CATHAY GENERAL BANCORP
Form 10-Q
May 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 0-18630

CATHAY GENERAL BANCORP

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R 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 R 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," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

Common stock, $.01 par value, 78,708,975 shares outstanding as of April 30, 2012.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES
1ST QUARTER 2012 REPORT ON FORM 10-Q
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Forward-Looking Statements

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

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

- our ability to compete with larger competitors;

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

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

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

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

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

	March 31, 2012	December 31, 2011
	(In thousands, except share data)	
ASSETS		
Cash and due from banks	$119,106	$117,888
Short-term investments and interest bearing deposits	275,056	294,956
Securities purchased under agreements to resell	50,000	-
Securities held-to-maturity (market value of $1,131,524 in 2012 and $1,203,977 in 2011)	1,084,708	1,153,504
Securities available-for-sale (amortized cost of $1,361,571 in 2012 and $1,309,521 in 2011)	1,353,742	1,294,478
Trading securities	104,453	4,542
Loans held for sale	3,709	760
Loans	6,908,544	7,059,212
Less: Allowance for loan losses	(194,743)	(206,280)
Unamortized deferred loan fees	(7,921)	(8,449)
Loans, net	6,705,880	6,844,483
Federal Home Loan Bank stock	50,456	52,989
Other real estate owned, net	87,806	92,713
Investments in affordable housing partnerships, net	80,789	78,358
Premises and equipment, net	105,157	105,961
Customers' liability on acceptances	29,790	37,300
Accrued interest receivable	31,544	32,226
Goodwill	316,340	316,340
Other intangible assets	10,314	11,598
Other assets	164,586	206,768
Total assets	$10,573,436	$10,644,864
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest-bearing demand deposits	$1,080,209	$1,074,718
Interest-bearing accounts:		
NOW accounts	490,173	451,541
Money market accounts	981,237	951,516
Savings accounts	434,899	420,030
Time deposits under $100,000	901,768	832,997
Time deposits of $100,000 or more	3,471,488	3,498,329
Total deposits	7,359,774	7,229,131

Securities sold under agreements to repurchase	1,400,000	1,400,000
Advances from the Federal Home Loan Bank	-	225,000
Other borrowings from financial institutions	-	880
Other borrowings for affordable housing investments	18,868	18,920
Long-term debt	171,136	171,136
Acceptances outstanding	29,790	37,300
Other liabilities	48,345	46,864
Total liabilities	9,027,913	9,129,231
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding at March 31, 2012, and at December 31, 2011	251,884	250,992
Common stock, $0.01 par value; 100,000,000 shares authorized, 82,915,962 issued and 78,708,397 outstanding at March 31, 2012, and 82,860,122 issued and 78,652,557 outstanding at December 31, 2011	829	829
Additional paid-in-capital	766,435	765,641
Accumulated other comprehensive loss, net	(4,537)	(8,732)
Retained earnings	648,201	624,192
Treasury stock, at cost (4,207,565 shares at March 31, 2012, and at December 31, 2011)	(125,736)	(125,736)
Total Cathay General Bancorp stockholders' equity	1,537,076	1,507,186
Noncontrolling interest	8,447	8,447
Total equity	1,545,523	1,515,633
Total liabilities and equity	$10,573,436	$10,644,864

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three months ended March 31,	
	2012	2011
	(in thousands, except share and per share data)	
INTEREST AND DIVIDEND INCOME		
Loans receivable, including loan fees	$90,701	$90,558
Investment securities- taxable	17,723	21,854
Investment securities- nontaxable	1,052	1,056
Federal Home Loan Bank stock	66	47
Federal funds sold and securities purchased under agreements to resell	5	41
Deposits with banks	588	221
Total interest and dividend income	110,135	113,777
INTEREST EXPENSE		
Time deposits of $100,000 or more	9,540	10,725
Other deposits	3,916	5,720
Securities sold under agreements to repurchase	14,655	16,171
Advances from Federal Home Loan Bank	53	4,849
Long-term debt	1,320	1,206
Short-term borrowings	-	1
Total interest expense	29,484	38,672
Net interest income before provision for credit losses	80,651	75,105
Provision (credit) for loan losses	(4,000)	6,000
Net interest income after provision for loan losses	84,651	69,105
NON-INTEREST INCOME		
Securities gains, net	2,215	6,232
Letters of credit commissions	1,526	1,278
Depository service fees	1,389	1,361
Other operating income	3,701	3,755
Total non-interest income	8,831	12,626
NON-INTEREST EXPENSE		
Salaries and employee benefits	19,878	18,271
Occupancy expense	3,584	3,538
Computer and equipment expense	2,463	2,183
Professional services expense	4,742	3,729
FDIC and State assessments	2,489	4,317
Marketing expense	1,406	695
Other real estate owned expense	4,693	221
Operations of affordable housing investments, net	1,960	1,976
Amortization of core deposit intangibles	1,457	1,481
Cost associated with debt redemption	2,750	8,811
Other operating expense	2,449	2,561

Total non-interest expense	47,871	47,783
Income before income tax expense	45,611	33,948
Income tax expense	16,547	11,734
Net income	29,064	22,214
Less: net income attributable to noncontrolling interest	151	151
Net income attributable to Cathay General Bancorp	28,913	22,063
Dividends on preferred stock	(4,117)	(4,105)
Net income attributable to common stockholders	24,796	17,958
Other comprehensive income/(loss), net of tax		
Unrealized holding gain/(loss) arising during the period	5,479	(950)
Less: reclassification adjustments included in net income	1,284	2,620
Total other comprehensive gain/(loss), net of tax	4,195	(3,570)
Total comprehensive income	$33,108	$18,493
Net income per common share:		
Basic	$0.32	$0.23
Diluted	$0.32	$0.23
Cash dividends paid per common share	$0.01	$0.01
Average common shares outstanding		
Basic	78,678,645	78,609,460
Diluted	78,690,132	78,635,620

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31	
	2012	2011
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$29,064	$22,214
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision (credit) for loan losses	(4,000)	6,000
Provision for losses on other real estate owned	2,740	1,979
Deferred tax liability	2,356	5,425
Depreciation	1,471	1,521
Net losses/(gains) on sale and transfer of other real estate owned	712	(3,605)
Net gains on sale of loans	(278)	-
Proceeds from sales of loans	25,140	-
Originations of loans held-for-sale	(24,836)	-
Increase in trading securities, net	(99,930)	-
Write-downs on venture capital investments	137	57
Gain on sales and calls of securities	(2,215)	(6,232)
Decrease in unrealized loss from interest rate swaps mark-to-market	(789)	(874)
Amortization/accretion of security premiums/discounts, net	1,314	1,236
Amortization of other intangible assets	1,491	1,498
Excess tax short-fall from share-based payment arrangements	565	234
Stock based compensation expense	546	463
(Decrease)/increase in deferred loan fees, net	(527)	207
Decrease in accrued interest receivable	682	1,858
Decrease/(increase) in other assets, net	38,001	(7,148)
Increase in other liabilities	2,316	298
Net cash (used in)/provided by operating activities	(26,040)	25,131
Cash Flows from Investing Activities		
Decrease in short-term investments	19,900	36,360
(Increase)/decrease in securities purchased under agreements to resell	(50,000)	110,000
Purchase of investment securities available-for-sale	(116,807)	(7,768)
Proceeds from maturities and calls of investment securities available-for-sale	200,000	-
Proceeds from sale of investment securities available-for-sale	30,550	217,261
Purchase of mortgage-backed securities available-for-sale	(307,830)	(100,496)
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	143,757	356,931
Purchase of investment securities held-to-maturity	-	(419,460)
Proceeds from maturities and calls of investment securities held-to-maturity	67,979	26,971
Redemptions of Federal Home Loan Bank stock	2,533	2,509
Net decrease/(increase) in loans	131,822	(47,686)
Purchase of premises and equipment	(905)	(1,069)
Proceeds from sale of other real estate owned	10,186	16,064
Net increase in investment in affordable housing	(4,902)	(265)
Net cash provided by investing activities	126,283	189,352

Cash Flows from Financing Activities		
Net increase in demand deposits, NOW accounts, money market and savings deposits	88,712	62,800
Net increase in time deposits	42,005	24,839
Net decrease in federal funds purchased and securities sold under agreements to repurchase	-	(102,000)
Advances from Federal Home Loan Bank	260,000	286,000
Repayment of Federal Home Loan Bank borrowings	(485,000)	(486,000)
Dividends paid on common stock	(787)	(786)
Dividends paid on preferred stock	(3,225)	(3,225)
Proceeds from other borrowings	-	2,526
Repayment of other borrowings	(879)	
Proceeds from shares issued under Dividend Reinvestment Plan	67	54
Proceeds from exercise of stock options	647	1,307
Excess tax short-fall from share-based payment arrangements	(565)	(234)
Net cash used in financing activities	(99,025)	(214,719)
Increase/(decrease) in cash and cash equivalents	1,218	(236)
Cash and cash equivalents, beginning of the period	117,888	87,347
Cash and cash equivalents, end of the period	$119,106	$87,111
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$30,699	$40,765
Income taxes (refunded)/paid	$(20,424)	$21,600
Non-cash investing and financing activities:		
Net change in unrealized holding (loss)/gain on securities available-for-sale, net of tax	$4,195	$(3,571)
Transfers to other real estate owned from loans held for investment	$8,338	$14,035
Transfers to other real estate owned from loans held for sale	$-	$2,874
Loans transferred from held for investment to held for sale	$15,986	$2,388
Loans to facilitate the sale of other real estate owned	$-	$4,625

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. Business

Cathay General Bancorp ("Bancorp") is the holding company for Cathay Bank (the "Bank" and, together, the "Company"), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of March 31, 2012, the Bank operated twenty branches in Southern California, eleven branches in Northern California, eight branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the "FDIC").

2. Basis of Presentation

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

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

3. Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-02 "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 clarifies the guidance on a creditor's evaluation of whether a restructuring constitutes a troubled debt restructuring. A restructuring constitutes a troubled debt restructuring if it meets both of the following criteria: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 was effective for interim and annual periods beginning on or after June 15, 2011, and was applied retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 did not have a significant impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03 “Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements.” ASU 2011-03 improves the accounting for repurchase agreements and other similar transactions by removing 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 the collateral maintenance implementation guidance related to that criterion. ASU 2011-03 was effective for interim and annual periods beginning on or after December 15, 2011, and applied prospectively. Adoption of ASU 2011-03 did not have a significant impact on the Company’s consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” The provisions of ASU 2011-04 result in a consistent definition of fair value and common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (“IFRS”). The changes to U.S. GAAP as a result of ASU 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity’s net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity’s shareholders’ equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to qualitatively describe the sensitivity of fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. Adoption of ASU 2011-04 did not have a significant impact on the Company’s consolidated financial statements.

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

4. Earnings per Share

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

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

	For the three months ended March 31,	
(Dollars in thousands, except share and per share data)	2012	2011
Net income attributable to Cathay General Bancorp	$28,913	$22,063
Dividends on preferred stock	(4,117)	(4,105)
Net income available to common stockholders	$24,796	$17,958
Weighted-average shares:		
Basic weighted-average number of common shares outstanding	78,678,645	78,609,460
Dilutive effect of weighted-average outstanding common share equivalents		
Stock options	11,487	26,160
Diluted weighted-average number of common shares outstanding	78,690,132	78,635,620
Average stock options and warrants with anti-dilutive effect	6,227,224	6,198,286
Earnings per common share:		
Basic	$0.32	$0.23
Diluted	$0.32	$0.23

Options to purchase an additional 4.2 million shares, restricted stock units for an additional 218,539 shares, and warrants to purchase an additional 1.8 million shares at March 31, 2012, were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

5. Stock-Based Compensation

Under the Company's equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock. As of March 31, 2012, the only options granted by the Company were non-statutory stock options to selected Bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company's common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. There were no options granted during 2011 or during the first three months of 2012.

Option compensation expense totaled $194,000 for the three months ended March 31, 2012, and $366,000 for the three months ended March 31, 2011. Stock-based compensation is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $710,000 at March 31, 2012, and is expected to be recognized over the next 10 months.

Stock options covering 39,784 shares were exercised in the first quarter of 2012 compared to 86,860 shares in the first quarter of 2011. Cash received totaled $647,000 and the aggregate intrinsic value totaled $34,000 from the exercise of stock options during the three months ended March 31, 2012, compared to cash received of $1.3 million and the aggregate intrinsic value of $172,000 from the exercise of stock options during the three months ended March 31, 2011. The fair value of stock options for 108,027 shares that vested during the first quarter of 2012 was $745,000 compared to the fair value of $2.6 million for 247,842 stock option shares that vested during the first quarter of 2011. The table below summarizes stock option activity for the periods indicated:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2011	4,356,985	$ 28.86	3.0	$ 37
Exercised	(39,784)	16.28		
Forfeited	(249,506)	22.27		
Balance, March 31, 2012	4,067,695	$ 29.40	3.0	$ 65
Exercisable, March 31, 2012	3,959,668	$ 29.57	2.9	$ 65

At March 31, 2012, 2,445,258 shares were available under the Company’s 2005 Incentive Plan for future grants.

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

The following table presents information relating to the restricted stock units as of March 31, 2012:

	Units
Balance at December 31, 2011	171,410
Granted	1,943
Forfeited	(122)
Vested	(11,814)
Balance at March 31, 2012	161,417

The compensation expense recorded related to the restricted stock units was $353,000 for the three months ended March 31, 2012, compared to $96,000 for the three months ended March 31, 2011. Unrecognized stock-based compensation expense related to restricted stock units was $1.8 million at March 31, 2012, and is expected to be recognized over the next 1.4 years.

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

	For the three months ended March 31,	
(Dollars in thousands)	2012	2011
Short-fall of tax deductions in excess of grant-date fair value	$(565)	$(234)
Benefit of tax deductions on grant-date fair value	663	306
Total benefit of tax deductions	$98	$72

6. Investment Securities

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

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Held-to-Maturity				
U.S. government sponsored entities	$99,978	$945	$-	$100,923
State and municipal securities	129,444	6,057	-	135,501
Mortgage-backed securities	845,314	39,860	-	885,174
Corporate debt securities	9,972	-	46	9,926
Total securities held-to-maturity	$1,084,708	$46,862	$46	$1,131,524
Securities Available-for-Sale				
U.S. treasury securities	$99,904	$-	$49	$99,855
U.S. government sponsored entities	300,000	270	106	300,164
Mortgage-backed securities	493,043	9,889	537	502,395
Collateralized mortgage obligations	14,234	519	90	14,663
Asset-backed securities	164	-	5	159
Corporate debt securities	410,195	552	23,397	387,350
Mutual funds	6,000	40	16	6,024
Preferred stock of government sponsored entities	569	1,056	-	1,625
Trust preferred securities	35,993	853	-	36,846
Other equity securities	1,469	3,192	-	4,661
Total securities available-for-sale	$1,361,571	$16,371	$24,200	$1,353,742
Total investment securities	$2,446,279	$63,233	$24,246	$2,485,266

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Held-to-Maturity				
U.S. government sponsored entities	$99,966	$1,406	$-	$101,372
State and municipal securities	129,577	7,053	-	136,630
Mortgage-backed securities	913,990	42,351	-	956,341
Corporate debt securities	9,971	-	337	9,634
Total securities held-to-maturity	$1,153,504	$50,810	$337	$1,203,977
Securities Available-for-Sale				
U.S. government sponsored entities	$500,007	$1,226	$7	$501,226
State and municipal securities	1,869	59	-	1,928
Mortgage-backed securities	325,706	12,361	436	337,631
Collateralized mortgage obligations	16,184	540	238	16,486

Asset-backed securities	172	-	6	166
Corporate debt securities	412,045	113	31,729	380,429
Mutual funds	6,000	48	13	6,035
Preferred stock of government sponsored entities	569	1,085	-	1,654
Trust preferred securities	45,501	486	24	45,963
Other equity securities	1,468	1,492	-	2,960
Total securities available-for-sale	$1,309,521	$17,410	$32,453	$1,294,478
Total investment securities	$2,463,025	$68,220	$32,790	$2,498,455

The amortized cost and fair value of investment securities at March 31, 2012, by contractual maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$34,890	$34,950	$99,978	$100,923
Due after one year through five years	225,252	224,709	-	-
Due after five years through ten years	631,327	614,458	39,105	40,722
Due after ten years (1)	470,102	479,625	945,625	989,879
Total	$1,361,571	$1,353,742	$1,084,708	$1,131,524

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were $117.6 million and repayments of mortgage-backed securities were $94.2 million during the first quarter of 2012 compared to proceeds from sales of $315.3 million and repayment of $41.6 million during the same quarter a year ago. Proceeds from sales of other investment securities were $30.6 million during the first quarter of 2012 compared to $217.3 million during the same quarter a year ago. Proceeds from maturity and calls of investment securities were $200.0 million during the first quarter of 2012 compared to $27.0 million during the same quarter a year ago. Gains of $2.8 million and losses of $595,000 were realized on sales and calls of investment securities during the first quarter of 2012 compared to gains of $6.2 million and no losses realized for the same quarter a year ago.

The Company's unrealized loss on investments in corporate bonds relates to a number of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of March 31, 2012. The unrealized losses were primarily caused by the widening of credit spreads since the dates of acquisition. The contractual terms of those investments do not permit the issuers to settle the security at a price less than the amortized cost of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that these bonds would not be settled at a price less than the amortized cost of the investment. Because the Company does not intend to sell and would not be required to sell these investments until a recovery of fair value, which may be maturity, it does not consider its investments in these corporate bonds to be other-than-temporarily impaired at March 31, 2012.

The temporarily impaired securities represent 25.1% of the fair value of investment securities as of March 31, 2012. Unrealized losses for securities with unrealized losses for less than twelve months represent 2.1%, and securities with unrealized losses for twelve months or more represent 8.1%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rate spreads subsequent to the date that these securities were purchased.

At March 31, 2012, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and will not be required to sell available-for-sale debt securities that have declined below their cost before their anticipated recovery.

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

As of March 31, 2012
Temporarily Impaired Securities

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Securities Held-to-Maturity						
Corporate debt securities	$9,925	$46	-	-	$9,925	$46
Total securities held-to-maturity	$9,925	$46	$-	$-	$9,925	$46
Securities Available-for-Sale						
U.S. treasury securities	$99,855	$49	$-	$-	$99,855	$49
U.S. government sponsored entities	49,894	106	-	-	49,894	106
Mortgage-backed securities	154,114	532	535	3	154,649	535
Mortgage-backed securities-Non-agency	-	-	99	2	99	2
Collateralized mortgage obligations	-	-	503	90	503	90
Asset-backed securities	-	-	158	5	158	5
Corporate debt securities	145,771	9,180	160,783	14,217	306,554	23,397
Mutual funds	1,983	16	-	-	1,983	16
Total securities available-for-sale	$451,617	$9,883	$162,078	$14,317	$613,695	$24,200
Total investment securities	$461,542	$9,929	$162,078	$14,317	$623,620	$24,246

As of December 31, 2011
Temporarily Impaired Securities

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Securities Held-to-Maturity						
Corporate debt securities	$9,635	$337	$-	$-	$9,635	$337
Total securities held-to-maturity	$9,635	$337	$-	$-	$9,635	$337
Securities Available-for-Sale						
U.S. government sponsored entities	$49,993	$7	$-	$-	$49,993	$7
Mortgage-backed securities	564	4	35	1	599	5
Mortgage-backed securities-Non-agency	-	-	6,719	431	6,719	431
Collateralized mortgage obligations	-	-	570	238	570	238

Asset-backed securities	-	-	166	6	166	6
Corporate debt securities	185,577	14,201	172,857	17,528	358,434	31,729
Mutual funds	1,987	13	-	-	1,987	13
Trust preferred securities	5,674	24	-	-	5,674	24
Total securities available-for-sale	$243,795	$14,249	$180,347	$18,204	$424,142	$32,453
Total investment securities	$253,430	$14,586	$180,347	$18,204	$433,777	$32,790

Investment securities having a carrying value of $1.52 billion at March 31, 2012, and $1.68 billion at December 31, 2011, were pledged to secure public deposits, other borrowings, treasury tax and loan, Federal Home Loan Bank advances, securities sold under agreements to repurchase, interest rate swaps, and foreign exchange transactions.

7. Loans

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

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

	March 31, 2012	December 31, 2011
	(In thousands)	
Type of Loans:		
Commercial loans	$1,844,849	$1,868,275
Residential mortgage loans	985,105	972,262
Commercial mortgage loans	3,662,436	3,748,897
Equity lines	208,602	214,707
Real estate construction loans	188,081	237,372
Installment and other loans	19,471	17,699
Gross loans	6,908,544	7,059,212
Less:		
Allowance for loan losses	(194,743)	(206,280)
Unamortized deferred loan fees	(7,921)	(8,449)
Total loans, net	$6,705,880	$6,844,483
Loans held for sale	$3,709	$760

Loans held for sale of $3.7 million at March 31, 2012, increased $3.0 million from $760,000 at December 31, 2011. In the first quarter of 2012, we added three new loans of $16.0 million and sold three loans of $13.0 million for a net loss on sale of $26,000. At March 31, 2012, loans held for sale were comprised of a residential construction loan of $500,000 and a commercial real estate loans of $3.2 million.

At March 31, 2012, recorded investment in impaired loans totaled $275.2 million and was comprised of nonaccrual loans of $131.5 million, nonaccrual loans held for sale of $500,000, and accruing troubled debt restructured ("TDR") loans of $143.2 million. At December 31, 2011, recorded investment in impaired loans totaled $322.0 million and was comprised of nonaccrual loans of $201.2 million, nonaccrual loans held for sale of $760,000, and accruing TDR's of $120.0 million. For impaired loans, the amounts previously charged off represent 22.4% at March 31, 2012, and 25.6% at December 31, 2011, of the contractual balances for impaired loans. The following table presents the average balance and interest income recognized related to impaired loans for the periods indicated:

	Impaired Loans			
	Average Recorded Investment		Interest Income Recognized	
	For the three months ended March 31,			
	2012	2011	2012	2011
	(In thousands)			
Commercial loans	$45,142	$41,982	$257	$272
Real estate construction loans	66,455	86,024	176	330
Commercial mortgage loans	184,867	253,130	1,088	1,066
Residential mortgage and equity lines	17,715	16,519	40	25
Subtotal	$314,179	$397,655	$1,561	$1,693

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

	Impaired Loans					
	March 31, 2012			December 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
	(In thousands)					
With no allocated allowance						
Commercial loans	$38,012	$28,077	$-	$46,671	$38,194	$-
Real estate construction loans	65,839	43,426	-	134,836	78,767	-
Commercial mortgage loans	174,252	134,562	-	187,580	149,034	-
Residential mortgage and equity lines	4,347	4,273	-	8,555	7,987	-
Subtotal	$282,450	$210,338	$-	$377,642	$273,982	$-
With allocated allowance						
Commercial loans	$20,689	$17,329	$1,272	$11,795	$7,587	$3,336
Commercial mortgage loans	36,200	34,191	2,529	29,722	28,023	2,969
Residential mortgage and equity lines	15,480	13,372	1,806	13,813	12,381	1,247
Subtotal	$72,369	$64,892	$5,607	$55,330	$47,991	$7,552
Total impaired loans	$354,819	$275,230	$5,607	$432,972	$321,973	$7,552

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

	As of March 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:				(In thousands)			
Commercial loans	$16,248	$605	$845	$ 30,329	$48,027	$1,796,822	$1,844,849
Real estate construction loans	22,674	3,553	-	10,711	36,938	151,143	188,081
Commercial mortgage loans	11,718	591	544	76,619	89,472	3,572,964	3,662,436
Residential mortgage and equity lines	6,175	668	-	13,838	20,681	1,173,026	1,193,707
Installment and other loans	-	-	-	-	-	19,471	19,471
Total loans	$56,815	$5,417	$1,389	$ 131,497	$195,118	$6,713,426	$6,908,544

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

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

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

At March 31, 2012, accruing TDRs were $143.2 million and non-accrual TDRs were $21.5 million compared to accruing TDRs of $120.0 million and non-accrual TDRs of $50.9 million at December 31, 2011. The Company has allocated specific reserves of $2.2 million to accruing TDRs and $288,000 to non-accrual TDRs at March 31, 2012, and $1.4 million to accruing TDRs and $1.6 million to non-accrual TDRs at December 31, 2011. The following table presents TDRs that were modified during the first quarters of 2012 and 2011, their specific reserve at March 31, and charge-offs during the first quarters of 2012 and 2011:

	For the Three Months Ended March 31, 2012				As of March 31, 2012
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
	(Dollars in thousands)				
Commercial loans	5	$ 1,988	$ 1,988	$ -	$ 68
Commercial mortgage loans	9	26,693	23,375	3,318	268
Residential mortgage and equity lines	2	1,587	1,587	-	-
Total	16	$ 30,268	$ 26,950	$ 3,318	$ 336

	For the Three Months Ended March 31, 2011				As of March 31, 2011
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
	(Dollars in thousands)				
Commercial loans	4	$ 14,862	$ 14,862	$ -	$ 5
Commercial mortgage loans	2	1,930	1,929	1	1
Residential mortgage and equity lines	1	591	501	90	93
Total	7	$ 17,383	$ 17,292	$ 91	$ 99

Modifications of the loan terms during the first three months of 2012 and 2011 were in the form of changes in the stated interest rate, multiple note structure, or extensions of the maturity date. Modifications involving a reduction of the stated interest rate were for periods ranging from ten months to four years. Modifications involving an extension of the maturity date were for periods ranging from ten months to four years.

Accruing TDRs at March 31, 2012, were comprised of loans collateralized by thirteen retail shopping and commercial use buildings of $80.7 million, eleven office and commercial use buildings of $29.0 million, two hotels of $12.8 million, eleven single family residences of $19.3 million, two multi-family residences of $805,000, one land of $537,000, and four commercial loans of $106,000. We expect that the troubled debt restructuring loans on accruing status as of March 31, 2012, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. A summary of TDRs by type of concession, by type of loan as of March 31, 2012, and as of December 31, 2011, is shown below:

Accruing TDRs	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
	As of March 31, 2012 (In thousands)				
Commercial loans	$12,911	$ 1,738	$ -	$ 427	$15,076
Real estate construction loans	16,820	9,620	-	5,776	32,216
Commercial mortgage loans	14,275	37,600	1,506	38,753	92,134
Residential mortgage loans	1,291	1,032	-	1,484	3,807
Total accruing TDRs	$45,297	$ 49,990	$ 1,506	$ 46,440	$143,233

Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
	As of March 31, 2012 (In thousands)					
Commercial loans	$ -	$ 1,073	$ 1,397	$ 1,145	$ -	$ 3,615
Commercial mortgage loans	2,614	6,859	1,167	-	5,006	15,646
Residential mortgage loans	302	1,349	-	-	631	2,282
Total non-accrual TDRs	$ 2,916	$ 9,281	$ 2,564	$ 1,145	$ 5,637	$ 21,543

Accruing TDRs	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
	As of December 31, 2011 (In thousands)				
Commercial loans	$ 12,933	$ 1,756	$ -	$ 431	$ 15,120
Real estate construction loans	16,820	9,659	-	5,776	32,255
Commercial mortgage loans	471	37,796	2,071	28,935	69,273
Residential mortgage loans	1,294	587	-	1,487	3,368
Total accruing TDRs	$ 31,518	$ 49,798	$ 2,071	$ 36,629	$ 120,016

As of December 31, 2011

Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total

	(In thousands)					
Commercial loans	$ -	$ 616	$ 1,859	$ 1,506	$ -	$ 3,981
Real estate construction loans	-	13,579	12,376	-	-	25,955
Commercial mortgage loans	2,633	9,727	-	-	5,076	17,436
Residential mortgage loans	311	2,427	449	-	311	3,498
Total non-accrual TDRs	$ 2,944	$ 26,349	$ 14,684	$ 1,506	$ 5,387	$ 50,870

The activity within our TDR loans for three months ended March 31, 2012, and for the three months ended March 31, 2011, are shown below:

Accruing TDRs	For the Three Months Ended March 31, 2012	2011
	(In thousands)	
Beginning balance	$120,016	$136,800
New restructurings	21,712	13,736
Restructured loans restored to accrual status	2,853	-
Payments	(1,348)	(1,660)
Restructured loans placed on nonaccrual	-	(12,816)
Expiration of loan concession	-	(733)
Ending balance	$143,233	$135,327

Non-accrual TDRs	For the Three Months Ended March 31, 2012	2011
	(In thousands)	
Beginning balance	$50,870	$28,147
New restructurings	5,238	3,679
Restructured loans placed on nonaccrual	-	12,816
Charge-offs	(4,018)	(1,104)
Payments	(27,694)	(408)
Restructured loans restored to accrual status	(2,853)	-
Ending balance	$21,543	$43,130

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. Two commercial real estate TDRs of $6.4 million, three commercial TDRs of $1.4 million, and one land TDR of $1.2 million had payments defaults within the twelve months ended March 31, 2012. The TDRs that subsequently defaulted incurred charge-off of $495,000 within the twelve months ended March 31, 2012.

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

As of March 31, 2012, there were no commitments to lend additional funds to those borrowers whose loans have been restructured, were considered impaired, or were on non-accrual status.

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

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

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

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

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

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

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

	As of March 31, 2012				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
Commercial loans	$1,697,108	$66,297	$74,643	$6,801	$1,844,849
Real estate construction loans	110,965	21,718	48,280	7,118	188,081
Commercial mortgage loans	3,245,353	112,335	304,748	-	3,662,436
Residential mortgage and equity lines	1,173,660	403	19,500	144	1,193,707
Installment and other loans	19,405	66	-	-	19,471
Total gross loans	$6,246,491	$200,819	$447,171	$14,063	$6,908,544
Loans held for sale	$3,209	$-	$-	$500	$3,709

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

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

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

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Consumer and Other Loans	Total
			(In thousands)			
March 31, 2012						
Loans individually evaluated for impairment						
Allowance	$ 1,272	$ -	$ 2,529	$ 1,806	$ -	$ 5,607
Balance	$ 45,406	$ 43,426	$ 168,753	$ 17,645	$ -	$ 275,230
Loans collectively evaluated for impairment						
Allowance	$ 59,119	$ 17,993	$ 103,657	$ 8,317	$ 50	$ 189,136
Balance	$ 1,799,443	$ 144,655	$ 3,493,683	$ 1,176,062	$ 19,471	$ 6,633,314
Total allowance	$ 60,391	$ 17,993	$ 106,186	$ 10,123	$ 50	$ 194,743
Total balance	$ 1,844,849	$ 188,081	$ 3,662,436	$ 1,193,707	$ 19,471	$ 6,908,544
December 31, 2011						
Loans individually evaluated for impairment						
Allowance	$ 3,336	$ -	$ 2,969	$ 1,247	$ -	$ 7,552
Balance	$ 45,781	$ 78,766	$ 177,058	$ 20,368	$ -	$ 321,973
Loans collectively evaluated for impairment						
Allowance	$ 62,322	$ 21,749	$ 105,052	$ 9,548	$ 57	$ 198,728
Balance	$ 1,822,494	$ 158,606	$ 3,571,839	$ 1,166,601	$ 17,699	$ 6,737,239
Total allowance	$ 65,658	$ 21,749	$ 108,021	$ 10,795	$ 57	$ 206,280
Total balance	$ 1,868,275	$ 237,372	$ 3,748,897	$ 1,186,969	$ 17,699	$ 7,059,212

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2012, and for the three months ended March 31, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

For the Three Months Ended March 31, 2012 and 2011

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage and Equity Line	Installment and Other Loans	Total
			(In thousands)			
2012 Beginning Balance	$65,658	$ 21,749	$ 108,021	$ 10,795	$ 57	$206,280
Provision for possible credit losses	(1,041)	(6,439)	4,318	(260)	15	(3,407)
Charge-offs	(4,959)	(875)	(8,222)	(779)	(25)	(14,860)
Recoveries	746	3,557	2,058	366	3	6,730
Net charge-offs	(4,213)	2,682	(6,164)	(413)	(22)	(8,130)
March 31, 2012 Ending Balance	$60,404	$ 17,992	$ 106,175	$ 10,122	$ 50	$194,743
Reserve for impaired loans	$1,272	$ -	$ 2,529	$ 1,806	$ -	$5,607
Reserve for non-impaired loans	$59,119	$ 17,993	$ 103,657	$ 8,317	$ 50	$189,136
Reserve for off-balance sheet credit commitments	$720	$ 635	$ 84	$ 34	$ 2	$1,475
2011 Beginning Balance	$63,919	$ 43,261	$ 128,347	$ 9,668	$ 36	$245,231
Provision for possible credit losses	(122)	4,654	1,218	423	(10)	6,163
Charge-offs	(1,378)	(6,248)	(5,123)	(226)	-	(12,975)
Recoveries	775	887	853	84	12	2,611
Net charge-offs	(603)	(5,361)	(4,270)	(142)	12	(10,364)
March 31, 2011 Ending Balance	$63,194	$ 42,554	$ 125,295	$ 9,949	$ 38	$241,030
Reserve for impaired loans	$2,953	$ 7,569	$ 3,664	$ 1,106	$ -	$15,292
Reserve for non-impaired loans	$60,241	$ 34,985	$ 121,631	$ 8,843	$ 38	$225,738
Reserve for off-balance sheet credit commitments	$689	$ 1,355	$ 93	$ 35	$ 2	$2,174

8. Commitments and Contingencies

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

9. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were $1.4 billion with a weighted average rate of 4.14% at March 31, 2012, compared to $1.4 billion with a weighted average rate of 4.14% at December 31, 2011. In May 2011, the Company prepaid a security sold under agreement to repurchase of $50 million with a rate of 4.83% and incurred a prepayment penalty of $1.7 million. Fourteen floating-to-fixed rate agreements totaling $750.0 million have initial floating rates for a period of time ranging from six months to one year, with floating rates ranging from the three-month LIBOR minus 100 basis points to three-month LIBOR minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.29% to 5.07%. After the initial floating rate term, the counter parties have the right to terminate the transaction at par at the fixed rate reset date and quarterly thereafter. Thirteen fixed-to-floating rate agreements totaling $650.0 million have initial fixed rates ranging from 1.00% to 3.50% with initial fixed rate terms ranging from six months to 18 months. For the remainder of the seven year term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.25% to 3.75% and minimum rate of 0.0%. After the initial fixed rate term, the counter parties have the right to terminate the transaction at par at the floating rate reset date and quarterly thereafter. The table below provides summary data for long-term securities sold under agreements to repurchase as of March 31, 2012:

(Dollars in millions)	Fixed-to-floating						Floating-to-fixed		Total
Callable	All callable at March 31, 2012						All callable at		
Rate type	Float Rate						March 31, 2012		
Rate index	8% minus 3 month LIBOR						Fixed Rate		
Maximum rate	3.75 %	3.53 %	3.50 %	3.50 %	3.53 %	3.25 %			
Minimum rate	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %			
No. of agreements	3	1	4	3	1	1	10	4	27
Amount	$150.0	$50.0	$200.0	$150.0	$50.0	$50.0	$550.0	$200.0	$1,400.0
Weighted average rate	3.75 %	3.53 %	3.50 %	3.50 %	3.53 %	3.25 %	4.54 %	5.00 %	4.14 %
Final maturity	2014	2014	2014	2015	2015	2015	2014	2017	

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

10. Income Taxes

Income tax expense totaled $16.5 million, or an effective tax rate of 36.4%, for the first quarter of 2012, compared to an income tax expense of $11.7 million, or an effective tax rate of 34.7%, for the same quarter a year ago. The effective tax rate includes the impact of the utilization of low income housing tax credits.

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

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

11. Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of March 31, 2012	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
Assets		(In thousands)		
Securities available-for-sale				
U.S. Treasury securities	$99,855	$-	$-	$99,855
U.S. government sponsored entities	-	300,164	-	300,164
State and municipal securities	-	-	-	-
Mortgage-backed securities	-	502,395	-	502,395
Collateralized mortgage obligations	-	14,663	-	14,663
Asset-backed securities	-	158	-	158
Corporate debt securities	-	387,351	-	387,351
Mutual funds	6,024	-	-	6,024
Preferred stock of government sponsored entities	-	1,625	-	1,625
Trust preferred securities	-	36,846	-	36,846
Other equity securities	4,661	-	-	4,661
Total securities available-for-sale	110,540	1,243,202	-	1,353,742
Trading securities	2	104,451	-	104,453
Warrants	-	-	163	163
Option contracts	-	25	-	25
Foreign exchange contracts	-	1,680	-	1,680
Total assets	$110,542	$1,349,358	$163	$1,460,063
Liabilities				
Interest rate swaps	$-	$1,845	$-	$1,845
Option contracts	-	1	-	1
Foreign exchange contracts	-	1,353	-	1,353
Total liabilities	$-	$3,199	$-	$3,199

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

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value of warrants was $163,000 at March 31, 2012, compared to $218,000 at December 31, 2011. The fair value adjustment of warrants was included in other operating income in the first quarter of 2012.

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

	As of March 31, 2012				Total Losses For the three months ended	
	Fair value measurements using			Total at		
	Level 1	Level 2	Level 3	fair value	March 31, 2012	March 31, 2011
Assets			(In thousands)			
Impaired loans by type:						
Commercial loans	$ -	$ -	$ 16,056	$ 16,056	$ 859	$ 675
Real estate loans	-	-	30,470	30,470	1,357	1,191

Land loans	-	-	1,191	1,191	-	84
Residential mortgage loans	-	-	11,566	11,566	526	142
Total impaired loans	-	-	59,283	59,283	2,742	2,092
Loans held-for-sale	-	-	3,709	3,709	-	-
Other real estate owned (1)	-	80,732	5,073	85,805	2,824	294
Investments in venture capital	-	-	8,822	8,822	137	273
Equity investments	323	-	-	323	-	-
Total assets	$ 323	$ 80,732	$ 76,887	$ 157,942	$ 5,703	$ 2,659

(1) Other real estate owned balance of $87.8 million in the condensed consolidated balance sheet is net of estimated disposal costs.

Assets	As of December 31, 2011 Fair value measurements using Level 1	Level 2	Level 3	Total at Fair Value	Total Losses For the Twelve months ended December 31, 2011	December 31, 2010
			(In thousands)			
Impaired loans by type:						
Commercial loans	$ -	$ -	$ 4,251	$ 4,251	$ 877	$ 3,411
Construction-residential	-	-	-	-	-	1,295
Real estate loans	-	-	35,576	35,576	820	1,407
Land loans	-	-	611	611	46	1,003
Total impaired loans	-	-	40,438	40,438	1,743	7,116
Loans held-for-sale	-	-	760	760	-	3,160
Other real estate owned (1)	-	79,029	1,093	80,122	7,003	20,139
Investments in venture capital	-	-	8,693	8,693	379	760
Equity investments	323	-	-	323	200	304
Total assets	$ 323	$ 79,029	$ 50,984	$ 130,336	$ 9,325	$ 31,479

(1) Other real estate owned balance of $77.7 million in the condensed consolidated balance sheet is net of estimated disposal costs.

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

The significant unobservable inputs used in the fair value measurement of loan held for sale was primarily based on the quoted price or sale price adjusted by estimated sales cost and commissions. The significant unobservable inputs used in the fair value measurement of OREO was primarily based on the appraised value of OREO adjusted by estimated sales cost and commissions.

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

The significant unobservable input in Black-Scholes option pricing model for fair value of warrants are expected life of warrant ranging from 1 to 5 years, risk-free interest rate from 0.34% to 1.01%, stock volatility of the Company from 18.1% to 23.6%.

12. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

Other Borrowings. This category includes federal funds purchased, revolving lines of credit, and other short-term borrowings. The fair value of other borrowings is based on current market rates for borrowings with similar remaining maturities and a Level 1 measurement.

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

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

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

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

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

Fair Value of Financial Instruments

	As of March 31, 2012		As of December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and due from banks	$119,106	$119,106	$117,888	$117,888
Short-term investments	275,056	275,056	294,956	294,956
Securities purchased under agreements to resell	50,000	50,000	-	-
Securities held-to-maturity	1,084,708	1,131,524	1,153,504	1,203,977
Securities available-for-sale	1,353,742	1,353,742	1,294,478	1,294,478
Trading securities	104,453	104,453	4,542	4,542
Loans held-for-sale	3,709	3,709	760	760
Loans, net	6,705,880	6,681,964	6,844,483	6,825,571
Investment in Federal Home Loan Bank stock	50,456	50,456	52,989	52,989
Warrants	163	163	218	218
	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	$4,595	$25	$3,026	$34
Foreign exchange contracts	159,241	1,680	238,581	2,151
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Deposits	$7,359,774	$7,370,498	$7,229,131	$7,240,857
Securities sold under agreements to repurchase	1,400,000	1,541,580	1,400,000	1,547,900
Advances from Federal Home Loan Bank	-	-	225,000	227,825
Other borrowings	18,868	18,868	19,800	19,801
Long-term debt	171,136	94,970	171,136	98,676
	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	$932	$1	$1,282	$5
Interest rate swaps	300,000	1,845	300,000	2,634
Foreign exchange contracts	171,359	1,353	128,215	486
	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$1,727,202	$(1,162)	$1,626,523	$(1,253)
Standby letters of credit	58,820	(279)	62,076	(367)
Other letters of credit	67,753	(43)	64,233	(38)
Bill of lading guarantees	849	(3)	187	-

13. Goodwill and Goodwill Impairment

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

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

At March 31, 2012, the Company's market capitalization was above book value and there was no triggering event that required the Company to assess goodwill for impairment as of an interim date.

14. Financial Derivatives

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

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

As of March 31, 2012, and December 31, 2011, we had entered into five interest rate swap agreements with two major financial institutions in the notional amount of $300.0 million for a period of three years. These interest rate swaps were not structured to hedge against inherent interest rate risks related to our interest-earning assets and interest-bearing liabilities. At March 31, 2012, the Company paid a fixed rate at a weighted average of 1.95% and received a floating 3-month LIBOR rate at a weighted average of 0.48% on these agreements. The net amount accrued on these interest rate swaps was recorded as a reduction to other non-interest income in the amount of $1.1 million for the first quarter of 2012 compared to $1.2 million in the same quarter a year ago. At March 31, 2012, the Company recorded $1.8 million within other liabilities to recognize the negative fair value of these interest rate swaps compared to the $2.6 million negative fair value at December 31, 2011.

The Company enters into foreign exchange forward contracts and foreign currency option contracts with various counter parties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit, foreign exchange contracts, or foreign currency option contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our condensed consolidated balance sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit, foreign exchange contracts or foreign currency option contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. At March 31, 2012, the notional amount of option contracts totaled $5.5 million with a net negative fair value of $23,000. Spot and forward contracts in the total notional amount of $159.2 million had a positive fair value of $1.7 million at March 31, 2012. Spot and forward contracts in the total notional amount of $171.4 million had a negative fair value of $1.4 million at March 31, 2012. At December 31, 2011, the notional amount of option contracts totaled $4.3 million with a net positive fair value of $29,000. Spot and forward contracts in the total notional amount of $238.6 million had a positive fair value, in the amount of $2.2 million, at December 31, 2011. Spot and forward contracts in the total notional amount of $128.2 million had a negative fair value, in the amount of $486,000, at December 31, 2011.

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

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

Critical Accounting Policies

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

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

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

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

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

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

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

Highlights

- Decrease in non-accrual loans – Non-accrual loans decreased $69.7 million, or 34.6%, to $131.5 million at March 31, 2012, from $201.2 million at December 31, 2011, and decreased $143.0 million, or 52.1%, from $274.5 million at March 31, 2011.
- Improved profitability – First quarter net income was $28.9 million compared to net income of $27.7 million in the fourth quarter of 2011 and net income of $22.1 million in the same quarter a year ago.

Statement of Operations Review

Net Income

Net income available to common stockholders for the first quarter of 2012, was $24.8 million, an increase of $6.8 million, or 38.1%, compared to a net income available to common stockholders of $18.0 million for the same quarter a year ago. Diluted earnings per share available to common stockholders for the first quarter of 2012, was $0.32 compared to $0.23 for the same quarter a year ago due primarily to decreases in the provision for credit losses, decreases in prepayment penalties on the repayment of Federal Home Loan Bank ("FHLB") advances, increases in net interest income, and decreases in FDIC assessments which were partially offset by decreases in gains on sales of securities, increases in other real estate owned ("OREO") expense, increases in salaries and employee benefits, and increases in professional service expenses.

Return on average stockholders' equity was 7.62% and return on average assets was 1.10% for the quarter ended March 31, 2012, compared to a return on average stockholders' equity of 6.20% and a return on average assets of 0.83% for the same quarter a year ago.

Financial Performance

	For the Three Months Ended March 31,	
	2012	2011
Net income	$28.9 million	$22.1 million
Net income available to common stockholders	$24.8 million	$18.0 million
Basic earnings per common share	$0.32	$0.23
Diluted earnings per common share	$0.32	$0.23
Return on average assets	1.10%	0.83%
Return on average total stockholders' equity	7.62%	6.20%
Efficiency ratio	53.50%	54.47%

Net Interest Income Before Provision for Credit Losses

Net interest income before provision for credit losses increased $5.6 million, or 7.4%, to $80.7 million during the first quarter of 2012 compared to $75.1 million during the same quarter a year ago. The increase was due primarily to the decrease in rates paid on time certificates of deposit and the prepayment of FHLB advances and maturities of securities sold under agreements to repurchase.

The net interest margin, on a fully taxable-equivalent basis, was 3.33% for the first quarter of 2012, an increase of 5 basis points from 3.28% for the fourth quarter of 2011, and an increase of 27 basis points from 3.06% for the first quarter of 2011. The decrease in the rate on interest bearing deposits and the prepayment of FHLB advances and decreases in securities sold under agreements to repurchase contributed to the increase in the net interest margin from the same quarter a year ago.

For the first quarter of 2012, the yield on average interest-earning assets was 4.54%, on a fully taxable-equivalent basis, the cost of funds on average interest-bearing liabilities equaled 1.51%, and the cost of interest bearing deposits was 0.86%. In comparison, for the first quarter of 2011, the yield on average interest-earning assets was 4.63%, on a fully taxable-equivalent basis, the cost of funds on average interest-bearing liabilities equaled 1.90%, and the cost of interest bearing deposits was 1.10%. The interest spread, defined as the difference between the yield on average interest-earning assets and the cost of funds on average interest-bearing liabilities, increased 30 basis points to 3.03% for the quarter ended March 31, 2012, from 2.73% for the same quarter a year ago, primarily due to the reasons discussed above.

Average daily balances for the three months ended March 31, 2012, and March 31, 2011, together with the total dollar amounts, on a taxable-equivalent basis, of interest income and interest expense, and the weighted-average interest rate and net interest margin are as follows:

Interest-Earning Assets and Interest-Bearing Liabilities

	Three months ended March 31,							
	2012				2011			
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)		Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	
Interest earning assets:								
Commercial loans	$1,857,339	$19,366	4.19	%	$1,491,335	$16,360	4.45	%
Residential mortgage loans	1,183,518	15,030	5.08		1,084,392	13,635		