 | $ | $ | $ 11,068 |
| Collectively evaluated for impairment | 78,112 | 47,910 | 12,817 | 27,602 | 6,264 | 1,951 | 80,209 | 254,865 |
| **Loans and leases, excluding covered loans** | | | | | | | | |
| Ending balance of loans and leases: | | | | | | | | |