WESTERN ALLIANCE BANCORPORATION
Form 10-K
March 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C.20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

Commission File Number: 001-32550

WESTERN ALLIANCE BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**88-0365922**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer I.D. Number)**
One E. Washington Street Suite 1400, Phoenix, AZ	**85004**
(Address of Principal Executive Offices)	**(Zip Code)**

(602)-389-3500

(Registrant s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.0001 Par Value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act Yes ¨ No x

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 ¨

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the registrant s voting stock held by non-affiliates was approximately $266.8 million based on the June 30, 2011 closing price of said stock on the New York Stock Exchange ($7.10 per share).

As of February 29, 2012, 83,132,092 shares of the registrant s common stock were outstanding.

Portions of the registrant s definitive proxy statement for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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PART I

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K (Form 10K) are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements be covered by the safe harbor provisions for forward-looking statements. All statements other than statements of historical fact are forward-looking statements for purposes of Federal and State securities laws, including statements that related to or are dependent on estimates or assumptions relating to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts.

The forward-looking statements contained in this Form 10K reflect our current views about future events and financial performance and involve certain risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement, including those risks discussed under the heading Risk Factors in this 2011 Form 10K. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission and the following factors that could cause actual results to differ materially from those presented: 1) dependency on real estate and events that negatively impact real estate; 2) high concentration of commercial real estate, construction and development and commercial and industrial loans; 3) actual credit losses may exceed expected losses in the loan portfolio; 4) possible need for a valuation allowance against deferred tax assets; 5) stock transactions could require revalue of deferred tax assets; 6) exposure of financial instruments to certain market risks may cause volatility in earnings; 7) dependence on low-cost deposits; 8) ability to borrow from Federal Home Loan Bank (FHLB) or Federal Reserve Bank (FRB); 9) events that further impair goodwill; 10) increase in the cost of funding as the result of changes to our credit rating; 11) expansion strategies may not be successful; 12) our ability to control costs; 13) risk associated with changes in internal controls and processes; 14) our ability to compete in a highly competitive market; 15) our ability to recruit and retain qualified employees, especially seasoned relationship bankers; 16) the effects of terrorist attacks or threats of war; 17) risk of audit of U.S. federal tax deductions; 18) perpetration of internal fraud; 19) risk of operating in a highly regulated industry and our ability to remain in compliance; 20) the effects of interest rates and interest rate policy; 21) exposure to environmental liabilities related to the properties we acquire title; 22) recent legislative and regulatory changes including Emergency Economic Stabilization Act of 2008, or EESA, the American Recovery and Reinvestment Act of 2009, or ARRA, and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations that might be promulgated thereunder; 23) cyber security risks; and 24) risks related to ownership and price of our common stock.

For more information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see Risk Factors beginning on page 13. Forward-looking statements speak only as of the date they are made, the Company does not undertake any obligations to update forward-looking statements to reflect circumstances and or events that occur after the date the forward-looking statements are made.

Purpose

The following discussion is designed to provide insight on the financial condition and results of operations of Western Alliance Bancorporation and its subsidiaries. Unless otherwise stated, the Company or WAL refers to this consolidated entity. This discussion should be read in conjunction with the Company s Consolidated Financial Statements and notes to the Consolidated Financial Statements, herein referred to as the Consolidated Financial Statements . These Consolidated Financial Statements are presented beginning on page 71 of this Form 10-K.

ITEM 1. BUSINESS

Organization Structure and Description of Services

Western Alliance Bancorporation (WAL or the Company), is a multi-bank holding company headquartered in Phoenix, Arizona that provides full service banking and lending to locally owned businesses, professional firms, real estate developers and investors, local non-profit organizations, high net worth individuals and other consumers through its three wholly owned subsidiary banks (the Banks): Bank of Nevada (BON), operating in Southern Nevada, Western Alliance Bank (WAB), operating in Arizona and Northern Nevada, and Torrey Pines Bank (TPB), operating in California. On December 31, 2010, the Company merged its former Alta Alliance Bank (AAB) subsidiary into its Torrey Pines Bank subsidiary, and its former First Independent Bank of Nevada subsidiary into its Alliance Bank of Arizona subsidiary. As part of the latter merger, Alliance Bank of Arizona (ABA) was renamed Western Alliance Bank doing business as Alliance Bank of Arizona (in Arizona) and First Independent Bank (FIB) (in Nevada). In addition, the Company s non-bank subsidiaries, Shine Investment Advisory Services, Inc. (Shine) and Western Alliance Equipment Finance (WAEF), offer an array of financial products and services aimed at satisfying the needs of small to mid-sized businesses and their proprietors, including financial planning, custody and investments, and equipment leasing nationwide. These entities are collectively referred to herein as the Company. The Company divested its wholly owned subsidiary Premier Trust, Inc. (Premier Trust) as of September 1, 2010.

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WAL also has six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities as described in Note 11, Junior Subordinated and Subordinated Debt beginning on page 114 of this Form 10-K.

Bank Subsidiaries

Bank Name	Headquarters	Year Founded	Number of Locations	Location Cities	Total Assets	Net Loans (in millions)	Deposits
BON (1)	Las Vegas, Nevada	1994	11	Las Vegas, North Las Vegas, Henderson, and Mesquite	**$2,877.6**	**$1,798.1**	**$2,377.3**
WAB (2)	Phoenix, Arizona	2003	16	Phoenix, Tucson, Scottsdale, Sedona, Mesa, Flagstaff, Reno, Sparks, Fallon, and Carson City	**$2,234.7**	**$1,623.2**	**$1,877.5**
TPB (3)	San Diego, CA	2003	12	San Diego, La Mesa, Carlsbad, Los Angeles, Oakland, Piedmont, Walnut Creek and Los Altos	**$1,728.4**	**$1,302.4**	**$1,416.8**

(1) BON commenced operations in 1994 as BankWest of Nevada (BWN). In 2006, BWN merged with Nevada First Bank and Bank of Nevada. As part of the mergers, BWN changed its name to BON. BON has three wholly-owned subsidiaries: BW Real Estate, Inc. which operates as a real estate investment trust and holds certain of BON s real estate loans and related securities; BON Investments, Inc., which holds certain securities; and BW Nevada Holdings, LLC, which owns the Company s 2700 West Sahara Avenue, Las Vegas, Nevada location.

(2) WAB commenced operations in 2003 as Alliance Bank of Arizona, and subsequently changed its name to WAB on December 31, 2010 as part of the merger between ABA and FIB. WAB has one wholly-owned subsidiary, WAB Investments, Inc., which holds certain securities.

(3) TPB commenced operations in 2003. On December 31, 2010, AAB merged into TPB. TPB has one wholly-owned subsidiary, TPB Investments, Inc., which holds certain securities.

Our subsidiary banks are state-chartered and are subject to primary regulation and examination by the Federal Deposit Insurance Corporation (FDIC) and, in addition, are regulated and examined by their respective state banking agencies.

Non-Bank Subsidiaries and Affiliates

The Company provides a full range of banking services, as well as investment advisory services, through its consolidated subsidiaries. Applicable accounting guidance provides for the identification of reportable segments on the basis of discreet business units and their financial information to the extent such units are reviewed by an entity s chief operating decision maker.

WAL owns an 80 percent interest investment in Shine, a registered investment advisor purchased in July 2007.

WAL maintains a 24.9 percent interest in Miller/Russell & Associates, Inc. (MRA), an Arizona registered investment advisor. MRA provides investment advisory services to individuals, foundations, retirement plans and corporations.

Market Segments

The Company had four reportable operating segments at December 31, 2011 and 2010. The Company s reporting segments were modified in the fourth quarter of 2010 to reflect the way the Company manages and assesses the performance of the business as a result of the strategic mergers and divestitures of subsidiaries. The Company previously reported the banking operations on a state-by-state basis but due to the bank mergers now reports based on bank entity and other.

The Company adjusted segment reporting composition during 2010 to more accurately reflect the way the Company manages and assesses the performance of the business. During 2010, the Company sold its wholly-owned trust subsidiary, discontinued a portion of its credit card services and merged from five bank subsidiaries to three.

The re-defined structure consists of the following four reportable operating segments: Bank of Nevada , Western Alliance Bank , Torrey Pines Bank and Other (Western Alliance Bancorporation holding company, Western Alliance Equipment Finance, Shine, Inc, Premier Trust until September 1, 2010 and the discontinued operations portion of the credit card services). All prior period balances were reclassified to reflect the change in structure.

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Management has determined the operating segments using a combination of factors primarily driven by legal entity. Management determined that the legal entities that contributed less than the quantitative thresholds for separate management reporting be combined into the Other segment.

The accounting policies of the reported segments are the same as those of the Company as described in Note 1, Nature of Operation and Summary of Significant Accounting Policies beginning on page 81. Transactions between segments consisted primarily of borrowings, loan participations and shared services. All intercompany transactions are eliminated for reporting consolidated results of operations. Loan participations are recorded at par value with no resulting gain or loss. The Company allocated centrally-provided services to the operating segments based upon estimated usage of those services. Please refer to Note 19, Segments in our Consolidated Financial Statements for financial information regarding segment reporting beginning on page 130.

The bank operating segments derive a majority of their revenues from net interest income generated from quality loan growth offset by deposit costs. The Company s chief executive officer relies primarily on the success of loan and deposit growth while maintaining net interest margin and net profits from these efforts to assess the performance of these segments. The other segment derives a majority of its revenue from fees based on assets under management and interest income from investments. The Company s chief executive officer relies primarily on costs and strategic initiative needs when assessing the performance of and allocating resources to this segment.

Lending Activities

Through its banking segments, the Company provides a variety of financial services to customers, including commercial real estate loans, construction and land development loans, commercial loans, and consumer loans. The Company s lending has focused primarily on meeting the needs of business customers. Loans to businesses comprised 89.2% and 85.9% of the total loan portfolio at December 31, 2011 and 2010, respectively.

Commercial Real Estate (CRE): Loans to finance the purchase or refinancing of CRE and loans to finance inventory and working capital that are additionally secured by CRE make up the majority of our loan portfolio. These CRE loans are secured by apartment buildings, professional offices, industrial facilities, retail centers and other commercial properties. As of December 31, 2011 and 2010, 49.0% and 54.1% of our CRE loans were owner-occupied. Owner-occupied commercial real estate loans are loans secured by owner-occupied nonfarm nonresidential properties for which the primary source of repayment (more than 50%) is the cash flow from the ongoing operations and activities conducted by the borrower who owns the property. Non-owner-occupied commercial real estate loans are commercial real estate loans for which the primary source of repayment is nonaffiliated rental income associated with the collateral property.

Construction and Land Development: Construction and land development loans include multi-family apartment projects, industrial/warehouse properties, office buildings, retail centers and medical facilities. These loans are primarily originated to experienced local developers with whom the Company has a satisfactory lending history. An analysis of each construction project is performed as part of the underwriting process to determine whether the type of property, location, construction costs and contingency funds are appropriate and adequate. Loans to finance commercial raw land are primarily to borrowers who plan to initiate active development of the property within two years.

Commercial and Industrial: Commercial and industrial loans include working capital lines of credit, inventory and accounts receivable lines, mortgage warehouse lines, equipment loans and leases, and other commercial loans. Commercial loans are primarily originated to small and medium-sized businesses in a wide variety of industries. WAB is designated a Preferred Lender in Arizona with the Small Business Association (SBA) under its Preferred Lender Program.

Residential real estate: In 2010 the Company discontinued residential real estate loan origination as a primary business line.

Consumer: Consumer loans are offered to meet customer demand and to respond to community needs. Consumer loans are generally offered at a higher rate and shorter term than residential mortgages. Examples of our consumer loans include: home equity loans and lines of credit; home improvement loans; credit card loans; and personal lines of credit.

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As of December 31, 2011, our loan portfolio totaled $4.68 billion, or approximately 68.4% of our total assets. The following table sets forth the composition of our loan portfolio as of the periods presented.

	December 31,			
	2011		2010	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial real estate-owner occupied	**$ 1,252,182**	**26.1%**	$ 1,223,150	28.8%
Commercial real estate-non-owner occupied	**1,301,172**	**27.2%**	1,038,488	24.5%
Commercial and industrial	**1,120,107**	**23.4%**	744,659	17.5%
Residential real estate	**443,020**	**9.3%**	527,302	12.4%
Construction and land development	**381,676**	**8.0%**	451,470	10.6%
Commercial leases	**216,475**	**4.5%**	189,968	4.5%
Consumer	**72,504**	**1.5%**	71,545	1.7%
Total loans	**4,787,136**	**100.0%**	4,246,582	100.0%
Net deferred fees	**(7,067)**		(6,040)	
Total loans, net of deferred loan fees	**$ 4,780,069**		$ 4,240,542	

For additional information concerning loans, refer to Note 4, Loans, Leases and Allowance for Credit Losses of the Consolidated Financial Statements or see the Management Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Loans discussions.

General

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

Loan originations are subject to a process that includes the credit evaluation of borrowers, utilizing established lending limits, analysis of collateral, and procedures for continual monitoring and identification of credit deterioration. Loan officers actively monitor their individual credit relationships in order to report suspected risks and potential downgrades as early as possible. The respective boards of directors of each of our banking subsidiaries approve their own loan policies, as well as loan limit authorizations. Except for variances to reflect unique aspects of state law and local market conditions, our lending policies generally incorporate consistent underwriting standards. The Company monitors all changes to each respective bank s loan policy to ensure this consistency. Our credit culture has helped us to identify troubled credits early, allowing us to take corrective action when necessary.

Loan Approval Procedures and Authority

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

Individual Authorities. The chief credit officer (CCO) of each subsidiary bank sets the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The maximum approval authority for a loan officer is $2.0 million for real estate secured loans and $750,000 for other loans.

Management Loan Committees. Credits in excess of individual loan limits are submitted to the appropriate bank s Management Loan Committee. The Management Loan Committees consist of members of the senior management team of that bank and are chaired by that bank s chief credit officer. The Management Loan Committees have approval authority up to $7.0 million.

Credit Administration. Credits in excess of the affiliate banks Management Loan Committee authority are submitted by the bank subsidiary to Western Alliance Bancorporation s Credit Committee (WALCC). WALCC has approval authority up to established house concentration limits, which range from $15.0 million to $35.0 million, depending on risk grade. WALCC approval is additionally required for new relationships of $12.5 million or greater to borrowers within market footprint, and $5.0 million outside market footprint. WALCC also reviews all affiliate loan approvals to any one borrower of $5.0 million or greater. WALCC is chaired by the Western Alliance Bancorporation Chief Credit Officer and includes the Company s CEO and COO.

Board of Directors Oversight. The chief executive officer (CEO) of Western Alliance Bancorporation acting with the Chairman of the Board of Directors of Bank of Nevada has approval authority for any credit extension greater than $30.0 million at December 31, 2011.

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The Company s credit administration department works independent of loan production.

Loans to One Borrower. In addition to the limits set forth above, subject to certain exceptions, state banking law generally limits the amount of funds that a bank may lend to a single borrower. Under Nevada law, the combination of investments in private securities and total amount of outstanding loans that a bank may make to a single borrower generally may not exceed 25% of stockholders tangible equity. Under Arizona law, the obligations of one borrower to a bank generally may not exceed 20% of the bank s capital, plus an additional 10% of its capital if the additional amounts are fully secured by readily marketable collateral. Under California law, the unsecured obligations of any one borrower to a bank generally may not exceed 15% of the sum of the bank s shareholders equity, allowance for credit losses, capital notes and debentures; and the secured and unsecured obligations of any one borrower to a bank generally may not exceed 25% of the sum of the bank s shareholders equity, allowance for credit losses, capital notes and debentures.

Concentrations of Credit Risk. Our lending policies also establish customer and product concentration limits to control single customer and product exposures. Our lending policies have several different measures to limit concentration exposures. Set forth below are the primary segmentation limits and actual measures as of December 31, 2011:

	Percent of Total Capital		Percent of Total Loans	
	Policy Limit	Actual	Policy Limit	Actual
Commercial Real Estate-Term (including owner-occupied)	435%	352%	65%	53%
Commercial and Industrial	225	185	30	28
Construction /Land	80	53	30	8
Residential Real Estate	75	61	65	9
Consumer	20	10	15	2

Asset Quality

General

To measure asset quality, the Company has instituted a loan grading system consisting of nine different categories. The first five are considered satisfactory. The other four grades range from a watch category to a loss category and are consistent with the grading systems used by Federal banking regulators. All loans are assigned a credit risk grade at the time they are made, and each originating loan officer reviews the credit with his or her immediate supervisor on a quarterly basis to determine whether a change in the credit risk grade is warranted. In addition, the grading of our loan portfolio is reviewed on a test basis, at minimum, annually by an external, independent loan review firm.

Collection Procedure

If a borrower fails to make a scheduled payment on a loan, the bank attempts to remedy the deficiency by contacting the borrower and seeking payment. Contacts generally are made within 15 business days after the payment becomes past due. Each of the bank affiliates maintains a Special Assets Department, which generally services and collects loans rated substandard or worse. Each bank s CCO is responsible for monitoring activity that may indicate an increased risk rating, such as past-dues, overdrafts, loan agreement covenant defaults, etc. All charge-offs in excess of $100,000 are reported to each bank s respective board of directors. Loans deemed uncollectible are proposed for charge-off at each respective bank s board meeting.

Nonperforming Assets

Nonperforming assets include loans past due 90 days or more and still accruing interest, nonaccrual loans, troubled debt restructured loans, and repossessed assets including other real estate owned (OREO). In general, loans are placed on nonaccrual status when we determine timely collection of interest to be in doubt due to the borrower s financial condition and collection efforts. A troubled debt restructured loan is a loan on which the Bank, for reasons related to a borrower s financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider. Other repossessed assets resulted from loans where we have received title or physical possession of the borrower s assets. Generally, the Company re-appraises OREO and collateral dependent loans every six months. Net losses on sales/valuations of repossessed assets were $24.6 million and $28.8 million for the years ended December 31, 2011 and 2010, respectively. These losses may continue in future periods.

Criticized Assets

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

The following describes the potential problem assets in our loan grading system:

Watch List/Special Mention. Generally these are assets that require more than normal management attention. These loans may involve borrowers with adverse financial trends, higher debt to equity ratios, or weaker liquidity positions, but not to the degree of being considered a problem loan where risk of loss may be apparent. Loans in this category are usually performing as agreed, although there may be some minor non-compliance with financial covenants.

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

Doubtful. These assets have an extremely high probability of loss, but because of certain known factors which may work to the advantage and strengthening of the asset (for example, capital injection, perfecting liens on additional collateral and refinancing plans), classification as an estimated loss is deferred until a more precise status may be determined.

Loss. These assets are considered uncollectible, and of such little value that their continuance as assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practicable or desirable to defer writing off the asset, even though partial recovery may be achieved in the future.

Allowance for Credit Losses

Like other financial institutions, the Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when Management believes that collectability of the contractual principal or interest is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount believed adequate to absorb probable losses on existing loans that may become uncollectable, based on evaluation of the collectability of loans and prior credit loss experience, together with the other factors. For a detailed discussion of the Company s methodology see Management s Discussion and Analysis and Financial Condition Critical Accounting Policies Allowance for Credit Losses beginning on page 52.

Investment Activities

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

Generally the bank s investment policies limit securities investments to securities backed by the full faith and credit of the U.S. government, including U.S. treasury bills, notes, and bonds, and direct obligations of Ginnie Mae; mortgage-backed securities (MBS) or collateralized mortgage obligations (CMO) issued by a government-sponsored enterprise (GSE) such as Fannie Mae or Freddie Mac; debt securities issued by a government-sponsored enterprise (GSE) such as Fannie Mae, Freddie Mac, and the FHLB; municipal securities with a rating of Single-A or higher; adjustable-rate preferred stock (ARPS) where the issuing company is rated BBB or higher; corporate debt with a rating of Single-A or better; investment grade corporate bond mutual funds; private label collateralized mortgage obligations with a rating of AAA ; commercial mortgage backed securities with a rating of AAA ; and mandatory purchases of equity securities of the FRB and FHLB. Adjustable rate preferred stock (ARPS) holdings are limited to no more than 15% of a bank s tier 1 capital; municipal securities are limited to no more than 5% of assets; investment grade corporate bond mutual funds are limited to no more than 5% of Tier 1 capital; corporate debt holdings are limited to no more than 2.5% of a bank s assets; and commercial mortgage backed securities are limited to an aggregate purchase limit of $50 million.

The Company no longer purchases (although we may continue to hold previously acquired) collateralized debt obligations. Our policies also govern the use of derivatives, and provide that the Company and its banking subsidiaries are to prudently use derivatives as a risk management tool to reduce the Bank s overall exposure to interest rate risk, and not for speculative purposes.

All of our investment securities are classified as available-for-sale (AFS), held-to-maturity (HTM) or measured at fair value (trading) pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 320, *Investments* and FASB ASC Topic 825, *Financial Instruments* . Available-for -sale securities are reported at fair value in accordance with FASB Topic 820, *Fair Value Measurements and Disclosures.* For additional information regarding the Company s accounting policy for investment securities, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Investment Securities beginning on page 53.

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As of December 31, 2011, the Company had an investment securities portfolio of $1.48 billion, representing approximately 21.7% of our total assets, with the majority of the portfolio invested in AAA/AA+-rated securities. The average duration of our investment securities was 2.74 years as of December 31, 2011.

The following table summarizes the investment securities portfolio as of December 31, 2011 and 2010.

	December 31,			
	2011		2010	
	Amount	Percent	Amount	Percent
	(dollars in millions)			
U.S. Government sponsored agency securities	$ 156.2	10.5%	$ 280.1	22.7%
Municipal obligations	187.5	12.7%	1.7	0.1%
Adjustable-rate preferred stock	54.7	3.7%	67.2	5.4%
Mutual funds	28.8	1.9%	0.0	0.0%
Corporate bonds	107.4	7.2%	49.9	4.0%
Direct U.S. obligation and GSE residential mortgage-backed securities	871.1	58.8%	781.2	63.2%
Private label residential mortgage-backed securities	25.8	1.7%	8.1 &n	