CITY NATIONAL CORP
Form 10-Q
August 08, 2013
Table of Contents

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, 2013

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 such filing requirements for 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 31, 2013, there were 54,366,640 shares of Common Stock outstanding (including unvested restricted shares).

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 146,338	$ 151,969
Due from banks - interest-bearing	156,221	246,336
Federal funds sold and securities purchased under resale agreements	200,000	17,100
Securities available-for-sale - cost $7,033,250 and $9,057,238 at June 30, 2013 and December 31, 2012, respectively:		
Securities pledged as collateral	13,909	48,697
Held in portfolio	7,030,662	9,157,292
Securities held-to-maturity - fair value $1,466,557 and $1,446,599 at June 30, 2013 and December 31, 2012, respectively	1,503,973	1,398,403
Trading securities	48,655	115,059
Loans and leases, excluding covered loans	15,819,252	14,818,295
Less: Allowance for loan and lease losses	289,914	277,888
Loans and leases, excluding covered loans, net	15,529,338	14,540,407
Covered loans, net of allowance for loan losses	843,582	986,223
Net loans and leases	16,372,920	15,526,630
Premises and equipment, net	162,535	149,433
Deferred tax asset	183,464	124,461
Goodwill	642,622	642,622
Customer-relationship intangibles, net	44,275	48,139
Affordable housing investments	166,781	154,011
Customers acceptance liability	2,742	7,859
Other real estate owned ($41,801 and $58,276 covered by FDIC loss share at June 30, 2013 and December 31, 2012, respectively)	61,477	79,303
FDIC indemnification asset	117,295	150,018
Other assets	525,633	601,160
Total assets	$ 27,379,502	$ 28,618,492
Liabilities		
Demand deposits	$ 14,288,001	$ 14,264,797
Interest checking deposits	2,270,298	2,459,972
Money market deposits	5,821,737	5,610,844
Savings deposits	399,223	398,824
Time deposits-under $100,000	224,734	203,422
Time deposits-$100,000 and over	647,764	564,496
Total deposits	23,651,757	23,502,355
Short-term borrowings	2,675	1,423,798
Long-term debt	706,537	706,051
Reserve for off-balance sheet credit commitments	25,124	24,837
Acceptances outstanding	2,742	7,859
Other liabilities	405,956	407,162
Total liabilities	24,794,791	26,072,062
Redeemable noncontrolling interest	39,943	41,112

Commitments and contingencies				
Shareholders equity				
Preferred stock, par value $1.00 per share; 5,000,000 shares authorized; 175,000 shares issued at June 30, 2013 and December 31, 2012		169,920		169,920
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 54,273,594 and 53,885,886 shares issued at June 30, 2013 and December 31, 2012, respectively		54,274		53,886
Additional paid-in capital		507,560		490,339
Accumulated other comprehensive income		6,585		86,582
Retained earnings		1,831,725		1,738,957
Treasury shares, at cost - 492,294 and 669,454 shares at June 30, 2013 and December 31, 2012, respectively		(25,296)		(34,366)
Total common shareholders equity		2,374,848		2,335,398
Total shareholders equity		2,544,768		2,505,318
Total liabilities and shareholders equity	$	27,379,502	$	28,618,492

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)	For the three months ended June 30, 2013	2012	For the six months ended June 30, 2013	2012
Interest income				
Loans and leases	$ 174,059	$ 186,071	$ 344,349	$ 354,173
Securities	41,223	43,549	85,486	88,935
Due from banks - interest-bearing	158	173	270	266
Federal funds sold and securities purchased under resale agreements	1,555	96	2,690	107
Total interest income	216,995	229,889	432,795	443,481
Interest expense				
Deposits	2,990	3,566	5,930	7,599
Federal funds purchased and securities sold under repurchase agreements	123	1	400	32
Subordinated debt	6,117	4,308	12,223	8,369
Other long-term debt	4,722	5,535	9,701	10,289
Other short-term borrowings	124		549	
Total interest expense	14,076	13,410	28,803	26,289
Net interest income	202,919	216,479	403,992	417,192
Provision for credit losses on loans and leases, excluding covered loans		1,000		1,000
Provision for losses on covered loans	(11,927)	13,293	(2,035)	20,759
Net interest income after provision	214,846	202,186	406,027	395,433
Noninterest income				
Trust and investment fees	49,830	34,067	96,483	67,721
Brokerage and mutual fund fees	8,107	5,293	16,173	10,321
Cash management and deposit transaction charges	12,880	11,475	25,889	22,643
International services	10,911	10,017	20,530	18,802
FDIC loss sharing expense, net	(26,477)	(6,026)	(30,829)	(5,160)
Gain on disposal of assets	949	3,011	2,063	5,202
Gain (loss) on sale of securities	5,790	(279)	6,836	170
Other	20,401	17,388	38,774	30,947
Impairment loss on securities:				
Total other-than-temporary impairment loss on securities	(422)	(4,129)	(422)	(4,129)
Less: Portion of loss recognized in other comprehensive income	240	3,951	240	3,951
Net impairment loss recognized in earnings	(182)	(178)	(182)	(178)
Total noninterest income	82,209	74,768	175,737	150,468
Noninterest expense				
Salaries and employee benefits	127,168	115,035	255,363	235,280
Net occupancy of premises	16,205	14,056	32,194	27,742
Legal and professional fees	13,163	11,359	24,775	23,239
Information services	9,183	8,539	18,574	16,688
Depreciation and amortization	8,249	8,013	16,421	15,441
Amortization of intangibles	1,931	1,518	3,863	3,404
Marketing and advertising	8,644	7,597	16,960	14,413

Office services and equipment		5,034		4,492		9,980		8,440
Other real estate owned		4,385		7,541		9,635		19,635
FDIC assessments		3,663		4,523		9,144		9,002
Other operating		13,804		11,843		25,860		21,952
Total noninterest expense		211,429		194,516		422,769		395,236
Income before income taxes		85,626		82,438		158,995		150,665
Income taxes		25,422		27,271		46,683		48,990
Net income	$	60,204	$	55,167	$	112,312	$	101,675
Less: Net income attributable to noncontrolling interest		463		409		1,048		652
Net income attributable to City National Corporation	$	59,741	$	54,758	$	111,264	$	101,023
Less: Dividends on preferred stock		2,406				4,812		
Net income available to common shareholders	$	57,335	$	54,758	$	106,452	$	101,023
Net income per common share, basic	$	1.05	$	1.02	$	1.95	$	1.88
Net income per common share, diluted	$	1.04	$	1.01	$	1.94	$	1.87
Weighted average common shares outstanding, basic		54,105		53,105		53,919		52,923
Weighted average common shares outstanding, diluted		54,477		53,373		54,280		53,217
Dividends per common share	$	0.25	$	0.25	$	0.25	$	0.50

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(in thousands)	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Net income	$ 60,204	$ 55,167	$ 112,312	$ 101,675
Other comprehensive (loss) income, net of tax:				
Securities available-for-sale:				
Net unrealized (losses) gains arising during the period	(64,693)	3,815	(76,502)	11,971
Reclassification adjustment for net gains included in net income	(2,783)	(10)	(3,299)	(239)
Non-credit related impairment loss	(140)	(2,299)	(140)	(2,299)
Net change on cash flow hedges (1)	(21)	(41)	(56)	(83)
Pension liability adjustment				1,085
Total other comprehensive (loss) income	(67,637)	1,465	(79,997)	10,435
Comprehensive (loss) income	$ (7,433)	$ 56,632	$ 32,315	$ 112,110
Less: Comprehensive income attributable to noncontrolling interest	463	409	1,048	652
Comprehensive (loss) income attributable to City National Corporation	$ (7,896)	$ 56,223	$ 31,267	$ 111,458

(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.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	For the six months ended June 30, 2013	2012
Cash Flows From Operating Activities		
Net income	$ 112,312	$ 101,675
Adjustments to net income:		
Provision for credit losses on loans and leases, excluding covered loans		1,000
Provision for losses on covered loans	(2,035)	20,759
Amortization of intangibles	3,863	3,404
Depreciation and amortization	16,421	15,441
Share-based employee compensation expense	10,535	8,968
Deferred income tax (benefit) expense	(1,514)	1,276
Gain on disposal of assets	(2,063)	(5,202)
Gain on sale of securities	(6,836)	(170)
Impairment loss on securities	182	178
Other, net	23,488	(19,467)
Net change in:		
Trading securities	67,568	(851)
Other assets and other liabilities, net	45,924	40,111
Net cash provided by operating activities	267,845	167,122
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(698,457)	(1,331,692)
Sales of securities available-for-sale	1,251,056	5,189
Maturities and paydowns of securities available-for-sale	1,454,644	2,031,596
Purchase of securities held-to-maturity	(123,549)	(638,006)
Maturities and paydowns of securities held-to-maturity	16,336	4,617
Loan originations, net of principal collections	(813,453)	(671,623)
Net payments for premises and equipment	(29,523)	(14,703)
Net cash paid in acquisitions		(69,987)
Other investing activities, net	31,527	28,527
Net cash provided by (used in) investing activities	1,088,581	(656,082)
Cash Flows From Financing Activities		
Net increase in deposits	149,402	721,470
Net (decrease) increase in federal funds purchased	(1,214,200)	60,000
Issuance of long-term debt	16,456	156,829
Repayment of long-term debt	(221,899)	(244,813)
Proceeds from exercise of stock options	17,838	9,044
Tax benefit from exercise of stock options	3,383	1,180
Cash dividends paid	(18,351)	(26,632)
Other financing activities, net	(1,901)	(1,930)
Net cash (used in) provided by financing activities	(1,269,272)	675,148
Net increase in cash and cash equivalents	87,154	186,188
Cash and cash equivalents at beginning of year	415,405	244,814
Cash and cash equivalents at end of period	$ 502,559	$ 431,002
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 32,147	$ 25,674
Income taxes	11,471	30,373

Non-cash investing activities:				
Transfer of loans to other real estate owned	$	14,629	$	41,728
Transfer of SERP liability to equity				8,348
Assets acquired (liabilities assumed) in acquisitions:				
Loans and leases	$		$	318,301
Other borrowings				(320,856)

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(in thousands, except share amounts)	Common shares issued	Preferred stock	Common stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Treasury shares	Total shareholders equity
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
Balance, January 1, 2013	53,885,886	$ 169,920	$ 53,886	$ 490,339	$ 86,582	$ 1,738,957	$ (34,366)	$ 2,505,318
Net income (1)						111,264		111,264
Other comprehensive loss, net of tax					(79,997)			(79,997)
Issuance of shares under share-based compensation plans	387,708		388	5,291			9,070	14,749
Share-based employee compensation expense				8,737				8,737
Tax benefit from share-based compensation plans				2,919				2,919
Dividends:								
Preferred						(4,812)		(4,812)
Common						(13,684)		(13,684)
Net change in deferred compensation plans				690				690
Change in redeemable noncontrolling interest				(416)				(416)
Balance, June 30, 2013	54,273,594	$ 169,920	$ 54,274	$ 507,560	$ 6,585	$ 1,831,725	$ (25,296)	$ 2,544,768

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $1,048 and $652 for the six month periods ended June 30, 2013 and 2012, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 18 of the Notes to the Unaudited Consolidated Financial Statements.

(2) Conversion of pension liability to equity due to SERP amendment. See Note 15 for additional information.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

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, 2013, 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. Redeemable noncontrolling interests are noncontrolling ownership interests that are redeemable at the option of the holder or outside the control of the issuer. The redeemable noncontrolling interests of third parties in the Corporation s investment advisory affiliates are not considered to be permanent equity and are reflected 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 17 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, other real estate owned (OREO), valuation of share-based compensation awards, income taxes, goodwill and intangible asset impairment, securities impairment, private equity and alternative investment impairment, valuation of assets and liabilities acquired in business combinations, including contingent consideration liabilities, 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.

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.

Table of Contents

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2012.

The results for the 2013 interim periods 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 2012 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, 2013. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2013.

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

Accounting Pronouncements

The following is a summary of accounting pronouncements that became effective during the six months ended June 30, 2013:

- In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution* (ASU 2012-06). ASU 2012-06 clarifies existing guidance on the subsequent measurement of an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. Existing guidance specifies that an acquirer must record an indemnification asset at the same time as it recognizes the indemnified item in a business combination. The indemnification asset is initially and subsequently measured on the same basis as the indemnified item, subject to any contractual limitations on its amount or management s assessment of its collectability. Under ASU 2012-06, when there is a subsequent change in the cash flows expected to be collected on the indemnified asset, the reporting entity should subsequently measure the indemnification asset on the same basis as the underlying loans by taking into account the contractual limitation of the indemnification agreement. Any amortization of changes in value shall be limited to the lesser of the contractual term of the indemnification agreement and the remaining life of the indemnified assets. Adoption of ASU 2012-06 on January 1, 2013 did not have a significant impact on the Company s consolidated financial statements.

- In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01 *)*. ASU 2013-01 clarifies that ordinary trade receivables and other receivables are not in the scope of ASU

2011-11, *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities*. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the Accounting Standards Codification (ASC) or subject to a master netting arrangement or similar agreement. The Company adopted ASU 2013-01 in its first quarter 2013 reporting. Refer to Note 13 for balance sheet offsetting disclosures.

Table of Contents

Note 1. Summary of Significant Accounting Policies (Continued)

- In February 2013, the FASB issued ASU 2013-02, *Other Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Other Comprehensive Income* (ASU 2013-02). The provisions in the ASU supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income (AOCI) in ASU 2011-05 and 2011-12. ASU 2013-02 requires entities to disclose additional information about reclassification adjustments, including (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company adopted ASU 2013-02 for its first quarter 2013 reporting. Adoption of the new guidance did not have a significant impact on the Company s consolidated financial statements.

The following is a summary of recently issued accounting pronouncements:

- In February 2013, the FASB issued ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* (ASU 2013-04). ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements. Examples of obligations within the scope of the ASU include debt arrangements, other contractual obligations and settled litigation. ASU 2013-04 requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date, as the sum of (1) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and (2) any additional amount the reporting entity expects to pay on behalf of its co-obligors. Required disclosures include a description of the joint-and-several arrangement and the total outstanding amount of the obligation for all joint parties. The ASU is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

- In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. The new guidance permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes in addition to U.S. Government Treasury rates and LIBOR. The ASU is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company periodically enters into interest-rate swap agreements to reduce cash flow variability on pools of floating rate loans. The swaps are tied to either the Prime rate or LIBOR consistent with the pricing index on the underlying loans. The Company does not use the Fed Funds rate for loan pricing. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

- In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The new guidance requires an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward or tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the the tax law of the applicable jurisdiction does not require the entity to use and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the statement of financial position as a liability and should not be combined with deferred tax assets. The ASU is effective for annual periods, and interim periods within those years, beginning after December 15, 2013. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

10

Table of Contents

Note 2. Business Combinations

Rochdale Investment Management

On July 2, 2012, the Company acquired Rochdale Investment Management, LLC and associated entities (collectively, Rochdale), a New York City-based investment firm that manages assets for affluent and high-net-worth clients and their financial advisors across the nation. The investment firm was acquired with both cash and contingent consideration, and operates as a wholly owned subsidiary of the Bank.

The Company recognized goodwill of approximately $86.5 million and a client contract intangible of $19.0 million related to the acquisition. The Company recognized a contingent consideration liability at its fair value of $46.7 million. The contingent consideration arrangements require the Company to pay additional cash consideration to Rochdale s former shareholders at certain points in time over the next six years if certain criteria, such as revenue growth and pre-tax margin, are met. The fair value of the contingent consideration was estimated using a probability-weighted discounted cash flow model. Although the acquisition agreement does not set a limit on the total payment, the Company estimates that the total consideration payment could be in the range of $32 million to $74 million, but will ultimately be determined based on actual future results. The contingent consideration liability is remeasured to fair value at each reporting date until its settlement.

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.

Table of Contents

Note 3. Fair Value Measurements

The following tables summarize assets and liabilities measured at fair value as of June 30, 2013 and December 31, 2012 by level in the fair value hierarchy:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	**Balance as of June 30, 2013**	**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	$ 30,285	$ 30,285	$	$
Federal agency - Debt	980,025		980,025	
Federal agency - MBS	438,182		438,182	
CMOs - Federal agency	4,728,613		4,728,613	
CMOs - Non-agency	45,327		45,327	
State and municipal	466,760		420,594	46,166
Other debt securities	350,244		334,571	15,673
Equity securities and mutual funds	5,135	5,135		
Trading securities	48,655	38,411	10,244	
Derivatives (1)	40,066	1,963	38,103	
Total assets at fair value	$ 7,133,292	$ 75,794	$ 6,995,659	$ 61,839
Liabilities				
Derivatives	$ 38,771	$ 2,490	$ 36,281	$
Contingent consideration liability	48,800			48,800
FDIC clawback liability	11,053			11,053
Other liabilities	319		319	
Total liabilities at fair value (2)	$ 98,943	$ 2,490	$ 36,600	$ 59,853
Redeemable noncontrolling interest	$ 39,943	$	$	$ 39,943
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 17	$	$	$ 17
Commercial real estate mortgages	7,300			7,300
Residential mortgages	1,457			1,457
Other real estate owned (5)	19,525		16,494	3,031
Private equity and alternative investments	686			686
Total assets at fair value	$ 28,985	$	$ 16,494	$ 12,491

(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) Includes covered OREO.

Table of Contents

Note 3. Fair Value Measurements (Continued)

(in thousands)	Balance as of December 31, 2012	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	$ 20,397	$ 20,397	$	$
Federal agency - Debt	2,349,202		2,349,202	
Federal agency - MBS	693,032		693,032	
CMOs - Federal agency	5,318,253		5,318,253	
CMOs - Non-agency	61,513		61,513	
State and municipal	454,474		407,429	47,045
Other debt securities	307,417		289,275	18,142
Equity securities and mutual funds	1,701	1,701		
Trading securities	115,059	113,010	2,049	
Derivatives (1)	67,496	218	67,278	
Total assets at fair value	$ 9,388,544	$ 135,326	$ 9,188,031	$ 65,187
Liabilities				
Derivatives	$ 64,432	$	$ 64,432	$
Contingent consideration liability	47,724			47,724
FDIC clawback liability	9,970			9,970
Other liabilities	368		368	
Total liabilities at fair value (2)	$ 122,494	$	$ 64,800	$ 57,694
Redeemable noncontrolling interest	$ 41,112	$	$	$ 41,112
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 2,655	$	$	$ 2,655
Commercial real estate mortgages	10,963		3,950	7,013
Residential mortgages	1,811			1,811
Real estate construction	7,918			7,918
Home equity loans and lines of credit	780			780
Installment	550		550	
Other real estate owned (5)	44,396		34,624	9,772
Private equity and alternative investments	6,178			6,178
Total assets at fair value	$ 75,251	$	$ 39,124	$ 36,127

(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) Includes covered OREO.

Table of Contents

Note 3. Fair Value Measurements (Continued)

At June 30, 2013, $7.13 billion, or approximately 26 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $9.39 billion, or 33 percent, at December 31, 2012. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than one percent of total assets were measured using Level 3 inputs. At June 30, 2013, $98.9 million of the Company s total liabilities were recorded at fair value using mostly Level 2 or Level 3 inputs, compared with $122.5 million at December 31, 2012. 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, 2013. At June 30, 2013, $29.0 million of the Company s total assets were recorded at fair value on a nonrecurring basis, compared with $75.3 million at December 31, 2012. These assets represent less than one percent of total assets and 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 and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2013 and 2012.

Level 3 Assets and Liabilities Measured on a Recurring Basis

	For the six months ended June 30, 2013			For the six months ended June 30, 2012	
(in thousands)	**Securities Available-for-Sale**	**Contingent Consideration Liability**	**FDIC Clawback Liability**	**Securities Available-for-Sale**	**FDIC Clawback Liability**
Balance, beginning of period	$ 65,187	$ (47,724)	$ (9,970)	$ 19,583	$ (8,103)
Total realized/unrealized gains (losses):					
Included in earnings			(1,083)		(1,114)
Included in other comprehensive income	233			1,221	
Settlements	(3,655)			(1,664)	
Transfers into Level 3				47,165	
Other (1)	74	(1,076)		46	
Balance, end of period	$ 61,839	$ (48,800)	$ (11,053)	$ 66,351	$ (9,217)

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

Redeemable noncontrolling interest is classified as Level 3 in the fair value hierarchy and measured on a recurring basis. Refer to Note 18, *Noncontrolling Interest*, for a rollforward of activity for the six months ended June 30, 2013 and 2012.

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. At June 30, 2013, municipal auction rate 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 $15.7 million at June 30, 2013 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.

Level 3 liabilities measured at fair value on a recurring basis consist of contingent consideration and an FDIC clawback liability that are included in other liabilities. Refer to Note 2, *Business Combinations*, for further discussion of the methodology used to value the contingent consideration liability. The FDIC clawback liability was valued using the discounted cash flow method based on the terms specified in loss-sharing agreements with the FDIC, the actual FDIC payments collected and the following unobservable inputs: (1) risk-adjusted discount rate reflecting the Bank s credit risk, plus a liquidity premium, (2) prepayment assumptions and (3) credit assumptions.

There were no purchases, sales, or transfers out of Level 3 assets measured on a recurring basis during the six months ended June 30, 2013 and 2012. Paydowns of $3.7 million and $1.7 million were received on Level 3 assets measured on a recurring basis for the six months ended June 30, 2013 and 2012, respectively.

Table of Contents

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, 2013	Valuation Method	Unobservable Inputs
Collateral dependent impaired loans	$	8,774	Market	- Adjustments to external or internal appraised values (1) - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors
Other real estate owned	$	3,031	Market	- Adjustments to external or internal appraised values (1) - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors
Private equity and alternative investments	$	686	Cost Recovery	- Management's assumptions regarding recoverability of investment based on fund financial performance, market conditions and other relevant factors

(1) Appraised values may be adjusted to reflect changes in market conditions that have occurred subsequent to the appraisal date, or for revised estimates regarding the timing or cost of the property sale. These adjustments are based on qualitative judgments made by management on a case-by-case basis.

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.

Table of Contents

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, 2013 and 2012:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Collateral dependent impaired loans:				
Commercial	$	$	$	$ (367)
Commercial real estate mortgages	148	(1,572)	293	(1,937)
Residential mortgages	(230)	(540)	(221)	(1,122)
Real estate construction		(281)		(6,753)
Home equity loans and lines of credit		(115)	116	(62)
Installment			(138)	(107)
Other real estate owned (1)	(1,857)	(3,700)	(4,711)	(12,165)
Private equity and alternative investments		(333)	(399)	(460)
Total net losses recognized	$ (1,939)	$ (6,541)	$ (5,060)	$ (22,973)

(1) Net losses on OREO includes $1.9 million and $4.7 million of net losses related to covered OREO for the three and six months ended June 30, 2013, respectively, and $3.5 million and $11.0 million of net losses for the three and six months ended June 30, 2012, 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. Refer to Note 1, *Summary of Significant Accounting Policies,* in the Company s 2012 Form 10-K for additional information on fair value measurements.

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.

Table of Contents

Note 3. Fair Value Measurements (Continued)

The following tables summarize the carrying amounts and estimated fair values of those financial instruments that are reported at amortized cost in the Company s consolidated balance sheets. The tables also provide information on the level in the fair value hierarchy for inputs used in determining the fair value of those financial instruments. 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.

	June 30, 2013				
	Carrying	Total	Fair Value Measurements Using		
(in millions)	Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 146.3	$ 146.3	$ 146.3	$	$
Due from banks - interest bearing	156.2	156.2	156.2		
Federal funds sold and securities purchased under resale agreements	200.0	194.6		194.6	
Securities held-to-maturity	1,504.0	1,466.6		1,466.6	
Loans and leases, net of allowance	15,529.3	15,926.6			15,926.6
Covered loans, net of allowance	843.6	893.6			893.6
FDIC indemnification asset	117.3	96.6			96.6
Investment in FHLB and FRB stock	78.0	78.0		78.0	
Financial Liabilities:					
Deposits	$ 23,651.8	$ 23,655.4	$	$ 22,779.3	$ 876.1
Other short-term borrowings	2.7	2.7			2.7
Long-term debt	706.5	769.0		693.9	75.1

	December 31, 2012				
	Carrying	Total	Fair Value Measurements Using		
(in millions)	Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 152.0	$ 152.0	$ 152.0	$	$
Due from banks - interest bearing	246.3	246.3	246.3		
Federal funds sold	17.1	17.1	17.1		
Securities held-to-maturity	1,398.4	1,446.6		1,446.6	
Loans and leases, net of allowance	14,540.4	14,988.6		4.5	14,984.1
Covered loans, net of allowance	986.2	1,055.0			1,055.0
FDIC indemnification asset	150.0	123.9			123.9
Investment in FHLB and FRB stock	90.0	90.0		90.0	
Financial Liabilities:					
Deposits	$ 23,502.4	$ 23,506.9	$	$ 22,734.5	$ 772.4
Federal funds purchased and securities sold under repurchase agreements	1,214.2	1,214.2	1,214.2		
Other short-term borrowings	209.6	210.7		207.6	3.1
Long-term debt	706.1	774.8		698.9	75.9

Following is a description of the methods and assumptions used in estimating the fair values of these financial instruments:

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 purchased under resale agreements The fair value of securities purchased under term resale agreements is determined using a combination of quoted market prices and observable market inputs such as interest rates and credit spreads.

Table of Contents

Note 3. Fair Value Measurements (Continued)

Securities held-to-maturity For securities held-to-maturity, the fair value is generally determined by quoted market prices, where available, or on observable market inputs appropriate for the type of security.

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 previous table. The fair value of loans is estimated by discounting future cash flows using discount rates that incorporate the Company s assumptions for 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 Federal Home Loan Bank of San Francisco (FHLB) and Federal Reserve Bank (FRB) 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.

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.

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.

Off-balance sheet commitments, which include commitments to extend credit, are excluded from the table. 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.

Table of Contents

Note 4. Securities

At June 30, 2013, the Company had total securities of $8.60 billion, comprised of securities available-for-sale at fair value of $7.04 billion, securities held-to-maturity at amortized cost of $1.50 billion and trading securities at fair value of $48.7 million. At December 31, 2012, the Company had total securities of $10.72 billion, comprised of securities available-for-sale at fair value of $9.21 billion, securities held-to-maturity at amortized cost of $1.40 billion and trading securities at fair value of $115.1 million.

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, 2013 and December 31, 2012:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
Securities available-for-sale:				
U.S. Treasury	$ 30,293	$ 8	$ (16)	$ 30,285
Federal agency - Debt	987,467	1,491	(8,933)	980,025
Federal agency - MBS	422,699	19,695	(4,212)	438,182
CMOs - Federal agency	4,736,335	47,991	(55,713)	4,728,613
CMOs - Non-agency	47,079	142	(1,894)	45,327
State and municipal	457,869	10,939	(2,048)	466,760
Other debt securities	351,171	4,664	(5,591)	350,244
Total debt securities	7,032,913	84,930	(78,407)	7,039,436
Equity securities and mutual funds	337	4,798		5,135
Total securities available-for-sale	$ 7,033,250	$ 89,728	$ (78,407)	$ 7,044,571
Securities held-to-maturity (1):				
Federal agency - Debt	$ 109,562	$ 27	$ (1,556)	$ 108,033
Federal agency - MBS	315,529	1,037	(8,555)	308,011
CMOs - Federal agency	797,715	3,036	(16,997)	783,754
State and municipal	281,167	427	(14,835)	266,759
Total securities held-to-maturity	$ 1,503,973	$ 4,527	$ (41,943)	$ 1,466,557
December 31, 2012				
Securities available-for-sale:				
U.S. Treasury	$ 20,393	$ 7	$ (3)	$ 20,397
Federal agency - Debt	2,344,374	5,031	(203)	2,349,202
Federal agency - MBS	653,428	39,673	(69)	693,032
CMOs - Federal agency	5,233,126	91,165	(6,038)	5,318,253
CMOs - Non-agency	62,975	662	(2,124)	61,513
State and municipal	437,266	17,447	(239)	454,474
Other debt securities	305,340	7,945	(5,868)	307,417
Total debt securities	9,056,902	161,930	(14,544)	9,204,288
Equity securities and mutual funds	336	1,365		1,701
Total securities available-for-sale	$ 9,057,238	$ 163,295	$ (14,544)	$ 9,205,989
Securities held-to-maturity (1):				
Federal agency - Debt	$ 97,183	$ 4,032	$	$ 101,215
Federal agency - MBS	303,642	11,490	(182)	314,950

CMOs - Federal agency		745,980		28,973		(382)		774,571
State and municipal		251,598		5,122		(857)		255,863
Total securities held-to-maturity	$	1,398,403	$	49,617	$	(1,421)	$	1,446,599

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

Table of Contents

Note 4. Securities (Continued)

Proceeds from sales of securities available-for-sale were $0.2 million and $1.25 billion for the three and six months ended June 30, 2013, respectively, compared with $5.2 million for the three and six months ended June 30, 2012. There were no sales of securities held-to-maturity during the three and six months ended June 30, 2013 and June 30, 2012. 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)	**2013**	**2012**	**2013**	**2012**
Gross realized gains	$ 5,790	$ 40	$ 6,836	$ 536
Gross realized losses		(319)		(366)
Net realized gains (losses)	$ 5,790	$ (279)	$ 6,836	$ 170

Interest income on securities for the three months ended June 30, 2013 and 2012 is comprised of: (i) taxable interest income of $36.7 million and $39.3 million, respectively (ii) nontaxable interest income of $4.4 million and $4.0 million, respectively, and (iii) dividend income of $0.1 million and $0.2 million, respectively. Interest income on securities for the six months ended June 30, 2013 and 2012 is comprised of: (i) taxable interest income of $76.6 million and $80.9 million, respectively (ii) nontaxable interest income of $8.8 million and $7.8 million, respectively, and (iii) dividend income of $0.1 million and $0.2 million, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at June 30, 2013, except for maturities of mortgage-backed securities which 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	$ 12,106	$ 18,179	$	$	$ 30,285
Federal agency - Debt	278,906	595,726	105,393		980,025
Federal agency - MBS	398	168,346	269,438		438,182
CMOs - Federal agency	112,918	3,606,494	1,009,201		4,728,613
CMOs - Non-agency	4,203	14,636	26,488		45,327
State and municipal	40,790	338,418	62,250	25,302	466,760
Other	12,862	292,484	44,898		350,244
Total debt securities available-for-sale	$ 462,183	$ 5,034,283	$ 1,517,668	$ 25,302	$ 7,039,436
Amortized cost	$ 459,740	$ 5,015,064	$ 1,532,327	$ 25,782	$ 7,032,913
Securities held-to-maturity:					
Federal agency - Debt	$	$	$ 31,794	$ 77,768	$ 109,562
Federal agency - MBS			315,529		315,529
CMOs - Federal agency		145,489	652,226		797,715
State and municipal		7,460	119,559	154,148	281,167
	$	$ 152,949	$ 1,119,108	$ 231,916	$ 1,503,973

Total debt securities held-to-maturity at amortized cost

Table of Contents

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

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, 2013 and 2012, respectively. The Company recognized $0.2 million and $4.0 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at June 30, 2013 and 2012, respectively. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity during the three and six months ended June 30, 2013.

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, 2013 and 2012. 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 or redeemed during the period. Cumulative impairment is further adjusted for other changes in expected cash flows.

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Balance, beginning of period	$ 3,676	$ 17,369	$ 16,486	$ 17,531
Subsequent credit-related impairment	182	178	182	178
Reduction for securities sold or redeemed			(12,761)	

Reduction for increase in expected cash flows on securities for which OTTI was previously recognized		(204)		(181)		(253)		(343)
Balance, end of period	$	3,654	$	17,366	$	3,654	$	17,366

Table of Contents

Note 4. Securities (Continued)

Non-Agency CMOs

The Company held $34.6 million of variable rate non-agency CMOs at June 30, 2013. The Company determined that $6.2 million of these non-agency CMOs were other-than-temporarily impaired. 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 $0.2 million of credit-related impairment losses in earnings on its investments in certain variable rate non-agency CMOs for the three and six months ended June 30, 2013 and 2012, respectively. The remaining other-than-temporary impairment for these securities at June 30, 2013 and 2012 was recognized in AOCI. This non-credit portion of other-than-temporarily impairment 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 $10.7 million in fixed rate non-agency CMOs at June 30, 2013, 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, 2013 and December 31, 2012. 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, 2013						
Securities available-for-sale:						
U.S. Treasury	$ 15,076	$ 16	$	$	$ 15,076	$ 16
Federal agency - Debt	776,490	8,933			776,490	8,933
Federal agency - MBS (1)	100,077	4,212	45		100,122	4,212
CMOs - Federal agency	2,671,312	55,713			2,671,312	55,713
CMOs - Non-agency	20,744	870	8,445	1,024	29,189	1,894
State and municipal	180,366	1,991	3,543	57	183,909	2,048
Other debt securities	142,613	900	15,669	4,691	158,282	5,591
Total securities available-for-sale	$ 3,906,678	$ 72,635	$ 27,702	$ 5,772	$ 3,934,380	$ 78,407
Securities held-to-maturity:						
Federal agency - Debt	$ 80,966	$ 1,556	$	$	$ 80,966	$ 1,556
Federal agency - MBS	233,183	8,555			233,183	8,555
CMOs - Federal agency	549,647	16,997			549,647	16,997
State and municipal	227,012	14,835			227,012	14,835

Total securities held-to-maturity	$ 1,090,808	$ 41,943	$	$	$ 1,090,808	$ 41,943
December 31, 2012						
Securities available-for-sale:						
U.S. Treasury	$ 5,096	$ 3	$	$	$ 5,096	$ 3
Federal agency - Debt	346,136	203			346,136	203
Federal agency - MBS	50,932	69	46		50,978	69
CMOs - Federal agency	1,413,367	5,994	13,565	44	1,426,932	6,038
CMOs - Non-agency			25,484	2,124	25,484	2,124
State and municipal	85,550	225	810	14	86,360	239
Other debt securities	39,877	49	16,038	5,819	55,915	5,868
Total securities available-for-sale	$ 1,940,958	$ 6,543	$ 55,943	$ 8,001	$ 1,996,901	$ 14,544
Securities held-to-maturity:						
Federal agency - MBS	$ 31,514	$ 182	$	$	$ 31,514	$ 182
CMOs - Federal agency	60,998	382			60,998	382
State and municipal	64,344	857			64,344	857
Total securities held-to-maturity	$ 156,856	$ 1,421	$	$	$ 156,856	$ 1,421

(1) The estimated gross unrealized loss for federal agency MBS securities in a continuous unrealized loss position of 12 months or greater was an insignificant amount as of June 30, 2013.

Table of Contents

Note 4. Securities (Continued)

At June 30, 2013, the Company had $3.93 billion of securities available-for-sale in an unrealized loss position, consisting of $3.93 billion of temporarily impaired securities and $6.2 million of securities that had non-credit-related impairment recognized in AOCI. The Company had $1.09 million of securities held-to-maturity in an unrealized loss position. At June 30, 2013, the Company had 687 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position include 3 U.S. Treasury notes, 33 federal agency debt securities, 29 federal agency MBS securities, 140 federal agency CMOs, 6 non-agency CMOs, 462 state and municipal securities and 14 other debt securities. The increase in unrealized losses on debt securities from the first quarter of 2013 and year-end 2012 is attributed to higher market interest rates in the current period.

Other debt securities include the Company s investment in one highly-rated corporate debt and collateralized bond obligation backed by trust preferred securities (CDOs) issued by a geographically diverse pool of small- and medium-sized financial institutions. The CDO held in securities available-for-sale at June 30, 2013 is the most senior tranche of the issue. Trading activity for the type of CDO held by the Company has been limited since 2008. Accordingly, the fair value of this security was determined using an internal pricing model that incorporates assumptions about discount rates in an illiquid market, projected cash flows and collateral performance. The CDO had a $4.7 million net unrealized loss at June 30, 2013, which the Company attributes to the illiquid credit markets. The CDO has collateral that well exceeds the outstanding debt. The security valuation reflects the current and prospective performance of the issuers whose debt is contained in the asset pools. The Company expects to receive all remaining contractual principal and interest payments due on its CDO. Additionally, the Company does not intend to sell this security, and it is not more likely than not that it will be required to sell the security before it recovers the cost basis of its investment.

At December 31, 2012, the Company had $2.00 billion of securities available-for-sale in an unrealized loss position, consisting of $1.98 billion of temporarily impaired securities and $16.2 million of securities that had non-credit related impairment recognized in AOCI. At December 31, 2012, the Company had $156.9 million of securities held-to-maturity in an unrealized loss position. At December 31, 2012, the Company had 231 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position include 2 U.S. Treasury note, 8 federal agency debt securities, 7 federal agency MBS, 53 federal agency CMOs, 4 non-agency CMOs, 152 state and municipal securities and 5 other debt securities.

Note 5. Other Investments

FHLB and FRB Stock

The Company s investment in stock issued by the FHLB and FRB totaled $78.0 million and $90.0 million at June 30, 2013 and December 31, 2012, 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.

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 $34.9 million at June 30, 2013 and $36.1 million at December 31, 2012. A summary of investments by fund type is provided below:

(in thousands) **Fund Type**		**June 30,** **2013**		**December 31,** **2012**
Private equity and venture capital	$	20,340	$	20,693
Real estate		8,457		9,223
Hedge		2,841		2,866
Other		3,304		3,309
Total	$	34,942	$	36,091

Table of Contents

Note 5. Other Investments (Continued)

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 no impairment losses on other investments during the three months ended June 30, 2013, and recognized impairment losses of $0.4 million during the six months ended June 30, 2013. The Company recognized impairment losses totaling $0.3 million and $0.5 million on its other investments during the three and six months ended June 30, 2012, respectively.

The table below provides information as of June 30, 2013 on private equity and alternative investments measured at fair value on a nonrecurring basis due to the recognition of impairment:

(in thousands) Fund Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity and venture capital (1)	$ 686	$ 179	None (2)	N/A

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

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

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, 2013	December 31, 2012
Commercial	$ 6,773,875	$ 6,211,353
Commercial real estate mortgages	3,101,169	2,829,694
Residential mortgages	4,153,051	3,962,205
Real estate construction	217,808	222,780
Home equity loans and lines of credit	700,681	711,750
Installment	149,438	142,793
Lease financing	723,230	737,720
Loans and leases, excluding covered loans	15,819,252	14,818,295

Less: Allowance for loan and lease losses		(289,914)		(277,888)
Loans and leases, excluding covered loans, net		15,529,338		14,540,407
Covered loans		867,996		1,031,004
Less: Allowance for loan losses		(24,414)		(44,781)
Covered loans, net		843,582		986,223
Total loans and leases	$	16,687,248	$	15,849,299
Total loans and leases, net	$	16,372,920	$	15,526,630

The loan amounts above include unamortized fees, net of deferred costs, of $4.4 million and $5.9 million as of June 30, 2013 and December 31, 2012, respectively.

Table of Contents

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, 2013, California represented 78 percent of total loans outstanding and New York and Nevada represented 7 percent and 2 percent, respectively. The remaining 13 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.

Within the Company s covered loan portfolio at June 30, 2013, the five states with the largest concentration were California (36 percent), Texas (11 percent), Nevada (7 percent), New York (5 percent) and Arizona (5 percent). The remaining 36 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 $868.0 million as of June 30, 2013 and $1.03 billion as of December 31, 2012. Covered loans, net of allowance for loan losses, were $843.6 million at June 30, 2013 and $986.2 million at December 31, 2012.

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

(in thousands)		**June 30, 2013**		**December 31, 2012**
Commercial	$	8,675	$	10,561
Commercial real estate mortgages		789,521		931,758
Residential mortgages		5,560		5,652
Real estate construction		60,007		78,554
Home equity loans and lines of credit		3,673		3,790
Installment		560		689
Covered loans		867,996		1,031,004
Less: Allowance for loan losses		(24,414)		(44,781)
Covered loans, net	$	843,582	$	986,223

The following table provides information on covered loans and loss-sharing terms by acquired entity:

(in thousands)	**Total**

	Imperial Capital Bank	1st Pacific Bank	Sun West Bank	Nevada Commerce Bank	
Carrying value of covered loans as of:					
June 30, 2013	$ 757,074	$ 54,222	$ 28,053	$ 28,647	$ 867,996
December 31, 2012	$ 893,031	$ 70,240	$ 34,803	$ 32,930	$ 1,031,004
Expiration date of FDIC loss sharing:					
Commercial (1)	12/31/2016	6/30/2015	6/30/2015	6/30/2016	
Residential	12/31/2019	5/30/2020	5/30/2020	4/30/2021	
Termination date of FDIC loss-sharing agreements:					
Commercial (1)	12/19/2017	5/8/2018	5/29/2018	6/30/2019	
Residential	12/31/2019	5/30/2020	5/30/2020	4/30/2021	

(1) The Company is subject to sharing 80% of its recoveries with the FDIC up to the termination dates of the commercial loss-sharing agreements.

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.

Table of Contents

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 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, 2013 and 2012:

	For the six months ended June 30,	
(in thousands)	**2013**	**2012**
Balance, beginning of period	$ 295,813	$ 436,374
Accretion	(32,740)	(43,085)
Reclassifications from (to) nonaccretable yield	15,978	(10,212)
Disposals and other	(25,086)	(36,944)
Balance, end of period	$ 253,965	$ 346,133

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 nonaccretable yield to accretable yield during 2013 was principally driven by positive changes in cash flows, resulting mainly from 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 $117.3 million at June 30, 2013 and $150.0 million at December 31, 2012.

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.

The relative significance of risk considerations used in measuring the allowance for loan and lease losses will 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.

For commercial, non-homogenous loans that are not impaired, the Bank derives loss factors for each risk grade and loan type 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 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. 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, and regulatory requirements and other subjective factors such as changes in underwriting standards. It also 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.

Table of Contents

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

A portion of the allowance for loan and lease losses is attributed to impaired loans that are individually measured for impairment. This measurement 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 allowance for loan and lease losses is decreased by the amount of charge-offs and increased by the amount of recoveries. Generally, commercial, commercial real estate and real estate construction loans are charged off when it is determined that advances to the borrower are in excess of the calculated current fair value of the collateral and 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.

The following is a summary of activity in the allowance for loan and lease losses and period-end recorded investment balances of loans evaluated for impairment, excluding covered loans, for the three and six months ended June 30, 2013 and 2012. Activity is provided by loan portfolio segment 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	Home Equity Loans and Lines of Credit	Installment	Unallocated	Total
Three months ended June 30, 2013								
Allowance for loan and lease losses:								
Beginning balance	$ 112,397	$ 52,494	$ 7,230	$ 9,876	$ 4,828	$ 1,222	$ 94,281	$ 282,328
Provision for credit losses (2)	1,091	736	718	(4,837)	185	(393)	2,581	81
Charge-offs	(2,869)		(1)	(100)	(35)	(81)		(3,086)
Recoveries	5,724	1,034	38	2,782	410	603		10,591
Net (charge-offs) recoveries	2,855	1,034	37	2,682	375	522		7,505
Ending balance	$ 116,343	$ 54,264	$ 7,985	$ 7,721	$ 5,388	$ 1,351	$ 96,862	$ 289,914
Six months ended June 30, 2013								
Allowance for loan and lease losses:								
Beginning balance	$ 104,156	$ 48,240	$ 10,499	$ 13,130	$ 7,243	$ 1,847	$ 92,773	$ 277,888
Provision for credit losses (2)	7,159	4,987	(2,483)	(10,757)	(2,118)	(1,164)	4,089	(287)
Charge-offs	(4,231)	(45)	(106)	(100)	(275)	(352)		(5,109)
Recoveries	9,259	1,082	75	5,448	538	1,020		17,422
Net (charge-offs) recoveries	5,028	1,037	(31)	5,348	263	668		12,313
Ending balance	$ 116,343	$ 54,264	$ 7,985	$ 7,721	$ 5,388	$ 1,351	$ 96,862	$ 289,914

Ending balance of allowance:								
Individually evaluated for impairment	$ 478	$ 2,252	$ 230	$	$	$	$	$ 2,960
Collectively evaluated for impairment	115,865	52,012	7,755	7,721	5,388	1,351	96,862	286,954
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	$ 7,497,105	$ 3,101,169	$ 4,153,051	$ 217,808	$ 700,681	$ 149,438	$	$ 15,819,252
Individually evaluated for impairment	34,915	41,932	7,979	30,446	3,257			118,529
Collectively evaluated for impairment	7,462,190	3,059,237	4,145,072	187,362	697,424	149,438		15,700,723

(1) Includes lease financing loans.

(2) Provision for credit losses in the allowance rollforward for the three months ended June 30, 2013 includes total transfers from the reserve for off-balance sheet credit commitments of $0.1 million. Provision for credit losses in the allowance rollforward for the six months ended June 30, 2013 includes total transfers to the reserve for off-balance sheet credit commitments of $0.3 million. There was no other provision for credit losses recognized for the three and six months ended June 30, 2013.

Table of Contents

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	Home Equity Loans and 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.

Off-balance sheet credit exposures include loan commitments and letters of credit. The following table provides a summary of activity in the reserve for off-balance sheet credit commitments for the three and six months ended June 30, 2013 and 2012:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Balance, beginning of period	$ 25,205	$ 24,067	$ 24,837	$ 23,097
Transfers (to) from allowance for loan and lease losses	(81)	284	287	1,254
Balance, end of period	$ 25,124	$ 24,351	$ 25,124	$ 24,351

Table of Contents

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

Impaired Loans and Leases

Information on impaired loans, excluding covered loans, at June 30, 2013, December 31, 2012 and June 30, 2012 is provided in the following tables:

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	For the three months ended June 30, 2013 Average Recorded Investment	For the three months ended June 30, 2013 Interest Income Recognized	For the six months ended June 30, 2013 Average Recorded Investment	For the six months ended June 30, 2013 Interest Income Recognized
June 30, 2013							
With no related allowance recorded:							
Commercial	$ 27,276	$ 28,029	$	$ 23,171	$ 428	$ 21,701	$ 847
Commercial real estate mortgages	26,821	31,116		28,112	427	33,035	662
Residential mortgages:							
Fixed	2,008	2,356		2,963	24	3,136	42
Variable	4,277	4,619		4,161	55	4,396	69
Total residential mortgages	6,285	6,975		7,124	79	7,532	111
Real estate construction:							
Construction	16,265	21,064		17,799	228	18,453	558
Land	14,181	27,156		13,172	253	17,364	287
Total real estate construction	30,446	48,220		30,971	481	35,817	845
Home equity loans and lines of credit	3,257	4,310		2,698	34	2,986	34
Installment:							
Consumer						150	
Total installment						150	
Total with no related allowance	$ 94,085	$ 118,650	$	$ 92,076	$ 1,449	$ 101,221	$ 2,499
With an allowance recorded:							
Commercial	$ 7,639	$ 9,170	$ 478	$ 7,606	$ 311	$ 7,576	$ 357
Commercial real estate mortgages	15,111	15,963	2,252	14,228	148	12,886	316
Residential mortgages:							
Fixed						154	
Variable	1,694	1,688	230	847	41	565	41
Total residential mortgages	1,694	1,688	230	847	41	719	41
Real estate construction:							
Land				6,425		4,283	213
Total real estate construction				6,425		4,283	213
Home equity loans and lines of credit						300	
Total with an allowance	$ 24,444	$ 26,821	$ 2,960	$ 29,106	$ 500	$ 25,764	$ 927
Total impaired loans by type:							

Commercial	$ 34,915	$ 37,199	$ 478	$ 30,777	$ 739	$ 29,277	$ 1,204
Commercial real estate mortgages	41,932	47,079	2,252	42,340	575	45,921	978
Residential mortgages	7,979	8,663	230	7,971	120	8,251	152
Real estate construction	30,446	48,220		37,396	481	40,100	1,058
Home equity loans and lines of credit	3,257	4,310		2,698	34	3,286	34
Installment						150	
Total impaired loans	$ 118,529	$ 145,471	$ 2,960	$ 121,182	$ 1,949	$ 126,985	$ 3,426

Table of Contents

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

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
December 31, 2012			
With no related allowance recorded:			
Commercial	$ 18,761	$ 24,135	$
Commercial real estate mortgages	42,882	49,110	
Residential mortgages:			
Fixed	3,482	3,757	
Variable	4,865	5,437	
Total residential mortgages	8,347	9,194	
Real estate construction:			
Construction	19,762	33,267	
Land	25,748	41,016	
Total real estate construction	45,510	74,283	
Home equity loans and lines of credit	3,562	4,660	
Installment:			
Consumer	449	927	
Total installment	449	927	
Total with no related allowance	$ 119,511	$ 162,309	$
With an allowance recorded:			
Commercial	$ 7,516	$ 8,038	$ 952
Commercial real estate mortgages	10,203	10,783	1,326
Residential mortgages:			
Fixed	463	507	9
Total residential mortgages	463	507	9
Home equity loans and lines of credit	899	965	116
Total with an allowance	$ 19,081	$ 20,293	$ 2,403
Total impaired loans by type:			
Commercial	$ 26,277	$ 32,173	$ 952
Commercial real estate mortgages	53,085	59,893	1,326
Residential mortgages	8,810	9,701	9
Real estate construction	45,510	74,283	
Home equity loans and lines of credit	4,461	5,625	116
Installment	449	927	
Total impaired loans	$ 138,592	$ 182,602	$ 2,403

Table of Contents

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

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	For the three months ended June 30, 2012 Average Recorded Investment	For the three months ended June 30, 2012 Interest Income Recognized	For the six months ended June 30, 2012 Average Recorded Investment	For the six months ended June 30, 2012 Interest Income Recognized
June 30, 2012							
With no related allowance recorded:							
Commercial	$ 32,378	$ 43,247	$	$ 30,100	$	$ 23,451	$
Commercial real estate mortgages	28,368	33,107		21,188	55	20,748	124
Residential mortgages:							
Fixed	1,830	2,518		2,248		2,663	
Variable	6,257	6,688		6,412	39	5,504	39
Total residential mortgages	8,087	9,206		8,660	39	8,167	39
Real estate construction:							
Construction	38,828	52,209		29,937	126	29,103	242
Land	18,936	22,101		21,513		24,006	
Total real estate construction	57,764	74,310		51,450	126	53,109	242
Home equity loans and lines of credit	3,207	4,245		4,621		4,861	
Installment:							
Consumer	550	927		550		586	
Total installment	550	927		550		586	
Lease financing						9	
Total with no related allowance	$ 130,354	$ 165,042	$	$ 116,569	$ 220	$ 110,931	$ 405
With an allowance recorded:							
Commercial	$ 10,766	$ 11,591	$ 2,850	$ 11,680	$	$ 12,995	$
Commercial real estate mortgages	17,123	18,266	2,282	12,711		12,077	
Residential mortgages:							
Fixed	2,291	2,353	236	2,316		1,716	
Variable	3,256	3,951	162	2,341		2,044	
Total residential mortgages	5,547	6,304	398	4,657		3,760	
Real estate construction:							
Land	8,765	18,575	1,866	15,658		16,900	
Total real estate construction	8,765	18,575	1,866	15,658		16,900	
Home equity loans and lines of credit	1,227	1,421	154	1,086		1,155	
Total with an allowance	$ 43,428	$ 56,157	$ 7,550	$ 45,792	$	$ 46,887	$
Total impaired loans by type:							
Commercial	$ 43,144	$ 54,838	$ 2,850	$ 41,780	$	$ 36,446	$
Commercial real estate mortgages	45,491	51,373	2,282	33,899	55	32,825	124
Residential mortgages	13,634	15,510	398	13,317	39	11,927	39
Real estate construction	66,529	92,885	1,866	67,108	126	70,009	242
Home equity loans and lines of credit	4,434	5,666	154	5,707		6,016	
Installment	550	927		550		586	
Lease financing						9	
Total impaired loans	$ 173,782	$ 221,199	$ 7,550	$ 162,361	$ 220	$ 157,818	$ 405

Effective July 1, 2012, the Company increased the outstanding loan amount under which nonperforming loans are individually evaluated for impairment from $500,000 or greater to $1 million or greater. For borrowers with multiple loans totaling $1 million or more, this threshold is applied at the total relationship level. Loans under $1 million will be measured for impairment using historical loss factors. Loans under $1 million that were previously reported as impaired at June 30, 2012 will continue to be reported as impaired until the collection of principal and interest is no longer in doubt, or the loans are paid or charged-off. At June 30, 2013, impaired loans included $6.3 million of loans previously reported as impaired that are less than $1 million.

Table of Contents

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

Impaired loans at June 30, 2013 and December 31, 2012 included $54.3 million and $48.8 million, respectively, of restructured loans that are on accrual status. With the exception of restructured loans on accrual status and a limited number of loans on cash basis nonaccrual for which the full collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.

Troubled Debt Restructured Loans

The following table provides a summary of loans modified in a troubled debt restructuring during the three months ended June 30, 2013 and 2012:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Three months ended June 30, 2013				
Commercial	6	$ 6,956	$ 6,926	$
Commercial real estate mortgages	1	547	547	
Total troubled debt restructured loans	7	$ 7,503	$ 7,473	$
Three months ended June 30, 2012				
Commercial	4	$ 18,179	$ 18,148	$
Commercial real estate mortgages	2	15,832	15,832	
Real estate construction:				
Construction	2	9,325	9,325	
Total troubled debt restructured loans	8	$ 43,336	$ 43,305	$

(1) Financial effects are comprised of charge-offs and specific reserves recognized on TDR loans at modification date.

The following table provides a summary of loans modified in a troubled debt restructuring during the six months ended June 30, 2013 and 2012:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Six months ended June 30, 2013				
Commercial	10	$ 8,683	$ 8,336	$
Commercial real estate mortgages	1	547	547	
Home equity loans and lines of credit	1	345		
Total troubled debt restructured loans	12	$ 9,575	$ 8,883	$
Six months ended June 30, 2012				

Commercial	9	$ 35,161	$ 32,351	$
Commercial real estate mortgages	2	15,832	15,832	
Residential mortgages:				
Fixed	1	655		
Real estate construction:				
Construction	3	14,857	14,458	
Total troubled debt restructured loans	15	$ 66,505	$ 62,641	$

(1) Financial effects are comprised of charge-offs and specific reserves recognized on TDR loans at modification date.

Table of Contents

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 troubled debt restructured (TDR) loans that subsequently defaulted during the three and six months ended June 30, 2013 and 2012 that had been modified as a troubled debt restructuring during the 12 months prior to their default. A loan is considered to be in default when payments are ninety days or more past due.

	For three months ended June 30, 2013			For six months ended June 30, 2013		
(in thousands)	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Commercial	2	$ 427	$	4	$ 1,487	$
Real estate construction:						
Land	1	7,491		1	7,491	
Home equity loans and lines of credit				1	141	
Total loans that subsequently defaulted	3	$ 7,918	$	6	$ 9,119	$

	For three months ended June 30, 2012			For six months ended June 30, 2012		
(in thousands)	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Commercial	2	$ 4,327	$ 277	3	$ 4,341	$ 277
Real estate construction:						
Land				2	1,371	
Total loans that subsequently defaulted	2	$ 4,327	$ 277	5	$ 5,712	$ 277

A restructuring constitutes a troubled debt restructuring when a lender, for reasons related to a borrower s financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans with pre-modification outstanding balances totaling $7.5 million and $9.6 million were modified in troubled debt restructurings during the three and six months ended June 30, 2013, respectively. Loans with pre-modification outstanding balances totaling $43.3 million and $66.5 million were modified in troubled debt restructurings during the three and six months ended June 30, 2012, respectively. The concessions granted in the restructurings completed in 2013 largely consisted of maturity extensions and interest rate modifications.

The unpaid principal balance of TDR loans was $64.4 million, before specific reserves of $0.6 million, at June 30, 2013 and $94.9 million, before specific reserves of $1.7 million, at December 31, 2012. The net decrease in TDR loans from the prior year-end was primarily attributable to payments received on existing TDR loans and to the removal of $15.3 million of loans that were restructured in an A/B note structure in 2012 that are no longer reported as TDRs. These decreases were partially offset by the addition of $9.6 million of loans restructured during the first six months of 2013. Loans restructured in an A/B note restructuring are not reported as TDR loans in years after the restructuring if the restructuring agreement specifies an interest rate equal to or greater than the rate the lender was willing to accept at the time of restructuring for a new loan with comparable risk, and the loan is performing based on the terms in the restructuring agreement. In an A/B restructuring, the original note is separated into two notes where the A note represents the portion of the original loan that is expected to be fully paid, and the B note is the portion of the loan that is expected to be uncollectible. The B note is charged-off at the time of restructuring. Loans modified in troubled debt restructurings are impaired loans at the time of restructuring and subject to the same measurement criteria as all other impaired loans.

During the six months ended June 30, 2013, four commercial loans, one real estate construction loan and one equity line of credit that had been restructured within the preceding 12 months were not performing in accordance with their modified terms. The defaults were primarily due to missed or late payments. All other TDR loans were performing in accordance with their restructured terms at June 30, 2013. As of June 30, 2013, commitments to lend additional funds on restructured loans totaled $2.0 million.

Table of Contents

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

Past Due and Nonaccrual Loans and Leases

Loans are considered past due following the date when either interest or principal is contractually due and unpaid. The following tables provide a summary of past due and nonaccrual loans, excluding covered loans, at June 30, 2013 and December 31, 2012 based upon the length of time the loans have been past due:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
June 30, 2013							
Commercial	$ 2,080	$ 10,565	$	$ 11,654	$ 24,299	$ 6,749,576	$ 6,773,875
Commercial real estate mortgages	2,523	1,771		22,433	26,727	3,074,442	3,101,169
Residential mortgages:							
Fixed		508	379	4,402	5,289	1,420,487	1,425,776
Variable		2,396		6,178	8,574	2,718,701	2,727,275
Total residential mortgages		2,904	379	10,580	13,863	4,139,188	4,153,051
Real estate construction:							
Construction				11,553	11,553	167,627	179,180
Land				14,165	14,165	24,463	38,628
Total real estate construction				25,718	25,718	192,090	217,808
Home equity loans and lines of credit	100		249	6,239	6,588	694,093	700,681
Installment:							
Commercial	2				2	438	440
Consumer	188	24		24	236	148,762	148,998
Total installment	190	24		24	238	149,200	149,438
Lease financing	112	151	15	25	303	722,927	723,230
Total	$ 5,005	$ 15,415	$ 643	$ 76,673	$ 97,736	$ 15,721,516	$ 15,819,252
December 31, 2012							
Commercial	$ 6,207	$ 4,219	$ 602	$ 9,087	$ 20,115	$ 6,191,238	$ 6,211,353
Commercial real estate mortgages	16,968	3,249		33,198	53,415	2,776,279	2,829,694
Residential mortgages:							
Fixed		1,969	379	4,902	7,250	1,458,224	1,465,474
Variable				4,701	4,701	2,492,030	2,496,731
Total residential mortgages		1,969	379	9,603	11,951	3,950,254	3,962,205
Real estate construction:							
Construction				15,067	15,067	150,548	165,615
Land		859		25,815	26,674	30,491	57,165
Total real estate construction		859		40,882	41,741	181,039	222,780
Home equity loans and lines of credit	3,407	480		6,424	10,311	701,439	711,750
Installment:							
Commercial						437	437
Consumer	58	35		473	566	141,790	142,356
Total installment	58	35		473	566	142,227	142,793
Lease financing	2,633	2		120	2,755	734,965	737,720
Total	$ 29,273	$ 10,813	$ 981	$ 99,787	$ 140,854	$ 14,677,441	$ 14,818,295

Table of Contents

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

Credit Quality Monitoring

The Company closely monitors and assesses credit quality and credit risk in the loan and lease portfolio on an ongoing basis. Loan risk classifications are continuously reviewed and updated. The following tables provide a summary of the loan and lease portfolio, excluding covered loans, by loan type and credit quality classification as of June 30, 2013 and December 31, 2012. Nonclassified loans generally include those loans that are expected to be repaid in accordance with contractual loan terms. Classified loans are those loans that are classified as substandard or doubtful consistent with regulatory guidelines.

	June 30, 2013			December 31, 2012		
(in thousands)	Nonclassified	Classified	Total	Nonclassified	Classified	Total
Commercial	$ 6,659,653	$ 114,222	$ 6,773,875	$ 6,073,459	$ 137,894	$ 6,211,353
Commercial real estate mortgages	2,997,653	103,516	3,101,169	2,705,469	124,225	2,829,694
Residential mortgages:						
Fixed	1,405,192	20,584	1,425,776	1,449,270	16,204	1,465,474
Variable	2,703,347	23,928				