EAST WEST BANCORP INC
Form 10-Q
August 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

or

¨ 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 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	95-4703316
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

135 N. Los Robles Ave, 7th Floor, Pasadena, California 91101

(Address of principal executive offices) (Zip Code)

(626) 768-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares outstanding of the issuer s common stock on the latest practicable date: 141,939,270 shares of common stock as of July 31, 2012.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report contain or incorporate statements that we believe are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Exchange Act), and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language, such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include other similar phrases, such as believes, plans, trend, objective, continue, remain, or similar expressions, or future or conditional verbs, such as will, should, could, might, can, or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to us.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- our ability to manage the loan portfolio acquired from FDIC-assisted acquisitions within the limits of the loss protection provided by the FDIC;
- changes in our borrowers performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
- effect of additional provision for loan losses;
- fluctuations of our stock price;
- success and timing of our business strategies;
- impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- changes in our ability to receive dividends from our subsidiaries; and
- political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see the Company s 2011 Form 10-K under the heading ITEM 1A. RISK FACTORS and the information set forth under RISK FACTORS in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

PART I FINANCIAL INFORMATION

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

		June 30, 2012		December 31, 2011
ASSETS				
Cash and cash equivalents	$	2,429,614	$	1,431,185
Short-term investments		254,714		61,834
Federal funds sold		30,000		
Securities purchased under resale agreements		675,000		786,434
Investment securities available-for-sale, at fair value (with amortized cost of $1,902,789 at June 30, 2012 and $3,132,968 at December 31, 2011)		1,873,739		3,072,578
Loans held for sale		137,812		278,603
Loans receivable, excluding covered loans (net of allowance for loan losses of $219,454 at June 30, 2012 and $209,876 at December 31, 2011)		10,555,654		10,061,788
Covered loans (net of allowance for loan losses of $7,173 at June 30, 2012 and $6,647 at December 31, 2011)		3,416,613		3,923,142
Total loans receivable, net		13,972,267		13,984,930
FDIC indemnification asset		409,287		511,135
Other real estate owned, net		43,222		29,350
Other real estate owned covered, net		35,577		63,624
Total other real estate owned		78,799		92,974
Investment in affordable housing partnerships		181,858		144,445
Premises and equipment, net		115,560		118,926
Accrued interest receivable		85,389		89,686
Due from customers on acceptances		31,939		198,774
Premiums on deposits acquired, net		61,480		67,190
Goodwill		337,438		337,438
Other assets		850,838		792,535
TOTAL	**$**	**21,525,734**	**$**	**21,968,667**
LIABILITIES AND STOCKHOLDERS EQUITY				
Customer deposit accounts:				
Noninterest-bearing	$	3,828,116	$	3,492,795
Interest-bearing		13,513,756		13,960,207
Total deposits		17,341,872		17,453,002
Federal Home Loan Bank advances		362,885		455,251
Securities sold under repurchase agreements		995,000		1,020,208
Bank acceptances outstanding		31,939		198,774
Long-term debt		212,178		212,178
Accrued expenses and other liabilities		286,920		317,511
Total liabilities		19,230,794		19,656,924
COMMITMENTS AND CONTINGENCIES (Note 12)				
STOCKHOLDERS EQUITY				

Preferred stock, $0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued and 85,710 shares outstanding in 2012 and 2011.		83,027		83,027
Common stock, $0.001 par value, 200,000,000 shares authorized; 157,072,441 and 156,798,011 shares issued in 2012 and 2011, respectively; 142,645,812 and 149,327,907 shares outstanding in 2012 and 2011, respectively.		157		157
Additional paid in capital		1,456,361		1,443,883
Retained earnings		1,040,535		934,617
Treasury stock, at cost 14,426,629 shares in 2012 and 7,470,104 shares in 2011		(269,217)		(116,001)
Accumulated other comprehensive loss, net of tax		(15,923)		(33,940)
Total stockholders equity		2,294,940		2,311,743
TOTAL	**$**	**21,525,734**	**$**	**21,968,667**

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$ 238,036	$ 240,773	$ 459,075	$ 468,299
Investment securities	16,913	23,253	38,145	42,110
Securities purchased under resale agreements	4,758	5,109	9,072	9,379
Investment in Federal Home Loan Bank stock	167	124	387	357
Investment in Federal Reserve Bank stock	714	709	1,427	1,418
Due from banks and short-term investments	5,774	4,500	12,306	7,240
Total interest and dividend income	266,362	274,468	520,412	528,803
INTEREST EXPENSE				
Customer deposit accounts	19,177	29,130	39,341	55,112
Federal funds purchased			2	
Federal Home Loan Bank advances	1,353	3,955	3,495	9,733
Securities sold under repurchase agreements	11,591	12,116	23,313	24,133
Long-term debt	1,084	1,788	2,186	3,359
Other borrowings		143		296
Total interest expense	33,205	47,132	68,337	92,633
Net interest income before provision for loan losses	233,157	227,336	452,075	436,170
Provision for loan losses	15,500	26,500	33,600	53,006
Net interest income after provision for loan losses	217,657	200,836	418,475	383,164
NONINTEREST (LOSS) INCOME				
Impairment loss on investment securities			(5,165)	(5,555)
Less: Noncredit-related impairment loss recorded in other comprehensive income			5,066	5,091
Net impairment loss on investment securities recognized in earnings			(99)	(464)
Decrease in FDIC indemnification asset and receivable	(40,345)	(18,806)	(45,763)	(36,249)
Branch fees	8,641	9,078	16,935	16,832
Net gain on sales of investment securities	71	1,117	554	3,632
Net gain on sale of fixed assets	37	2,169	73	2,206
Letters of credit fees and commissions	4,538	3,390	8,813	6,434
Foreign exchange income	563	2,826	2,359	4,752
Ancillary loan fees	2,188	2,055	4,196	4,046
Income from life insurance policies	959	1,122	1,949	2,106
Net gain on sales of loans	6,375	5,891	11,554	13,301
Other operating income	5,318	3,649	9,514	6,936
Total noninterest (loss) income	(11,655)	12,491	10,085	23,532
NONINTEREST EXPENSE				
Compensation and employee benefits	42,863	40,870	89,272	79,140
Occupancy and equipment expense	13,057	12,175	26,575	24,773
Amortization of investments in affordable housing partnerships and other investments	4,425	4,598	8,891	9,123
Amortization of premiums on deposits acquired	2,838	3,151	5,711	6,336
Deposit insurance premiums and regulatory assessments	3,323	6,833	7,315	14,024
Loan-related expenses	4,175	4,284	8,656	7,383
Other real estate owned expense	4,486	14,585	15,351	25,249
Legal expense	4,150	6,791	11,323	10,892
Prepayment penalty for FHLB advances	2,336	4,433	3,657	8,455
Data processing	2,197	2,100	4,661	4,703
Deposit-related expenses	1,657	1,373	3,084	2,532

Consulting expense		1,568		2,378		3,035		4,004
Other operating expenses		14,533		14,026		28,840		27,772
Total noninterest expense		101,608		117,597		216,371		224,386
INCOME BEFORE PROVISION FOR INCOME TAXES		104,394		95,730		212,189		182,310
PROVISION FOR INCOME TAXES		33,837		35,205		73,549		65,714
NET INCOME		**70,557**		**60,525**		**138,640**		**116,596**
PREFERRED STOCK DIVIDENDS		1,714		1,714		3,428		3,429
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	**$**	**68,843**	**$**	**58,811**	**$**	**135,212**	**$**	**113,167**
EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS								
BASIC	$	0.48	$	0.40	$	0.93	$	0.77
DILUTED	$	0.47	$	0.39	$	0.92	$	0.76
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING								
BASIC		142,107		147,011		143,727		146,937
DILUTED		147,786		153,347		149,414		153,349
DIVIDENDS DECLARED PER COMMON SHARE	$	0.10	$	0.05	$	0.20	$	0.06

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 70,557	$ 60,525	$ 138,640	$ 116,596
Other comprehensive income, net of tax:				
Unrealized gain on investment securities available-for-sale:				
Unrealized holding gains arising during period	1,002	15,166	21,272	22,569
Reclassification adjustment for net gains included in net income	(41)	(648)	(321)	(2,107)
Noncredit-related impairment loss on securities			(2,938)	(2,953)
Foreign currency translation adjustments	(6)	67	4	(665)
Other comprehensive income	955	14,585	18,017	16,844
COMPREHENSIVE INCOME	**$ 71,512**	**$ 75,110**	**$ 156,657**	**$ 133,440**

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except share data)

(Unaudited)

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders Equity
BALANCE, JANAURY 1, 2011	**$**	**$ 83,058**	**$ 156**	**$ 1,434,277**	**$ 720,116**	**$ (111,262)**	**$ (12,414)**	**$ 2,113,931**
Net income					116,596			116,596
Other comprehensive income							16,844	16,844
Stock compensation costs				5,570				5,570
Tax benefit from stock compensation plans, net				474				474
Issuance of 353,098 shares of common stock pursuant to various stock compensation plans and agreements				3,341				3,341
Conversion of 31 shares of Series A preferred stock into 2,014 shares of common stock		(31)		31				
Cancellation of 122,170 shares of common stock due to forfeitures of issued restricted stock				2,112		(2,112)		
Purchase of 24,834 shares of treasury stock due to the vesting of restricted stock						(572)		(572)
Preferred stock dividends					(3,429)			(3,429)
Common stock dividends					(8,923)			(8,923)
Repurchase of 1,517,555 common stock warrants				(14,500)				(14,500)
BALANCE, JUNE 30, 2011	**$**	**$ 83,027**	**$ 156**	**$ 1,431,305**	**$ 824,360**	**$ (113,946)**	**$ 4,430**	**$ 2,229,332**
BALANCE, JANAURY 1, 2012	**$**	**$ 83,027**	**$ 157**	**$ 1,443,883**	**$ 934,617**	**$ (116,001)**	**$ (33,940)**	**$ 2,311,743**
Net income					138,640			138,640
Other comprehensive income							18,017	18,017
Stock compensation costs				7,773				7,773
Tax benefit from stock compensation plans, net				157				157
Issuance of 274,430 shares of common stock pursuant to various stock compensation plans and agreements				2,678				2,678
Cancellation of 108,662 shares of common stock due to forfeitures of issued restricted stock				1,870		(1,870)		
Purchase of 63,636 shares of treasury stock due to the vesting of restricted stock						(1,396)		(1,396)
Preferred stock dividends					(3,428)			(3,428)
Common stock dividends					(29,294)			(29,294)
Purchase of 6,784,227 shares of treasury stock pursuant to the Stock Repurchase Program						(149,950)		(149,950)
BALANCE, JUNE 30, 2012	**$**	**$ 83,027**	**$ 157**	**$ 1,456,361**	**$ 1,040,535**	**$ (269,217)**	**$ (15,923)**	**$ 2,294,940**

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 138,640	$ 116,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,711	30,708
(Accretion) of discount and amortization of premiums, net	(96,885)	(101,894)
Decrease in FDIC indemnification asset and receivable	45,763	36,249
Stock compensation costs	7,773	5,570
Deferred tax (benefit) expense	(19,868)	63,616
Provision for loan losses	33,600	53,006
Impairment on other real estate owned	10,541	19,655
Net gain on sales of investment securities, loans and other assets	(14,854)	(19,518)
Originations and purchases of loans held for sale	(34,716)	(6,884)
Proceeds from sales of loans held for sale		8,081
Prepayment penalty for Federal Home Loan Bank advances, net	3,657	8,455
Prepayment penalty on modification of Federal Home Loan Bank advances	(37,678)	
Net proceeds from FDIC shared-loss agreements	63,077	101,102
Net change in accrued interest receivable and other assets	(67,820)	(129,150)
Net change in accrued expenses and other liabilities	(43,142)	156,015
Other net operating activities	(2,007)	(1,653)
Total adjustments	(112,848)	223,358
Net cash provided by operating activities	25,792	339,954
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in:		
Loans	184,443	(396,027)
Short-term investments	(192,880)	58,081
Federal funds sold	(30,000)	
Purchases of:		
Securities purchased under resale agreements	(25,000)	(418,369)
Investment securities available-for-sale	(482,500)	(1,385,644)
Loans receivable	(239,272)	(463,981)
Premises and equipment	(3,405)	(2,199)
Investments in affordable housing partnerships	(34,128)	(17,444)
Proceeds from sale of:		
Investment securities available-for-sale	1,097,270	527,823
Loans receivable	58,205	125,288
Loans held for sale originated for investment	199,435	368,478
Other real estate owned	59,814	74,004
Premises and equipment	11	9,111
Repayments, maturities and redemptions of investment securities available-for-sale	606,704	561,711
Paydowns, maturities and termination of securities purchased under resale agreements	136,434	106,088
Redemption of Federal Home Loan Bank stock	12,674	12,903
Other net investing activities	(236)	
Net cash provided by (used in) investing activities	1,347,569	(840,177)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in:		
Deposits	(110,498)	1,495,126
Short-term borrowings	(25,208)	(5,930)

Proceeds from:				
Issuance of common stock pursuant to various stock plans and agreements		2,678		3,341
Payment for:				
Repayment of FHLB advances		(57,616)		(683,130)
Repayment of long-term debt				(10,309)
Repayment of notes payable and other borrowings				(6,250)
Repurchase of common stock warrants				(14,500)
Repurchase of shares of treasury stock pursuant to the Stock Repurchase Plan		(149,950)		
Cash dividends		(32,642)		(12,352)
Other net financing activities		(1,239)		(98)
Net cash (used in) provided by financing activities		(374,475)		765,898
Effect of exchange rate changes on cash and cash equivalents		(457)		(1,126)
NET INCREASE IN CASH AND CASH EQUIVALENTS		998,429		264,549
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,431,185		1,333,949
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	2,429,614	$	1,598,498
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	73,938	$	92,622
Income tax payments, net of refunds		185,729		12,587
Noncash investing and financing activities:				
Loans transferred to loans held for sale, net		21,317		479,582
Transfers to other real estate owned		54,478		104,842
Loans to facilitate sales of other real estate owned		850		7,562
Loans to facilitate sales of loans		638		17,416
Loans to facilitate sales of premises and equipment				11,100
Conversion of preferred stock to common stock				31

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as East West and on a consolidated basis as the Company) and its wholly-owned subsidiaries, East West Bank and subsidiaries (East West Bank or the Bank) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has seven wholly-owned subsidiaries that are statutory business trusts (the Trusts). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (GAAP), are unaudited and reflect all adjustments that, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the three months and six months ended June 30, 2012 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. Events subsequent to the condensed consolidated balance sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Certain prior year balances have been reclassified to conform to current year presentation.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Derivative Financial Instruments As part of its asset and liability management strategy, the Company uses derivative financial instruments to mitigate exposure to interest rate and foreign currency risks. All derivative instruments, including certain derivative instruments embedded in other contracts, are recognized on the condensed consolidated balance sheet at fair value with the change in fair value reported in earnings. When master netting agreements exist, the Company nets counterparty positions with any cash collateral received or delivered.

The Company s interest rate swaps on certain certificates of deposit qualify for hedge accounting treatment under ASC 815, *Derivatives and Hedging*. The Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. This includes designating the derivative contract as a fair value hedge which is a hedge of a recognized asset or liability. All derivatives designated as fair value hedges are linked to specific hedged items or to groups of specific assets and liabilities on the balance sheet. Both at inception and quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in the fair value of the hedged item. Retrospective effectiveness is also assessed as well as the continued expectation that the hedge will remain effective prospectively. Any ineffective portion of the changes of fair value hedges is recognized immediately in interest expense in the condensed consolidated statements of income.

The Company discontinues hedge accounting prospectively when (i) a derivative is no longer highly effective in offsetting changes in the fair value, (ii) a derivative expires or is sold, terminated, or exercised, or (iii) the Company determines that designation of a derivative as a hedge is no longer appropriate. If a fair value hedge derivative instrument is terminated or the hedge designation removed, the previous adjustments to the carrying amount of the hedged liability would be subsequently accounted for in the same manner as other components of the carrying amount of that liability. For interest-bearing liabilities, such adjustments would be amortized into earnings over the remaining life of the respective liability.

The Company adopted ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* and has made the accounting policy election to use the exception in ASC 820 with respect to measuring counterparty credit risk for derivative instruments. That exception permits the Company to measure the fair value of a group of financial assets and liabilities on the basis of the price that would be received to sell an asset position or to transfer a liability position for a particular risk exposure, based on specified criteria, which have been met by the Company.

Comprehensive Income The term comprehensive income describes the total of all components of comprehensive income, including net income and other comprehensive income. Other comprehensive income refers to revenues, expenses, and gains and losses that are included in comprehensive income but are excluded from net income because they have been recorded directly in equity under the provisions of other Financial Accounting Standards Board statements. In accordance with the adoption of ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income,* the Company presents comprehensive income in the condensed consolidated statements of comprehensive income, which was formerly presented in the condensed consolidated statements of changes in stockholders equity.

Recent Accounting Standards

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310) A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 clarifies the guidance on the two conditions that must exist in evaluating whether a restructuring constitutes a troubled debt restructuring: that the restructuring constitutes a concession and that the debtor is experiencing financial difficulties. In addition, ASU 2011-02 clarifies that a creditor is precluded from using the effective interest rate test in the debtor s guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a troubled debt restructuring. The amendments in ASU 2011-02 were effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Additionally, ASU 2011-02 finalizes the effective date for the disclosures required by paragraphs 310-10-50-33 through 50-34, which were deferred by ASU 2011-01, for interim and annual periods beginning on or after June 15, 2011. The adoption of this guidance did not have a material effect on the Company s condensed consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. ASU 2011-03 removes the transferor s ability criterion from the consideration of effective control for repos and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity. The amendments in ASU 2011-03 remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The FASB indicates that eliminating the transferor s ability criterion and related implementation guidance from an entity s assessment of effective control should improve the accounting for repos and other similar transactions. The amendments in ASU 2011-03 were effective for the first interim or annual period beginning on or after December 15, 2011 and are to be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of this guidance did not have a material effect on the Company s condensed consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 addresses convergence between GAAP and International Financial Reporting Standards (IFRS) requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying GAAP. Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity s net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. The amendments in ASU 2011-04 were effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material effect on the Company s condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* ASU 2011-05 requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. The FASB amended ASU 2011-05 in December 2011, with the issuance of ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* ASU 2011-12 defers only changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. Both standards were effective for interim and annual periods beginning after December 15, 2011. The adoption of these standards only affected the presentation of the Company s condensed consolidated financial statements and did not have an impact on the financial amounts presented in the statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. ASU 2011-08 gives companies the option to qualitatively determine whether they can bypass the two-step goodwill impairment test under ASC 350-20, *Intangibles Goodwill and Other: Goodwill*. Under ASU 2011-08, if a company chooses to perform a qualitative assessment and determines that it is more likely than not (a more than 50 percent likelihood) that the fair value of a reporting unit is less than its carrying amount, it would then perform Step 1 of the annual goodwill impairment test in ASC 350-20 and, if necessary, proceed to Step 2. Otherwise, no further evaluation would be necessary. The amended guidance is effective for interim and annual periods beginning after December 15, 2011. The Company has elected to continue to assess the two-step goodwill impairment, quantitatively. As such, this guidance did not have an impact on the Company s condensed consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 addresses the differences in offsetting requirements between GAAP and IFRS by enhancing disclosures about financial instruments and derivative instruments that are either offset in accordance with GAAP or are subject to an enforceable master netting arrangement or similar agreement. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013, and must be applied retrospectively to all comparative periods presented. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on its condensed consolidated financial statements.

NOTE 3 FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy noted below. The hierarchy is based on the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 Quoted prices for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Level 1 financial instruments typically include U.S. Treasury securities.

- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, municipal securities, corporate debt securities, single issuer trust preferred securities, equity swap agreements, foreign exchange options, interest rate swaps, impaired loans and other real estate owned (OREO).

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category typically includes pooled trust preferred securities and derivatives payable.

The Company records investment securities available-for-sale, equity swap agreements, derivative liabilities, foreign exchange options, interest rate swaps and short-term foreign exchange contracts at fair value on a recurring basis. Certain other assets such as mortgage servicing assets, impaired loans, other real estate owned, loans held for sale, goodwill, premiums on acquired deposits and other investments are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed.

In determining the appropriate hierarchy levels, the Company performs a detailed analysis of assets and liabilities that are subject to fair value disclosure. The following tables present both financial and nonfinancial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis. These assets and liabilities are reported on the condensed consolidated balance sheets at their fair values as of June 30, 2012 and December 31, 2011. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. There were no transfers in and out of Levels 1 and 3 or Levels 2 and 3 during the first six months of 2012 and 2011.

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of June 30, 2012			
	Fair Value Measurements June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$ 72,188	$ 72,188	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	359,724		359,724	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	48,689		48,689	
Residential mortgage-backed securities	876,244		876,244	
Municipal securities	65,782		65,782	
Corporate debt securities:				
Investment grade	426,055		426,055	
Non-investment grade	14,919		12,497	2,422
Other securities	10,138		10,138	
Total investment securities available-for-sale	$ 1,873,739	$ 72,188	$ 1,799,129	$ 2,422
Equity swap agreements	$ 204	$	$ 204	$
Foreign exchange options	4,264		4,264	
Interest rate swaps	28,582		28,582	
Short-term foreign exchange contracts	877		877	
Derivative liabilities	(31,740)		(28,926)	(2,814)

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2011			
	Fair Value Measurements December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$ 20,725	$ 20,725	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	576,578		576,578	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	49,315		49,315	
Residential mortgage-backed securities	993,770		993,770	
Municipal securities	79,946		79,946	
Corporate debt securities:				
Investment grade	1,322,561		1,322,561	
Non-investment grade	19,615		17,380	2,235
Other securities	10,068		10,068	
Total investment securities available-for-sale	$ 3,072,578	$ 20,725	$ 3,049,618	$ 2,235
Equity swap agreements	$ 202	$	$ 202	$
Foreign exchange options	3,899		3,899	
Interest rate swaps	20,474		20,474	
Short-term foreign exchange contracts	1,403		1,403	
Derivative liabilities	(24,164)		(21,530)	(2,634)

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended June 30, 2012				
	Fair Value Measurements June 30, 2012	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses) for the Three Months Ended June 30, 2012**
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 14,824	$	$ 14,824	$	$ (2,240)
Total commercial real estate	16,517		16,517		(4,315)
Total commercial and industrial	15,616			15,616	(9,705)
Total consumer	372		372		(264)
Total non-covered impaired loans	$ 47,329	$	$ 31,713	$ 15,616	$ (16,524)
Non-covered OREO	$ 4,625	$	$ 4,625	$	$ (1,820)
Covered OREO *(1)*	$ 6,544	$	$ 6,544	$	$ (1,241)
Loans held for sale	$	$	$	$	$

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended June 30, 2011				
	Fair Value Measurements June 30, 2011	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses) for the Three Months Ended June 30, 2011**
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 3,898	$	$ 3,898	$	$ (715)
Total commercial real estate	28,936		28,936		(16,933)
Total commercial and industrial	6,795			6,795	2,487
Total consumer					
Total non-covered impaired loans	$ 39,629	$	$ 32,834	$ 6,795	$ (15,161)
Non-covered OREO	$ 7,034	$	$ 7,034	$	$ (460)
Covered OREO *(1)*	$ 46,333	$	$ 46,333	$	$ (9,148)
Loans held for sale	$	$	$	$	$

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company s liability for losses is 20% of the $1.2 million in losses, or $248 thousand, and 20% of the $9.1 million in losses, or $1.8 million, for the three months ended June 30, 2012 and 2011, respectively.

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Six Months Ended June 30, 2012				
	Fair Value Measurements June 30, 2012	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses) for the Six Months Ended June 30, 2012**
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 18,466	$	$ 18,466	$	$ (2,789)
Total commercial real estate	26,789		26,789		(4,316)
Total commercial and industrial	16,097			16,097	(10,281)
Total consumer	379		379		(321)
Total non-covered impaired loans	$ 61,731	$	$ 45,634	$ 16,097	$ (17,707)
Non-covered OREO	$ 8,674	$	$ 8,674	$	$ (2,675)
Covered OREO *(1)*	$ 17,712	$	$ 17,712	$	$ (7,689)
Loans held for sale	$	$	$	$	$ (4,730)

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Six Months Ended June 30, 2011				
	Fair Value Measurements June 30, 2011	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses) for the Six Months Ended June 30, 2011**
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 5,540	$	$ 5,540	$	$ (1,502)
Total commercial real estate	33,480		33,480		(20,708)
Total commercial and industrial	3,968			3,968	(4,562)
Total consumer	272		272		(178)
Total non-covered impaired loans	$ 43,260	$	$ 39,292	$ 3,968	$ (26,950)
Non-covered OREO	$ 13,656	$	$ 13,656	$	$ (1,512)
Covered OREO *(1)*	$ 93,097	$	$ 93,097	$	$ (15,403)
Loans held for sale	$ 11,493	$	$ 11,493	$	$ (4,722)

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company s liability for losses is 20% of the $7.7 million in losses, or $1.5 million, and 20% of the $15.4 million in losses, or $3.1 million, for the six months ended June 30, 2012 and 2011, respectively.

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables provide a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2012 and 2011:

	Total	Investment Securities Available-for-Sale Other Residential Mortgage-Backed Securities Non-Investment Grade	Corporate Debt Securities Non-Investment Grade	Derivatives Payable
		(In thousands)		
Opening balance, April 1, 2012	$ 2,247	$	$ 2,247	$ (3,122)
Total gains or (losses) for the period: *(1)*				
Included in earnings				308
Included in other comprehensive loss (unrealized) *(2)*	105		105	
Purchases, issues, sales, settlements *(3)*				
Purchases				
Issues				
Sales				
Settlements	70		70	
Transfer from investment grade to non-investment grade				
Transfers in and/or out of Level 3 *(4)*				
Closing balance, June 30, 2012	$ 2,422	$	$ 2,422	$ (2,814)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of June 30, 2012	$	$	$	$ (308)

	Total	Investment Securities Available-for-Sale Other Residential Mortgage-Backed Securities Non-Investment Grade	Corporate Debt Securities Non-Investment Grade	Derivatives Payable
		(In thousands)		
Opening balance, April 1, 2011	$ 2,379	$	$ 2,379	$ (3,270)
Total gains or (losses) for the period: *(1)*				
Included in earnings				23
Included in other comprehensive loss (unrealized) *(2)*	11		11	
Purchases, issues, sales, settlements *(3)*				
Purchases				
Issues				
Sales				
Settlements	63		63	
Transfer from investment grade to non-investment grade				
Transfers in and/or out of Level 3*(4)*				
Closing balance, June 30, 2011	$ 2,453	$	$ 2,453	$ (3,247)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of June 30, 2011	$	$	$	$ (178)

(1) Total gains or losses represent the total realized and unrealized gains and losses recorded for Level 3 assets and liabilities. Realized gains or losses are reported in the condensed consolidated statements of income.

(2) Unrealized gains or losses on investment securities are reported in accumulated other comprehensive loss, net of tax, in the condensed consolidated statements of changes in stockholders equity.

(3) Purchases, issuances, sales, and settlements represent Level 3 assets and liabilities that were either purchased, issued, sold, or settled during the period. The amounts are recorded at their end of period fair values.

(4) Transfers in and/or out represent existing assets and liabilities that were either previously categorized as a higher level and the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 and the lowest significant input became observable during the period. These assets and liabilities are recorded at their end of period fair values.

	Total	Investment Securities Available-for-Sale Other Residential Mortgage-Backed Securities Non-Investment Grade	Corporate Debt Securities Non-Investment Grade	Derivatives Payable
		(In thousands)		
Beginning balance, January 1, 2012	$ 2,235	$	$ 2,235	$ (2,634)
Total gains or (losses) for the period: *(1)*				
Included in earnings	(99)		(99)	(180)
Included in other comprehensive loss (unrealized) *(2)*	330		330	
Purchases, issues, sales, settlements *(3)*				
Purchases				
Issues				
Sales				
Settlements	(44)		(44)	
Transfer from investment grade to non-investment grade				
Transfers in and/or out of Level 3 *(4)*				
Closing balance, June 30, 2012	$ 2,422	$	$ 2,422	$ (2,814)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of June 30, 2012	$ 99	$	$ 99	$ 180

	Total	Investment Securities Available-for-Sale Other Residential Mortgage-Backed Securities Non-Investment Grade	Corporate Debt Securities Non-Investment Grade	Derivatives Payable
		(In thousands)		
Beginning balance, January 1, 2011	$ 9,027	$ 6,254	$ 2,773	$ (3,449)
Total gains or (losses) for the period: *(1)*				
Included in earnings	(6,124)	(5,660)	(464)	202
Included in other comprehensive loss (unrealized) *(2)*	8,846	8,763	83	
Purchases, issues, sales, settlements *(3)*				
Purchases				
Issues				
Sales	(9,357)	(9,357)		
Settlements	61		61	
Transfer from investment grade to non-investment grade				
Transfers in and/or out of Level 3*(4)*				
Closing balance, June 30, 2011	$ 2,453	$	$ 2,453	$ (3,247)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of June 30, 2011	$ 464	$	$ 464	$ (29)

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(1) Total gains or losses represent the total realized and unrealized gains and losses recorded for Level 3 assets and liabilities. Realized gains or losses are reported in the condensed consolidated statements of income.

(2) Unrealized gains or losses on investment securities are reported in accumulated other comprehensive loss, net of tax, in the condensed consolidated statements of changes in stockholders equity.

(3) Purchases, issuances, sales, and settlements represent Level 3 assets and liabilities that were either purchased, issued, sold, or settled during the period. The amounts are recorded at their end of period fair values.

(4) Transfers in and/or out represent existing assets and liabilities that were either previously categorized as a higher level and the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 and the lowest significant input became observable during the period. These assets and liabilities are recorded at their end of period fair values.

Valuation Methodologies

Investment Securities Available-for-Sale The fair values of available-for-sale investment securities are generally determined by prices obtained from independent external pricing service providers who have experience in valuing these securities or by comparison to the average of at least two quoted market prices obtained from independent external brokers. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values.

The Company s Level 3 available-for-sale securities include four pooled trust preferred securities. The fair values of these investment securities represent less than 1% of the total available-for-sale investment securities. The fair values of the pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority. As a result of the continued illiquidity in the pooled trust preferred securities market, it is the Company s view that current broker prices (which are typically non-binding) on certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value.

For the pooled trust preferred securities, the fair value was derived based on discounted cash flow analyses (the income method) prepared by management. In order to determine the appropriate discount rate used in calculating fair values derived from the income method for the pooled trust preferred securities, the Company has made assumptions using an exit price approach related to the implied rate of return which have been adjusted for general changes in market rates, estimated changes in credit risk and liquidity risk premium, specific nonperformance, and default experience in the collateral underlying the securities. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for credit risk and liquidity risk. The actual level 3 unobservable assumption rates used as of June 30, 2012 include: a constant prepayment rate of 0% for year 1-5 and 1% thereafter, a constant default rate of 1.2% for year 1-5 and 0.75% thereafter, and a recovery assumption of 0% for existing deferrals/defaults and 15% for future deferrals with a recovery lag of 60 months. The losses recorded in the period are recognized in noninterest income.

Derivative Liabilities The Company s derivative liabilities include derivatives payable that falls within Level 3 and all other derivative liabilities which fall within Level 2. The derivatives payable are recorded in conjunction with certain certificates of deposit (host instrument). These CD s pay interest based on changes in either the Hang Seng China Enterprises Index (HSCEI) or based on changes in the Chinese currency Renminbi (RMB), as designated, and are included in interest-bearing deposits on the condensed consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. The payable is divided by the portion under FDIC insurance coverage and the non-insured portion. For the FDIC insured portion the Company applied a risk premium comparable to an agency security risk premium. For the non-insured portion, the Company considered its own credit risk in determining the valuation by applying a risk premium based on our institutional credit rating, which resulted in a nominal adjustment to the valuation of the derivative liabilities for the six months ended June 30, 2012. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. The valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable. The actual level 3 unobservable input used as of June 30, 2012 was a credit risk adjustment with a range of 0.95% - 2.81%. The Level 2 derivative liabilities are mostly comprised of the off-setting interest rate swaps with other counterparties. Refer to ***Interest Rate Swaps*** within this footnote for complete discussion.

Equity Swap Agreements The Company has entered into equity swap agreements to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product, which has a term of 5 years, pays interest based on the performance of the HSCEI. The fair value of these equity swap agreements is based on the income approach. The fair value is based on the change in the value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The Company s consideration of its counterparty s credit risk resulted in a nominal adjustment to the valuation of the equity swap agreements for the six months ended June 30, 2012. The valuation of equity swap agreements falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts. The fair value of the derivative contracts is provided by a third party.

Foreign Exchange Options The Company has entered into foreign exchange option contracts with major investment firms. The settlement amount is determined based upon the performance of the Chinese currency RMB relative to the U.S. Dollar (USD) over the 5-year term of the contract. The performance amount is computed based on the average quarterly value of the RMB per the USD as compared to the initial value. The fair value of the derivative contract is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate, currency rate and time remaining to maturity. The Company s consideration of the counterparty s credit risk resulted in an adjustment of $0.1 million to the valuation of the foreign exchange options for the six months ended June 30, 2012. The valuation of the option contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Interest Rate Swaps The Company has entered into a pay-fixed, receive-variable swap contracts with institutional counterparties to hedge against interest rate swap products offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a pay-fixed, receive-variable swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company has also entered into pay-variable, receive-fixed swap contracts with institutional counterparties to hedge against certificates of deposit issued. This product allows the Company to lock in attractive floating rate funding. The fair value of the interest rate swap contracts is based on a discounted cash flow approach. The Company s consideration of the counterparty s credit resulted in a $0.8 million adjustment to the valuation of the interest rate swaps for the six months ended June 30, 2012. The valuation of the interest rate swap falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Short-term Foreign Exchange Contracts The Company entered into short-term foreign exchange contracts to purchase/sell foreign currencies at set rates in the future. These contracts economically hedge against foreign exchange rate fluctuations. The Company enters into contracts with institutional counterparties to hedge against foreign exchange products offered to bank customers. These products allow customers to hedge the foreign exchange risk of their deposits and loans denominated in foreign currencies. The Company does not assume any foreign exchange rate risk as the contract with the customer and the contract with the institutional party mirror each other. The fair value is determined at each reporting period based on the change in the foreign exchange rate. Given the short term nature of the contracts, the counterparties credit risks are considered nominal and resulted in no adjustments to the valuation of the short-term foreign exchange contracts for the six months ended June 30, 2012. The valuation of the contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Impaired Loans The Company s impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent valuation information received. The fair values may be adjusted as needed based on factors such as the Company s historical knowledge and changes in market conditions from the time of valuation. Impaired loans fall within Level 2 or Level 3 of the fair value hierarchy as appropriate. Level 2 values are measured at fair value based on the most recent valuation information received on the underlying collateral. Level 3 values, additionally include adjustments by the Company for historical knowledge and for changes in market conditions.

Other Real Estate Owned The Company s OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans and are recorded at estimated fair value less cost to sell at the time of foreclosure and at the lower of cost or estimated fair value less cost to sell subsequent to acquisition. The fair values of OREO properties are based on third party appraisals, broker price opinions or accepted written offers. These valuations are reviewed and approved by the Company s appraisal department, credit review department, or OREO department. OREO properties are classified as Level 2 assets in the fair value hierarchy. The non-covered OREO balance of $43.2 million and the covered OREO balance of $35.6 million are included in the condensed consolidated balance sheets as of June 30, 2012.

Loans Held for Sale The Company s loans held for sale are carried at the lower of cost or market value. These loans are currently comprised of mostly student loans. For those loans, the fair value of loans held for sale is derived from current market prices and comparative current sales. For the remainder of the loans held for sale, which fall within Level 2, the fair value is derived from third party sale analysis, existing sale agreements, or appraisal reports on the loans underlying collateral. As such, the Company records any fair value adjustments on a nonrecurring basis.

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company s financial instruments as of June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012		December 31, 2011	
	Carrying Amount or Notional Amount	Estimated Fair Value	Carrying Amount or Notional Amount	Estimated Fair Value
		(In thousands)		
Financial Assets:				
Cash and cash equivalents	$ 2,429,614	$ 2,429,614	$ 1,431,185	$ 1,431,185
Short-term investments	254,714	254,714	61,834	61,834
Federal funds sold	30,000	30,000		
Securities purchased under resale agreements	675,000	670,342	786,434	791,745
Investment securities available-for-sale	1,873,739	1,873,739	3,072,578	3,072,578
Loans held for sale	137,812	142,211	278,603	285,181
Loans receivable, net	13,972,267	13,435,594	13,984,930	13,520,712
Investment in Federal Home Loan Bank stock	124,223	124,223	136,897	136,897
Investment in Federal Reserve Bank stock	47,748	47,748	47,512	47,512
Accrued interest receivable	85,389	85,389	89,686	89,686
Equity swap agreements	22,709	204	22,709	202
Foreign exchange options	85,614	4,264	85,614	3,899
Interest rate swaps	840,956	28,582	585,196	20,474
Short-term foreign exchange contracts	92,116	877	210,295	1,403
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	11,040,151	11,040,151	10,307,001	10,307,001
Time deposits	6,301,721	6,326,965	7,146,001	7,194,125
Federal Home Loan Bank advances	362,885	383,493	455,251	479,029
Securities sold under repurchase agreements	995,000	1,184,501	1,020,208	1,177,331
Accrued interest payable	9,846	9,846	15,447	15,447
Long-term debt	212,178	145,644	212,178	144,392
Derivative liabilities	875,705	31,740	835,913	24,164

The following table shows the level in the fair value hierarchy for the estimated fair values of only financial instruments that are not already on the condensed consolidated balance sheets at fair value at June 30, 2012 and December 31, 2011.

	June 30, 2012			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 2,429,614	$ 2,429,614	$	$
Short-term investments	254,714		254,714	
Federal funds sold	30,000		30,000	
Securities purchased under resale agreements	670,342		670,342	
Loans held for sale	142,211		142,211	
Loans receivable, net	13,435,594			13,435,594
Investment in Federal Home Loan Bank stock	124,223		124,223	
Investment in Federal Reserve Bank stock	47,748		47,748	
Accrued interest receivable	85,389		85,389	
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	11,040,151		11,040,151	
Time deposits	6,326,965			6,326,965
Federal Home Loan Bank advances	383,493		383,493	
Securities sold under repurchase agreements	1,184,501		1,184,501	
Accrued interest payable	9,846		9,846	
Long-term debt	145,644		145,644	

	December 31, 2011			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 1,431,185	$ 1,431,185	$	$
Short-term investments	61,834		61,834	
Federal funds sold				
Securities purchased under resale agreements	791,745		791,745	
Loans held for sale	285,181		285,181	
Loans receivable, net	13,520,712			13,520,712
Investment in Federal Home Loan Bank stock	136,897		136,897	
Investment in Federal Reserve Bank stock	47,512		47,512	
Accrued interest receivable	89,686		89,686	
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	10,307,001		10,307,001	
Time deposits	7,194,125			7,194,125
Federal Home Loan Bank advances	479,029		479,029	
Securities sold under repurchase agreements	1,177,331		1,177,331	
Accrued interest payable	15,447		15,447	
Long-term debt	144,392		144,392	

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

Cash and Cash Equivalents The carrying amounts approximate fair values due to the short-term nature of these instruments. Due to the short term nature, the estimated fair value is considered to be within Level 1 of the fair value hierarchy.

Short-Term Investments The fair values of short-term investments generally approximate their book values due to their short maturities. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Federal Funds Sold The carrying amounts approximate fair values due to the short-term nature of these instruments, as such due to the observable nature of the inputs used in deriving the estimated fair value these instruments are considered to be within Level 2 of the fair value hierarchy.

Securities Purchased Under Resale Agreements Securities purchased under resale agreements with original maturities of 90 days or less are included in cash and cash equivalents. The fair value of securities purchased under resale agreements with original maturities of more than 90 days is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Investment Securities Available-for-Sale The fair values of the investment securities available-for-sale are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For pooled trust preferred securities, fair values are based on discounted cash flow analyses. Due to the unobservable inputs used within the discounted cash flow analysis, the estimate for pooled trust preferred securities is considered to be within Level 3 of the fair value hierarchy. The remainder of the portfolio is classified within Level 1 and Level 2, as discussed earlier in this footnote.

Loans Held for Sale The fair value of loans held for sale is derived from current market prices and comparative current sales or from third party sale analysis, existing sale agreements, or appraisal reports on the loans underlying collateral, as applicable. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Loans Receivable, net (includes covered and non-covered loans) The fair value of loans is determined based on a discounted cash flow approach considered for an entry price value. The discount rate is derived from the associated yield curve plus spreads, and reflects the offering rates in the market for loans with similar financial characteristics. No adjustments have been made for changes in credit within the loan portfolio. It is management s opinion that the allowance for loan losses pertaining to performing and nonperforming loans results in a fair valuation of credit for such loans. Due to the unobservable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 3 of the fair value hierarchy.

Investment in Federal Home Loan Bank Stock and Federal Reserve Bank Stock The carrying amount approximates fair value, as the stock may be sold back to the Federal Home Loan Bank and the Federal Reserve Bank at carrying value. The valuation of these instruments is the carrying amount as these investments can only be sold and purchased from the Federal Home Loan Bank and Federal Reserve Bank respectively. The valuation of these investments is considered to be within Level 2 of the fair value hierarchy, as the restrictions and value of the investments are the same for all financial institutions which are required to hold these investments.

Accrued Interest Receivable The carrying amounts approximate fair values due to the short-term nature of these instruments, as such due to the observable nature of the inputs used in deriving the estimated fair value these instruments are considered to be within Level 2 of the fair value hierarchy.

Equity Swap Agreements The fair value of the derivative contracts is provided by a third party and is determined based on the change in value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility of the option, interest rate, and time remaining to maturity. We also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Foreign Exchange Options The fair value of the derivative contracts is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate, and time remaining to maturity. We also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Interest Rate Swaps The fair value of the interest rate swap contracts is provided by a third party and is determined based on a discounted cash flow approach. The Company also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Short-term Foreign Exchange Contracts The fair value of short-term foreign exchange contracts is determined based on the change in foreign exchange rate. We also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Customer Deposit Accounts The carrying amounts approximate fair value for demand and interest checking deposits, savings deposits, and certain money market accounts as the amounts are payable on demand at the reporting date. Due to the observable nature of the inputs used in deriving the estimated fair value these instruments are considered to be within Level 2 of the fair value hierarchy. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank s current offering rates, plus spread. Due to the unobservable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 3 of the fair value hierarchy.

Federal Home Loan Bank Advances The fair value of Federal Home Loan Bank (FHLB) advances is estimated based on the discounted value of contractual cash flows, using rates currently offered by the FHLB of San Francisco for fixed-rate credit advances with similar remaining maturities at each reporting date. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Securities Sold Under Repurchase Agreements For securities sold under repurchase agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At June 30, 2012 and December 31, 2011, most of the securities sold under repurchase agreements are long-term in nature and the fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates, and taking into consideration the call features of each instrument. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Accrued Interest Payable The carrying amounts approximate fair values due to the short-term nature of these instruments, as such due to the observable nature of the inputs used in deriving the estimated fair value these instruments are considered to be within Level 2 of the fair value hierarchy.

Long-Term Debt The fair values of long-term debt are estimated by discounting the cash flows through maturity based on current market rates the Bank would pay for new issuances. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Derivatives Liabilities The Company s derivative liabilities include derivatives payable and all other derivative liabilities. The Company s derivatives payable are recorded in conjunction with certain certificates of deposit (host instrument). These CD s pay interest based on changes in either the HSCEI or based on changes in the RMB, as designated. The fair value of derivatives payable is estimated using the income approach. The payable is divided by the portion under FDIC insurance coverage and the non-insured portion. For the FDIC insured portion the Company applied the agency discount rate. For the non-insured portion, the Company considered its own credit risk in determining the valuation by applying a discount rate for our institutional credit rating, which resulted in a nominal adjustment to the valuation of the derivative liabilities for the six months ended June 30, 2012. The fair value of the interest rate swap contracts is provided by a third party and is determined based on a discounted cash flow approach. The Company also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of the interest rate swaps within derivative liabilities, the estimate is considered to be within Level 2 of the fair value hierarchy. Due to the unobservable nature of the inputs used in deriving the estimated fair value of derivatives payable within derivative liabilities, this estimate is considered to be within Level 3 of the fair value hierarchy.

The fair value estimates presented herein are based on pertinent information available to management as of each reporting date. Although we are not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 4 STOCK-BASED COMPENSATION

During the three and six months ended June 30, 2012, total compensation expense recognized in the condensed consolidated statements of income related to both stock options and restricted stock awards reduced income before taxes by \$4.1 million and \$7.8 million, respectively, and net income by \$2.4 million and \$4.5 million, respectively.

During the three and six months ended June 30, 2011, total compensation expense recognized in the condensed consolidated statements of income related to both stock options and restricted stock awards reduced income before taxes by \$3.3 million and \$5.6 million, respectively, and net income by \$1.9 million and \$3.2 million, respectively.

The Company received \$2.2 million and \$2.9 million as of June 30, 2012 and June 30, 2011, respectively, in cash proceeds from stock option exercises. The net tax benefit recognized in equity for stock compensation plans was \$157 thousand and \$474 thousand for June 30, 2012 and June 30, 2011, respectively.

As of June 30, 2012, there are 4,366,140 shares available to be issued, subject to the Company s current 1998 Stock Incentive Plan, as amended.

Stock Options

The Company issues fixed stock options to certain employees, officers, and directors. Stock options are issued at the current market price on the date of grant with a three-year or four-year vesting period and contractual terms of 7 or 10 years. The Company issues new shares upon the exercise of stock options.

A summary of activity for the Company s stock options as of and for the six months ended June 30, 2012 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of period	945,080	$ 27.19		
Granted				
Exercised	(135,898)	16.18		
Forfeited	(84,698)	35.92		
Outstanding at end of period	724,484	$ 28.23	1.92 years	$ 1,278
Vested or expected to vest at end of period	722,811	$ 28.28	1.92 years	$ 1,252
Exercisable at end of period	707,750	$ 28.71	1.88 years	$ 1,018

A summary of changes in unvested stock options and related information for the six months ended June 30, 2012 is presented below:

Unvested Options	Shares	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2012	186,914	$ 4.77
Granted		
Vested	(161,526)	4.47
Forfeited	(8,654)	13.21
Unvested at June 30, 2012	16,734	$ 3.26

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 *(5)*	**2011** *(5)*	**2012** *(5)*	**2011**
Expected term *(1)*	N/A	N/A	N/A	4 years
Expected volatility *(2)*	N/A	N/A	N/A	78.1%
Expected dividend yield *(3)*	N/A	N/A	N/A	0.2%

Risk-free interest rate *(4)*	N/A	N/A	N/A	1.6%

(1) The expected term (estimated period of time outstanding) of stock options granted was estimated using the historical exercise behavior of employees.

(2) The expected volatility was based on historical volatility for a period equal to the stock option s expected term.

(3) The expected dividend yield is based on the Company s prevailing dividend rate at the time of grant.

(4) The risk-free rate is based on the U.S. Treasury strips in effect at the time of grant equal to the stock option s expected term.

(5) The Company did not issue any stock options during the three and six months ended June 30, 2012 and the three months ended June 30, 2011.

During the three and six months ended June 30, 2012 and 2011, information related to stock options is presented as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Weighted average grant date fair value of stock options granted during the period *(1)*	N/A	N/A	N/A	$ 13.21
Total intrinsic value of options exercised (in thousands)	$ 280	$ 855	$ 855	$ 2,052
Total fair value of options vested (in thousands)	$ 671	$ 119	$ 3,672	$ 1,263

(1) The Company did not issue any stock options during the three and six months ended June 30, 2012 and the three months ended June 30, 2011.

As of June 30, 2012, total unrecognized compensation cost related to stock options amounted to $55 thousand. The cost is expected to be recognized over a weighted average period of 1.1 years.

Restricted Stock Awards

In addition to stock options, the Company also grants restricted stock awards to directors, officers and employees. The restricted stock awards fully vest after one to five years of continued employment from the date of grant; some of the awards are also subject to achievement of certain established financial goals. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock when the restrictions are released and the shares are issued. Restricted stock awards are forfeited if officers and employees terminate prior to the lapsing of restrictions or if established financial goals are not achieved. The Company records forfeitures of issued restricted stock as treasury share repurchases.

A summary of the activity for the Company s time-based and performance-based restricted stock awards as of June 30, 2012, including changes during the six months then ended, is presented below:

	June 30, 2012 Restricted Stock Awards			
	Time-Based		Performance-Based	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding at beginning of period	1,812,890	$ 16.79	480,735	$ 22.19
Granted	26,767	21.67	465,175	22.05
Vested	(89,497)	26.44	(90,550)	23.11
Forfeited	(108,662)	17.15	(19,552)	22.67
Outstanding at end of period	1,641,498	$ 16.32	835,808	$ 22.00

Restricted stock awards are valued at the closing price of the Company s stock on the date of award. The weighted average fair values of time-based restricted stock awards granted during the period ended June 30, 2012 and 2011 were $21.67 and $21.02, respectively. The weighted average fair value of performance-based restricted stock awards granted during the period ended June 30, 2012 and 2011 were $22.05 and $23.11, respectively. The total fair value of time-based restricted stock awards vested for the three months ended June 30, 2012 and 2011 was $232 thousand and $846 thousand, respectively. The total fair value of time-based restricted stock awards vested for the six months ended June 30, 2012 and 2011 was $2.0 million and $2.5 million, respectively. The total fair value of performance-based restricted stock awards vested during the three and six months ended June 30, 2012 was a nominal amount, and $1.9 million, respectively. There were no performance-based restricted stock awards vested during the period ended June 30, 2011.

As of June 30, 2012, total unrecognized compensation cost related to time-based and performance-based restricted stock awards amounted to $11.1 million and $13.7 million, respectively. This cost is expected to be recognized over a weighted average period of 1.9 years and 2.3 years, respectively.

NOTE 5 INVESTMENT SECURITIES

An analysis of the investment securities available-for-sale portfolio is presented as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
As of June 30, 2012				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 71,509	$ 704	$ (25)	$ 72,188
U.S. Government agency and U.S. Government sponsored enterprise debt securities	359,424	374	(74)	359,724
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	44,702	3,987		48,689
Residential mortgage-backed securities	856,734	19,969	(459)	876,244
Municipal securities	62,652	3,160	(30)	65,782
Corporate debt securities:				
Investment grade	473,187	245	(47,377)	426,055
Non-investment grade *(1)*	24,665	32	(9,778)	14,919
Other securities	9,916	222		10,138
Total investment securities available-for-sale	$ 1,902,789	$ 28,693	$ (57,743)	$ 1,873,739
As of December 31, 2011				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 19,892	$ 833	$	$ 20,725
U.S. Government agency and U.S. Government sponsored enterprise debt securities	575,148	1,709	(279)	576,578
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	46,008	3,307		49,315
Residential mortgage-backed securities	963,688	30,854	(772)	993,770
Municipal securities	76,255	3,696	(5)	79,946
Corporate debt securities:				
Investment grade	1,411,409	6,762	(95,610)	1,322,561
Non-investment grade *(1)*	30,693		(11,078)	19,615
Other securities	9,875	195	(2)	10,068
Total investment securities available-for-sale	$ 3,132,968	$ 47,356	$ (107,746)	$ 3,072,578

(1) For the six months ended June 30, 2012, the Company recorded $99 thousand, on a pre-tax basis, of the credit portion of OTTI through earnings and $5.1 million of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income. The Company recorded $633 thousand, on a pre-tax basis, of the credit portion of OTTI through earnings and $5.1 million of the non-credit portion of OTTI for pooled trust preferred securities and other mortgage-backed securities in other comprehensive income for the year ended December 31, 2011.

The fair values of investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. The Company performs a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of fair value. The procedures include, but are not limited to, initial and ongoing review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company assesses whether the prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed that are based on spreads and, when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon available market data, the price received from third parties is adjusted accordingly.

Prices from third party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations that utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

As a result of the global financial crisis and illiquidity in the U.S. markets, the market for the pooled trust preferred securities has been inactive since mid-2007. It is the Company s view that current broker prices (which are typically non-binding) on these securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value. For the pooled trust preferred securities the Company determined their fair values using the methodologies set forth in Note 3 to the Company s condensed consolidated financial statements presented elsewhere in this report.

The following table shows the Company s rollforward of the amount related to OTTI credit losses for the periods shown:

	Three Months Ended June 30,			
	2012		2011	
	(In thousands)			
Beginning balance, April 1	$	115,511	$	115,243
Addition of other-than-temporary impairment that was not previously recognized				
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized				
Reduction for securities sold				
Ending balance	$	115,511	$	115,243

	Six Months Ended June 30,			
	2012		2011	
	(In thousands)			
Beginning balance, January 1	$	115,412	$	124,340
Addition of other-than-temporary impairment that was not previously recognized				
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized		99		464
Reduction for securities sold				(9,561)
Ending balance	$	115,511	$	115,243

During the three months ended June 30, 2012, the Company recorded $26.3 million of gross gains and $26.2 million of gross losses resulting in a net income statement impact of $71 thousand of gain on sale of investment securities. During the three months ended June 30, 2011, the Company recorded $1.7 million of gross gains and $563 thousand of gross losses resulting in a net income statement impact of $1.1 million of gain on sale of investment securities. Total net proceeds for these sales were $837.0 million and $215.0 million for the three months ended June 30, 2012 and 2011, respectively. During the six months ended June 30, 2012, the Company recorded $28.0 million of gross gains and $27.4 million of gross losses resulting in a net income statement impact of $554 thousand of gain on sale investment securities. During the six months ended June 30, 2011, the Company recorded $11.9 million of gross gains and $8.3 million of gross losses resulting in a net income statement impact of $3.6 million of gain on sale investment securities. Total net proceeds for these sales were $1.10 billion and $527.8 million for the six months ended June 30, 2012 and 2011, respectively. During the second quarter 2012, the Company reassessed the available for sales securities portfolio and elected to sell certain securities to reduce the exposure to specific industries within the corporate debt portfolio. This sale resulted in the greater gross loss for the period as compared to the prior periods.

The following tables show the Company s investment portfolio s gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2012 and December 31, 2011:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
As of June 30, 2012						
Investment securities available-for-sale:						
U.S. Treasury securities	$ 30,468	$ (25)	$	$	$ 30,468	$ (25)
U.S. Government agency and U.S. Government sponsored enterprise debt securities	223,269	(74)			223,269	(74)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities						
Residential mortgage-backed securities	169,040	(459)			169,040	(459)
Municipal securities	3,106	(30)			3,106	(30)
Corporate debt securities:						
Investment grade	101,425	(15,499)	318,122	(31,878)	419,547	(47,377)
Non-investment grade			10,357	(9,778)	10,357	(9,778)
Other securities						
Total investment securities available-for-sale	$ 527,308	$ (16,087)	$ 328,479	$ (41,656)	$ 855,787	$ (57,743)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
As of December 31, 2011						
Investment securities available-for-sale:						
U.S. Treasury securities	$	$	$	$	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	143,265	(279)			143,265	(279)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities						
Residential mortgage-backed securities	195,393	(772)			195,393	(772)
Municipal securities	1,158	(5)			1,158	(5)
Corporate debt securities:						
Investment grade	754,055	(61,935)	350,181	(33,675)	1,104,236	(95,610)
Non-investment grade	9,973	(565)	9,595	(10,513)	19,568	(11,078)
Other securities	4,503	(2)			4,503	(2)
Total investment securities available-for-sale	$ 1,108,347	$ (63,558)	$ 359,776	$ (44,188)	$ 1,468,123	$ (107,746)

Unrealized Losses

The majority of the unrealized losses related to securities that have been in a continuous loss position for less than twelve months is related to investment grade corporate debt securities. As of June 30, 2012, the Company had $426.1 million in investment grade corporate debt securities available-for-sale, representing 23% of the total investment securities available-for-sale portfolio.

As of June 30, 2012, there were 20 individual securities that have been in a continuous unrealized loss position for twelve months or more. These securities are comprised of 5 positions in trust preferred securities with a total fair value of $10.4 million and 15 investment grade corporate debt securities with a fair value of $318.1 million. The unrealized losses on these securities are primarily attributed to the overall impact of the debt crisis in Europe, which has indirectly impacted both European and U.S. financial institutions in the corporate debt securities market. As of June 30, 2012, there were also 34 securities, not including the 20 securities above, which have been in a continuous unrealized loss position for less than twelve months. The securities in an unrealized loss position for less than twelve months include 18 residential agency mortgage-backed securities, 6 investment grade corporate debt securities, 6 government agency securities, 3 U.S. Treasury securities, and 1 municipal security. The issuers of these securities have not, to our knowledge, established any cause to believe the Company will not be able to collect all amounts due on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the company will be required to sell these securities before recovery of their current amortized cost basis. As such, the Company does not deem these securities, other than those previously stated, to be other-than-temporarily impaired as of June 30, 2012.

Corporate Debt Securities

Corporate debt securities were reduced by $663.6 million during the three months ended June 30, 2012, primarily due to sales. During the second quarter 2012, the Company reassessed the portfolio and elected to sell these securities to reduce the exposure to specific industries within the corporate debt portfolio. For the remainder of the corporate debt portfolio held as of June 30, 2012 the Company has the intent and ability to hold these securities and it is not more likely than not that the Company will be required to sell the securities before it recovers the cost basis of its investment.

The unrealized losses related to securities that have been in a continuous loss position of twelve months or longer are related to 5 positions in trust preferred debt securities and 15 investment grade corporate debt securities. As of June 30, 2012, these 5 positions in trust preferred securities had an estimated fair value of $10.4 million, representing less than 1% of the total investment securities available-for-sale portfolio. As of June 30, 2012, these non-investment grade trust preferred debt securities had gross unrealized losses amounting to $9.8 million, or 49% of the total amortized cost basis of these securities, comprised of $4.7 million in unrealized losses on securities that are not other-than-temporarily impaired and $5.1 million in noncredit-related impairment losses on securities that are other-than-temporarily impaired as of June 30, 2012 pursuant to the provisions of ASC 320-10-65. We recorded an impairment loss of $99 thousand on our portfolio of pooled trust preferred securities during the first six months of 2012 for additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized.

The scheduled maturities of investment securities at June 30, 2012 are presented as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due within one year	$ 360,410	$ 356,383
Due after one year through five years	150,822	149,545
Due after five years through ten years	519,207	480,635
Due after ten years	872,350	887,176
Total investment securities available-for-sale	$ 1,902,789	$ 1,873,739

NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the fair value and balance sheet classification of derivative instruments as of June 30, 2012 and December 31, 2011. The notional amount of the contract is not recorded on the condensed consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties. If the counterparty fails to perform, the Company s counterparty credit risk is equal to the amount reported as a derivative asset. The valuation methodology of derivative instruments is disclosed in Note 3 to the Company s condensed consolidated financial statements presented elsewhere in this report.

Fair Values of Derivative Instruments

	June 30, 2012			December 31, 2011		
	Notional Amount	**Derivative Assets *(1)***	**Derivative Liabilities *(1)***	**Notional Amount**	**Derivative Assets *(1)***	**Derivative Liabilities *(1)***
			(In thousands)			
Derivatives designated as hedging instruments:						
Interest rate swaps on certificates of deposit fair value	$ 100,000	$ 702	$	$ 200,000	$ 998	$ 639
Total derivatives designated as hedging instruments	$ 100,000	$ 702	$	$ 200,000	$ 998	$ 639
Derivatives not designated as hedging instruments:						
Equity swap agreements	$ 22,709	$ 204	$ 204	$ 22,709	$ 202	$ 204
Foreign exchange options	85,614	4,264	2,610	85,614	3,899	2,430
Interest rate swaps	740,956	27,880	28,636	485,196	19,476	19,924
Short-term foreign exchange contracts	92,116	877	290	210,295	1,403	967
Total derivatives not designated as hedging instruments	$ 941,395	$ 33,225	$ 31,740	$ 803,814	$ 24,980	$ 23,525

(1) Derivative assets, which are a component of other assets, include the estimated settlement of the derivative asset position. Derivative liabilities, which are a component of other liabilities and deposits, include the estimated settlement of the derivative liability position.

Derivatives Designated as Hedging Instruments

Interest Rate Swaps on Certificates of Deposit The Company is exposed to changes in the fair value of certain of its fixed-rate certificates of deposit due to changes in the benchmark interest rate, LIBOR. During 2011, the Company entered into four $50.0 million receive-fixed, pay-variable interest rate swaps with major brokerage firms as fair value hedges of four $50.0 million fixed-rate certificates of deposit with the same maturity dates. In the second quarter of 2012, two of these fair value hedge interest rate swaps, with total notional amount of $100.0 million, were called by the counterparties. As a result, the Company exercised the right to call the underlying certificates of deposit. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2012 and December 31, 2011 the total notional amount of the interest rate swaps on the certificates of deposit was $100.0 million and $200.0 million, respectively. The fair value of the interest rate swaps amounted to a $702 thousand asset, as of June 30, 2012. The fair value of the interest rate swaps amounted to a $998 thousand asset and $639 thousand liability, respectively, as of December 31, 2011. During the three and six months ended June 30, 2012, the Company recognized a net reduction of $1.1 million and $1.9 million, respectively, in expense related to hedge ineffectiveness. The Company also recognized a net reduction to interest expense of $1.1 million and $2.6 million, respectively, for the three and six months ended June 30, 2012 related to net settlements on the derivatives.

Derivatives Not Designated as Hedging Instruments

Equity Swap Agreements In December 2007, the Company entered into two equity swap agreements with a major investment brokerage firm to economically hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers which has a term of 5 years and pays interest based on the performance of the HSCEI. Under ASC 815, a certificate of deposit that pays interest based on changes in an equity index is a hybrid instrument with an embedded derivative (i.e. equity call option) that must be accounted for separately from the host contract (i.e. the certificate of deposit). In accordance with ASC 815, both the embedded equity call options on the certificates of deposit and the freestanding equity swap agreements are marked-to-market each reporting period with resulting changes in fair value recorded in the condensed consolidated statements of income.

As of both June 30, 2012 and December 31, 2011, the notional amounts of the equity swap agreements totaled $22.7 million.

The fair values of the equity swap agreements and embedded derivative liability for these derivative contracts amounted to $204 thousand asset and $204 thousand liability, respectively, as of June 30, 2012, compared to $202 thousand asset and $204 thousand liability, respectively, as of December 31, 2011.

Foreign Exchange Options During 2010, the Company entered into foreign exchange option contracts with major brokerage firms to economically hedge against currency exchange rate fluctuations in a certificate of deposit product available to bank customers. This product, which has a term of 5 years, pays interest based on the performance of the Chinese currency Renminbi (RMB) relative to the U.S. Dollar. Under ASC 815, a certificate of deposit that pays interest based on changes in currency exchange rates is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract (i.e. the certificate of deposit). In accordance with ASC 815, both the embedded derivative instruments and the freestanding foreign exchange option contracts are marked-to-market each reporting period with resulting changes in fair value reported in the condensed consolidated statements of income.

As of June 30, 2012 and December 31, 2011, the notional amount of the foreign exchange options totaled $85.6 million and $85.6 million, respectively. The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $4.3 million asset and a $2.6 million liability, respectively, as of June 30, 2012. The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $3.9 million asset and $2.4 million liability, respectively, as of December 31, 2011.

Interest Rate Swaps Since the fourth quarter of 2010, the Company has entered into pay-fixed, receive-variable swap contracts with institutional counterparties to economically hedge against interest rate swap products offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a pay-fixed, receive-variable swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company does not assume any interest rate risk since the swap agreements mirror each other. As of June 30, 2012 and December 31, 2011 the notional amount of the interest rate swaps with the institutional counterparties totaled $741.0 million and $485.2 million, respectively. The interest rate swap agreements are marked-to-market each reporting period with resulting changes in fair value reported in the condensed consolidated statements of income.

The fair values of the interest rate swap contracts with the institutional counterparty and the bank customers amounted to a $27.9 million asset and $28.6 million liability, respectively, as of June 30, 2012. The fair values of the interest rate swap contracts with the institutional counterparty and the bank customers amounted to a $19.5 million asset and $19.9 million liability, respectively, as of December 31, 2011.

Short-term Foreign Exchange Contracts The Company also enters into short-term forward foreign exchange contracts on a regular basis to economically hedge against foreign exchange rate fluctuations. As of June 30, 2012 and December 31, 2011 the notional amount of the foreign exchange contracts totaled $92.1 million and $210.3 million, respectively. The fair values of the foreign exchange contracts amounted to an $877 thousand asset and a $290 thousand liability, respectively, as of June 30, 2012. The fair values of the foreign exchange contracts amounted to a $1.4 million asset and $967 thousand liability, respectively, as of December 31, 2011.

The table below presents the effect of the change in fair value for the Company s derivative financial instruments on the condensed consolidated statements of income for the three and six months ended June 30, 2012 and 2011:

	Location in Condensed Consolidated Statements of Income	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
		(In thousands)			
Derivatives designated as hedging instruments					
Interest rate swaps on certificates of deposit fair value	Interest expense	$ 1,045	$ 1,218	$ 342	$ 1,218
	Total net income (expense)	$ 1,045	$ 1,218	$ 342	$ 1,218
Derivatives not designated as hedging instruments					
Equity swap agreements	Noninterest expense	$	$ 1	$ 2	$ 3
Foreign exchange options	Noninterest income	(142)	99	111	(10)
Foreign exchange options	Noninterest expense	19	34	74	52
Interest rate swaps	Noninterest income	(423)	(210)	(308)	(270)
Short-term foreign exchange contracts	Noninterest income	103		151	
	Total net income (expense)	$ (443)	$ (76)	$ 30	$ (225)

Credit Risk-Related Contingent Features The Company has agreements with some of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company also has agreements with some of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements. Similarly, the Company could be required to settle its obligations under certain of its agreements if the Company was issued a notice of prompt corrective action.

As of June 30, 2012, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $28.0 million. If the Company had breached any of these provisions at June 30, 2012, it could have been required to settle its obligations under the agreements at the termination value.

NOTE 7 COVERED ASSETS AND FDIC INDEMNIFICATION ASSET

Covered Assets

Covered assets consist of loans receivable and OREO that were acquired in the Washington First International Bank (WFIB) Acquisition on June 11, 2010 and in the United Commercial Bank (UCB) Acquisition on November 6, 2009 for which the Company entered into shared-loss agreements (the shared-loss agreements) with the FDIC. The shared-loss agreements covered over 99% of the loans originated by WFIB and all of the loans originated by UCB, excluding the loans originated by UCB in China under its United Commercial Bank China (Limited) subsidiary. The Company shares in the losses, which began with the first dollar of loss incurred, on covered assets under the shared-loss agreements.

Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse the Company 80% of eligible losses for both WFIB and UCB with respect to covered assets. For the UCB covered assets, the FDIC will reimburse the Company for 95% of eligible losses in excess of $2.05 billion. The Company has a corresponding obligation to reimburse the FDIC for 80% or 95%, as applicable, of eligible recoveries with respect to covered assets. The commercial loan shared-loss agreement and single-family residential mortgage loan shared-loss agreement are in effect for 5 years and 10 years, respectively, from the acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

Forty-five days following the 10th anniversary of the respective acquisition date, the Company will be required to pay to the FDIC a calculated amount, based on the specific thresholds of losses not being reached. The calculation of this potential liability as stated in the shared-loss agreements is 50% of the excess, if any of (i) 20% of the Intrinsic Loss Estimate and (ii) the sum of (A) 25% of the asset discount plus (B) 25% of the Cumulative Shared-Loss Payments plus (C) the Cumulative Servicing Amount if net losses on covered loans subject to the stated threshold is not reached. As of June 30, 2012 and December 31, 2011, the Company s estimate for this liability to the FDIC for WFIB and UCB was $17.7 million and $10.7 million, respectively.

At each date of acquisition, we accounted for the loan portfolio acquired from the respective bank at fair value. This represents the discounted value of the expected cash flows from the portfolio. In estimating the nonaccretable difference, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows) and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows). In the determination of contractual cash flows and cash flows expected to be collected, we assume no prepayment on the ASC 310-30 nonaccrual loan pools as we do not anticipate any significant prepayments on credit impaired loans. For the ASC 310-30 accrual loans for single-family, multifamily and commercial real estate, we used a third party vendor to obtain prepayment speeds in order to be consistent with market participant s information. The third party vendor is recognized in the mortgage-industry for the delivery of prepayment and default models for the secondary market to identify loan level prepayment, delinquency, default, and loss propensities. The prepayment rates for the construction, land, and commercial and consumer pools have historically been low and so we applied the prepayment assumptions of our current portfolio using our internal modeling. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected and was considered in determining the fair value of the loans as of the acquisition date. The amount by which the undiscounted expected cash flows exceed the estimated fair value (the accretable yield) is accreted into interest income over the life of the loans. The Company has elected to account for all covered loans acquired in the FDIC-assisted acquisitions under ASC 310-30.

The carrying amounts and the composition of the covered loans as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	**December 31, 2011**
	(In thousands)	
Real estate loans:		
Residential single-family	$ 402,001	$ 442,732
Residential multifamily	806,371	918,941
Commercial and industrial real estate	1,568,191	1,773,760
Construction and land	525,152	653,045
Total real estate loans	3,301,715	3,788,478
Other loans:		
Commercial business	674,362	831,762
Other consumer	93,082	97,844
Total other loans	767,444	929,606
Total principal balance	4,069,159	4,718,084
Covered discount	(645,373)	(788,295)
Net valuation of loans	3,423,786	3,929,789
Allowance on covered loans	(7,173)	(6,647)
Total covered loans, net	$ 3,416,613	$ 3,923,142

Credit Quality Indicators At each respective acquisition date, the covered loans were grouped into pools of loans with similar characteristics and risk factors per ASC 310-30. The pools were first developed based on loan categories and performance status. As of June 30, 2012, UCB covered loans represent approximately 94% of total covered loans. For the UCB acquisition, the loans were further segregated among the former UCB domestic, Hong Kong, and China portfolios, representing the three general geographic regions. In addition, the Company evaluated the make-up of geographic regions within the construction, land, and multi-family loan portfolios and further segregated these pools into distressed and non-distressed regions based on our historical experience of real estate loans within the non-covered portfolio. As of the date of acquisition 64% of the UCB portfolio was located in California, 10% was located in Hong Kong and 11% was located in New York. This assessment was factored into the day one valuation and discount applied to the loans. As such, geographic concentration risk is considered in the covered loan discount. As of June 30, 2012, credit related to the covered loans has not deteriorated beyond the fair value at acquisition date.

Loans are risk rated based on analysis of the current state of the borrower s credit quality. The analysis of credit quality includes review of all sources of repayment, the borrower s current financial and liquidity status, and all other relevant information. The Company utilizes an eight grade risk rating system, where a higher grade represents a higher level of credit risk. The eight grade risk rating system can be generally classified by the following categories: Pass or Watch, Special Mention, Substandard, Doubtful, and Loss. The risk ratings reflect the relative strength of the sources of repayment. Refer to Note 8 for full discussion of risk ratings.

The Company reduced the nonaccretable difference due to the performance of the portfolio and expectation for the inherent losses in the portfolio in the fourth quarter of 2010. By lowering the nonaccretable discount, the overall accretable yield will increase thus increasing the interest income recognized over the remaining life of the loans. This reduction was primarily calculated based on the risk ratings of the loans. If credit deteriorates beyond the respective acquisition date fair value amount of the covered loans under ASC 310-30, such deterioration will be reserved for and a provision for credit losses will be charged to earnings with a partially offsetting noninterest income item reflected in the increase to the FDIC indemnification asset or receivable. As of June 30, 2012, there is no allowance for the covered loans accounted for under ASC 310-30 related to deterioration as the credit has not deteriorated beyond fair value at acquisition date.

As of the acquisition date, WFIB s and UCB s loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. Included in the table below are $494.4 million of additional advances under the shared-loss agreements which are not accounted for under ASC 310-30. The Bank has considered these additional advances on commitments covered under the shared-loss agreements in the allowance for loan losses calculation. These additional advances are within our loan segments as follows: $324.5 million of commercial and industrial loans, $124.1 million of commercial real estate loans, $34.3 million of consumer loans and $11.5 million of residential loans. As of June 30, 2012, $7.2 million, or 3.2%, of the total allowance is allocated to these additional advances on loans covered under the shared-loss agreements. This $7.2 million in allowance is allocated within our loan segments as follows: $4.3 million for commercial real estate loans, $2.6 million for commercial and industrial loans, $187 thousand for consumer loans and $121 thousand for residential loans.

The tables below present the covered loan portfolio by credit quality indicator as of June 30, 2012 and December 31, 2011.

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
June 30, 2012					
Real estate loans:					
Residential single-family	$ 385,358	$ 2,530	$ 14,113	$	$ 402,001
Residential multifamily	705,861	12,816	87,694		806,371
Commercial and industrial real estate	1,107,430	14,988	438,788	6,985	1,568,191
Construction and land	223,214	39,579	259,703	2,656	525,152
Total real estate loans	2,421,863	69,913	800,298	9,641	3,301,715
Other loans:					
Commercial business	477,449	32,885	162,854	1,174	674,362
Other consumer	90,556		2,526		93,082
Total other loans	568,005	32,885	165,380	1,174	767,444
Total principal balance	$ 2,989,868	$ 102,798	$ 965,678	$ 10,815	$ 4,069,159

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
December 31, 2011					
Real estate loans:					
Residential single-family	$ 427,918	$ 1,085	$ 13,729	$	$ 442,732
Residential multifamily	779,694	26,124	113,123		918,941
Commercial and industrial real estate	1,249,781	43,810	472,003	8,166	1,773,760
Construction and land	242,996	40,859	362,958	6,232	653,045
Total real estate loans	2,700,389	111,878			