BOSTON PRIVATE FINANCIAL HOLDINGS INC
Form 10-K
March 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2012
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission file number 0-17089

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Commonwealth of Massachusetts (State or other jurisdiction of incorporation or organization)	04-2976299 (I.R.S. Employer Identification Number)
Ten Post Office Square Boston, Massachusetts (Address of principal executive offices)	02109 (Zip Code)

(Registrant's telephone number, including area code): (617) 912-1900
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the last reported sales price on the NASDAQ Global Select Market on June 30, 2012 was $613,898,181.

The number of shares of the registrant's common stock outstanding on March 8, 2013 was 78,997,218.

Documents Incorporated by Reference:

Portions of the registrant's proxy statement for the Company's 2013 Annual Meeting of Shareholders are incorporated by reference in Item 5 of Part II and Items 10, 11, 12, 13, and 14 of Part III.

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Certain statements contained in this Annual Report on Form 10-K that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties. These statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of the words “may,” “will,” “should,” “could,” “would,” “plan,” “potential, “estimate,” “project,” “believe,” “intend,” “anticipate,” “expect,” “target” and similar expressions. These statements include, a others, statements regarding our strategy; the effectiveness of our investment programs; evaluations of future interest rate trends and liquidity; expectations as to growth in assets, deposits and results of operations, future operations, market position and financial position; and prospects, plans and objectives of management. You should not place undue reliance on our forward-looking statements. You should exercise caution in interpreting and relying on forward-looking statements because they are subject to significant risks, uncertainties and other factors which are, in some cases, beyond the Company’s control.

Forward-looking statements are based on the current assumptions and beliefs of management and are only expectations of future results. The Company’s actual results could differ materially from those projected in the forward-looking statements as a result of, among others, factors referenced herein under the section captioned “Risk Factors”; adverse conditions in the capital and debt markets and the impact of such conditions on the Company’s private banking, investment management and wealth advisory activities; changes in interest rates; competitive pressures from other financial institutions; the effects of continued weakness in general economic conditions on a national basis or in the local markets in which the Company operates, including changes that adversely affect borrowers’ ability to service and repay our loans; changes in the value of securities in our investment portfolio; changes in loan default and charge-off rates; the adequacy of loan loss reserves; decreases in deposit levels necessitating increased borrowing to fund loans and investments; changes in government regulation; the risk that goodwill and intangibles recorded in the Company’s financial statements will become impaired; the risk that the Company’s deferred tax assets may not be realized; risks related to the consolidation of the Company’s bank subsidiaries; risks related to the identification and implementation of acquisitions; and changes in assumptions used in making such forward-looking statements, as well as the other risks and uncertainties detailed in this Annual Report on Form 10-K and other filings submitted to the Securities and Exchange Commission. Forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

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PART I

ITEM 1. BUSINESS

I.General

Boston Private Financial Holdings, Inc. (the “Company,” “BPFH,” “we,” “us,” or “our”) was incorporated on September 2, 198 under the laws of The Commonwealth of Massachusetts. On July 1, 1988, the Company registered with the Board of Governors of the Federal Reserve System (the “Federal Reserve”) as a bank holding company under the Bank Holding Company Act of 1956, as amended (the “BHCA”), and became the parent holding company (the “Holding Company”) of Boston Private Bank & Trust Company (the “Bank” or “Boston Private Bank”), a trust company chartered by The Commonwealth of Massachusetts and insured by the Federal Deposit Insurance Corporation (the “FDIC”).

We are a wealth management company that offers a full range of wealth management services to high net worth individuals, families, businesses, and select institutions through our three functional segments: Private Banking, Investment Management, and Wealth Advisory.

Our approach to the wealth management market is to create a financial umbrella that helps to preserve, grow, and transfer assets over the financial lifetime of a client through three financial disciplines: private banking, investment management and wealth advisory. Each reportable segment reflects the services provided by the Company to a distinct segment of the wealth management market as described below.

Private Banking

The Private Banking segment has one affiliate, Boston Private Bank, a trust company chartered by The Commonwealth of Massachusetts and insured by the FDIC. The Private Banking segment operates primarily in four geographic markets: New England, San Francisco Bay, Southern California, and the Pacific Northwest. However, in December 2012, the Bank entered into a definitive agreement to sell its three offices in the Pacific Northwest market. The Bank currently conducts business under the name of Boston Private Bank & Trust Company in all of its markets, including the San Francisco Bay market, where, until the third quarter of 2012, the Bank conducted business under the name of Borel Private Bank & Trust Company, a Division of Boston Private Bank & Trust Company. The Bank pursues private banking and community-oriented business strategies in its four geographic markets. The Bank is principally engaged in providing personal banking, commercial banking, and a variety of other fiduciary services including investment management, advisory, and administrative services to high net worth individuals, their families, small and medium-sized businesses and professionals. In addition, the Bank offers its clients a broad range of deposit and lending products.

Investment Management

The Investment Management segment has two consolidated affiliates: Dalton, Greiner, Hartman, Maher & Co., LLC (“DGHM”), and Anchor Capital Advisors LLC (“Anchor”), both of which are registered investment advisers (together, DGHM and Anchor are referred to as the “Investment Managers”). The Investment Managers serve the needs of pension funds, endowments, trusts, foundations and select institutions, mutual funds and high net worth individuals and their families throughout the United States (“U.S.”) and abroad. The Investment Managers specialize in value-driven equity portfolios with products across the capitalization spectrum. The specific mix of products, services and clientele varies between affiliates. The Investment Managers are located in New England and New York, with one affiliate administrative office in South Florida.

Wealth Advisory

The Wealth Advisory segment has two consolidated affiliates: KLS Professional Advisors Group, LLC (“KLS”), and Bingham, Osborn & Scarborough, LLC (“BOS”), both of which are wealth management firms and registered investment advisers (together, the “Wealth Advisors”). The Wealth Advisors provide comprehensive, planning-based financial strategies to high net worth individuals and their families, and non-profit institutions. The firms offer fee-only financial planning, tax planning and preparation, estate and insurance planning, retirement planning, charitable

planning and intergenerational gifting and succession planning. The Wealth Advisors manage investments covering a wide range of asset classes for both taxable and tax-exempt portfolios. The Wealth Advisors are located in New York, Southern California, and Northern California.
For revenue, net income, assets, and other financial information for each of the Company's reportable segments, see Part II. Item 8. "Financial Statements and Supplementary Data - Note 20: Reportable Segments."
The Company's Internet address is www.bostonprivate.com. The Company makes available on or through its Internet website, without charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form

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8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). The Company's reports filed with, or furnished to, the SEC are also available at the SEC's website at www.sec.gov. The quarterly earnings release conference call can also be accessed from the Company's website. Press releases are also maintained on the Company's website for one year. Information on our website is not incorporated by reference into this document and should not be considered part of this Report.

II.Acquisitions and Divestitures

In 2011, the Company's wholly-owned banking subsidiaries, Borel Private Bank & Trust ("Borel"), First Private Bank & Trust ("FPB") and Charter Private Bank ("Charter"), merged into Boston Private Bank.

In December 2012, the Bank entered into a definitive agreement to sell its three offices in the Pacific Northwest market.

In the second quarter of 2012, the Company sold its majority-owned affiliate, Davidson Trust Company ("DTC"). Prior to the Company's sale of DTC, it was included in the Wealth Advisory segment.

At December 31, 2010, the Company held approximately 45% equity interest in Coldstream Holdings, Inc. ("Coldstream"). In January 2011, the Company sold all of BPFH's stock holdings in Coldstream back to management of the firm. The Company's investment in Coldstream, prior to the sale, was accounted for using the equity method, and was included in other assets in the consolidated balance sheets.

In 2009, the Company divested its interest in Westfield Capital Management Company, LP, formerly known as Westfield Capital Management Company, LLC ("Westfield"), Gibraltar Private Bank & Trust Company ("Gibraltar"), RINET Company, LLC ("RINET"), Sand Hill Advisors, LLC ("Sand Hill"), and Boston Private Value Investors, Inc. ("BPVI"). Both Westfield and BPVI were previously included in the Investment Management segment, RINET and Sand Hill were previously included in the Wealth Advisory segment, and Gibraltar was previously included in the Private Banking segment. As a result of these divestitures, the results of operations and the gain/ (loss) on sale related to each are now included in "Net income/ (loss) from discontinued operations" in the consolidated statement of operations for current and prior periods, if applicable.

For further details relating to the Company's divestitures, see Part II. Item 8. "Financial Statements and Supplementary Data - Note 3: Divestitures and Acquisitions."

III. Competition

The Company operates in the highly competitive wealth management marketplace. The Bank encounters competition from larger national and regional commercial banking organizations, savings banks, credit unions, and other financial institutions and non-bank financial service companies, who may offer lower interest rates on loans and higher interest rates on deposits. The Bank's competitors also include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds among parties. To compete effectively, the Bank relies on local promotional activity, personal contacts by officers, directors, and employees, customized service, and the Bank's reputation within the communities that it serves.

The Company's principal competitors with respect to investment management and trust services are primarily commercial banks and trust companies, mutual fund companies, investment advisory firms, stock brokerage firms, other financial companies and law firms. The Company believes that its ability to compete effectively with other investment management firms is dependent upon its products, level of investment performance and client service, as well as the marketing and distribution of the investment products.

In the wealth advisory industry, BPFH competes with a wide variety of firms, including national and regional financial services firms, accounting firms, trust companies, and law firms. The Company believes that the ability of its wealth advisory affiliates to compete effectively with other firms is dependent upon the quality and level of service, personal relationships, and investment performance.

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IV. Employees

At December 31, 2012, the Company had 827 employees. The Company's employees are not subject to a collective bargaining agreement, and the Company believes its employee relations are good.

V. Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to bank holding companies and their subsidiaries. This regulatory framework is intended primarily to protect the safety and soundness of depository institutions, the federal deposit insurance system, and depositors, rather than the protection of shareholders of a bank holding company such as the Company.

As a bank holding company, the Company is subject to regulation, supervision and examination by the Federal Reserve under the BHCA. The Bank is subject to extensive regulation, supervision and examination by the Massachusetts Commissioner of Banks (the "Commissioner") and the FDIC. The Company's investment management and wealth advisory subsidiaries are subject to extensive regulation by the SEC, the Financial Industry Regulatory Authority and state securities regulators.

The following is a summary of certain aspects of various statutes and regulations applicable to the Company and its subsidiaries. This summary is not a comprehensive analysis of all applicable law, however, and you should refer to the applicable statutes and regulations for more information. In addition, these statutes and regulations may change, or additional statutes or regulations could be adopted in the future, and we cannot predict what effect these changes or new statutes or regulations, if any, could have on our business.

The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") comprehensively reformed the regulation of financial institutions, products and services. Among other things, the Dodd-Frank Act:

- grants the Federal Reserve increased supervisory authority and codified the source of strength doctrine, as discussed in more detail in "-Regulation of the Company - Source of Strength" below;
- established new corporate governance and proxy disclosure requirements, as discussed in "-Regulation of the Company - Corporate Governance and Executive Compensation" below;
- provides for new capital standards applicable to the Company, as discussed in more detail in "-Capital Requirements" below;
- modified the scope and costs associated with deposit insurance coverage, as discussed in "-Regulation of the Bank - Deposit Insurance Premiums" below;
- permits well capitalized and well managed banks to acquire other banks in any state, subject to certain deposit concentration limits and other conditions, as discussed in "-Regulation of the Bank - Acquisitions and Branching" below;
- permits the payment of interest on business demand deposit accounts;
- established new minimum mortgage underwriting standards for residential mortgages;
- established the Bureau of Consumer Financial Protection (the "CFPB"), as discussed in "-Consumer Protection Regulation - Mortgage Reform" below;
- bars banking organizations, such as the Company, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain circumstances, as discussed in "Regulation of Other Activities - Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds" below; and
- established the Financial Stability Oversight Council to designate certain activities as posing a risk to the U.S. financial system and recommend new or heightened standards and safeguards for financial institutions engaging in such activities.

Regulation of the Company

The Company is subject to regulation, supervision and examination by the Federal Reserve, which has the authority, among other things, to order bank holding companies to cease and desist from unsafe or unsound banking practices; to assess civil money penalties; and to order termination of non-banking activities or termination of ownership and control of a non-banking subsidiary by a bank holding company.

Source of Strength. Under the BHCA as well as the Dodd-Frank Act, the Company is required to serve as a source of financial strength for the Bank. In addition, any loans by a bank holding company to any of its bank subsidiaries are subordinate to the payment of deposits and to certain other indebtedness. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Acquisitions and Activities. The BHCA prohibits a bank holding company from acquiring substantially all the assets of a bank or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank, or merging or consolidating with any bank holding company without prior approval of the Federal Reserve. Further, as a Massachusetts bank holding company, the Company must obtain prior approval of the Massachusetts Board of Bank Incorporators to acquire more than 5% ownership or control of any voting stock in any other banking institution, acquire substantially all the assets of a bank, or merge with another bank holding company.

The BHCA prohibits a bank holding company from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks. However, a bank holding company may engage in and may own shares of companies engaged in certain activities that the Federal Reserve determines to be so closely related to banking or managing and controlling banks so as to be a proper incident thereto.

Limitations on Acquisitions of Company Common Stock. The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting securities of a bank holding company, such as the Company, with a class of securities registered under Section 12 of the Exchange Act, would, under the circumstances set forth in the presumption, constitute the acquisition of control of a bank holding company.

In addition, any company would be required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more, or otherwise obtaining control or a controlling influence over a bank holding company. In 2008, the Federal Reserve released guidance on minority investments in banks that relaxed the presumption of control for investments of greater than 10% of a class of outstanding voting securities of a bank holding company in certain instances discussed in the guidance. In 2008, BP Holdco, L.P., a company controlled by The Carlyle Group, became the largest shareholder of the Company, and holds a 9.82% interest in the Company as of March 8, 2013. The Carlyle Group's investment is subject to certain restrictions under the terms of the investment agreement with the Company. Under the agreement, BP Holdco, L.P. cannot convert its non-voting preferred stock if as a result it would own more than 9.99% of the Company's outstanding common stock.

Corporate Governance and Executive Compensation. Under the Dodd-Frank Act, the SEC adopted rules granting proxy access for shareholder nominees and grants shareholders a non-binding vote on executive compensation and "golden parachute" payments. Pursuant to modifications of the proxy rules under the Dodd-Frank Act, the Company is required to disclose the relationship between executive pay and financial performance, the ratio of the median pay of all employees to the pay of the CEO, and employee and director hedging activities. As required by the Dodd-Frank Act, the stock exchanges have amended their listing rules to require that each member of a listed company's compensation committee be independent and be granted the authority and funding to retain independent advisors, and to prohibit the listing of any security of an issuer that does not adopt policies governing the claw back of excess executive compensation based on inaccurate financial statements. The federal regulatory agencies have proposed new regulations which prohibit incentive-based compensation arrangements that encourage executives and certain other employees to take inappropriate risks.

Regulation of the Bank

The Bank is subject to the supervision and regulation of the Commissioner and the FDIC. Additionally, under the Dodd-Frank Act, the Federal Reserve may directly examine the subsidiaries of the Company, including the Bank. The

enforcement powers available to federal and state banking regulators include, among other things, the ability to issue cease and desist or removal orders to terminate insurance of deposits; to assess civil money penalties; to issue directives to increase capital; to place the bank into receivership; and to initiate injunctive actions against banking organizations and institution-affiliated parties.

Deposit Insurance. The Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. For most banks and savings associations, including the Bank, FDIC rates depend upon a combination of CAMELS component ratings, profitability, credit quality, Tier I leverage ratio, and, if applicable, the level of brokered deposits. CAMELS ratings reflect the applicable bank regulatory agency's evaluation of the financial institution's capital, asset quality, management, earnings, liquidity and sensitivity to risk. Pursuant to the Dodd-Frank Act, deposit premiums are based on assets rather than insurable deposits. To determine its actual deposit insurance premiums, the Bank computes the base amount on its

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average consolidated assets less its average tangible equity (defined as the amount of Tier I capital) and the applicable assessment rate. In 2012, the aggregate FDIC insurance expense for the Bank was $4.0 million (which was prepaid as noted below). The FDIC has the power to adjust deposit insurance assessment rates at any time.

Pursuant to an FDIC rule issued in 2009, the Bank prepaid its quarterly risk-based assessments to the FDIC for the fourth quarter of 2009 and for all of 2010, 2011, and 2012 on December 30, 2009. The prepaid assessments were recorded as an asset (a prepaid expense) and bear a zero-percent risk weight for risk-based capital purposes. Each quarter the Bank records an expense for its regular quarterly assessment for the quarter and a corresponding credit to the prepaid assessment until the asset is exhausted. The FDIC will not refund or collect additional prepaid assessments because of a decrease or growth in deposits; however, should the prepaid assessment not be exhausted after collection of the amount due on June 30, 2013, the remaining amount of the prepayment will be returned to the Bank.

The Dodd-Frank Act permanently increased the FDIC deposit insurance limit to $250,000 per depositor. Additionally, the Dodd-Frank Act provided temporary unlimited deposit insurance coverage for noninterest-bearing transactions accounts beginning December 31, 2010, and ending on December 31, 2012. This replaced the FDIC's Transaction Account Guarantee Program, which expired on December 31, 2010.

Acquisitions and Branching. The Bank must seek prior regulatory approval from the Commissioner and the FDIC to acquire another bank or establish a new branch office. Well capitalized and well managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and the Dodd-Frank Act. In addition, the Dodd-Frank Act authorizes a state-chartered bank, such as the Bank, to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the Federal Deposit Insurance Act ("FDIA") generally limits the investment activities of FDIC-insured, state-chartered banks, such as the Bank, when acting as principal to those that are permissible for national banks. Further, the Gramm-Leach-Bliley Act of 1999 (the "GLBA") permits national banks and state banks, to the extent permitted under state law, to engage through "financial subsidiaries" in certain activities which are permissible for subsidiaries of a financial holding company. In order to form a financial subsidiary, a national bank or state bank must be well capitalized, and such banks would be subject to certain capital deduction, risk management and affiliate transaction rules, among other things.

Lending Restrictions. Federal law limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. The Dodd-Frank Act explicitly provides that an extension of credit to an insider includes credit exposure arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction or securities borrowing transaction. Additionally, the Dodd-Frank Act requires that asset sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of the Bank, be approved by a majority of the disinterested directors of the Bank.

A bank holding company and its subsidiaries are subject to prohibitions on certain tying arrangements. These institutions are generally prohibited from extending credit to or offering any other service on the condition that the client obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Brokered Deposits. Section 29 of the FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution's capital category is "well capitalized" or, with the FDIC's approval, "adequately capitalized." Depository institutions, other than those in the lowest risk

category, that have brokered deposits in excess of 10% of total deposits will be subject to increased FDIC deposit insurance premium assessments. Additionally, depository institutions considered “adequately capitalized” that need FDIC approval to accept, renew or roll over any brokered deposits are subject to additional restrictions on the interest rate they may pay on deposits.

Community Reinvestment Act. The Community Reinvestment Act (“CRA”) requires the FDIC to evaluate the Bank’s performance in helping to meet the credit needs of the entire communities it serves, including low and moderate-income neighborhoods, consistent with its safe and sound banking operations, and to take this record into consideration when evaluating certain applications. The FDIC’s CRA regulations are generally based upon objective criteria of the performance of institutions under three key assessment tests: (i) a lending test, to evaluate the institution’s record of making loans in its service areas; (ii) an investment test, to evaluate the institution’s record of investing in community development projects, affordable

housing, and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. The Bank currently has an "outstanding" CRA rating. Massachusetts has also enacted a similar statute that requires the Commissioner to evaluate the performance of the Bank in helping to meet the credit needs of its entire community and to take that record into account in considering certain applications.

Capital Requirements

The Federal Reserve and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to U.S. banking organizations. These guidelines are intended to reflect the relationship between the banking organization's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet as well as off-balance sheet items. The Federal Reserve and the FDIC may from time to time require that a banking organization maintain capital above the minimum levels discussed below, whether because of financial condition or actual or anticipated growth.

The Federal Reserve's capital adequacy guidelines generally require bank holding companies to maintain total capital of at least 8% of total risk-weighted assets, including off-balance sheet items, with at least 50% of that amount consisting of Tier I capital and the remaining amount consisting of Tier II capital. Tier I capital for bank holding companies generally consists of the sum of common shareholders' equity, perpetual preferred stock and trust preferred securities (both subject to certain limitations), and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and other non-qualifying intangible assets. Tier II capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, perpetual preferred stock and trust preferred securities, to the extent not eligible to be included as Tier I capital, term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Future issuances of trust preferred securities have been disallowed as Tier I qualifying capital by the Dodd-Frank Act, although the Company's currently outstanding trust preferred securities have been grandfathered for Tier I eligibility. Under the proposed Basel III capital rules discussed below, however, the Company's currently outstanding trust preferred securities would be phased out from the calculation of Tier I capital over a ten-year period.

A banking organization's risk-weighted assets are obtained by first assigning balance sheet and off-balance sheet items to one of several risk categories that are intended to reflect the underlying credit risk of the item. Risk-weighted assets are then calculated by multiplying on-balance sheet assets and the credit equivalent amount of off-balance sheet items by the risk-weight that is associated with each category. Recent proposed capital regulations, discussed below, will amend the calculation of risk-weighted assets significantly.

As of December 31, 2012, the Company's total risk-based capital ratio was 14.61%, its Tier I risk-based capital ratio was 13.35%, and its Tier I leverage ratio was 9.94%. The Company is currently considered "well capitalized" under all regulatory definitions.

Proposed Capital Rules. In June 2012, the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency approved three proposals (the "Proposed Capital Rules") that implement the new global capital adequacy standards agreed to by the Basel Committee on Banking Supervision in 2011 (commonly referred to as "Basel III") and establish the minimum capital levels for banks and bank holding companies required under the Dodd-Frank Act. The Proposed Capital Rules establish a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a "well capitalized" institution and increase the minimum total Tier I capital ratio for a "well capitalized" institution from 6% to 8%. Additionally, all banking organizations must maintain a 2.5% common equity Tier I capital conservation buffer over the 6.5% minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases.

As noted above, under the Proposed Capital Rules, trust preferred securities will no longer qualify as Tier I capital and will instead qualify as Tier II capital. Other revisions to capital definitions are proposed, including changes to the calculation of disallowed deferred tax assets and mortgage servicing rights, inclusion of components of other comprehensive income within regulatory capital, and other adjustments. The general effect of the Proposed Capital

Rules is to impose more stringent capital requirements. Among other things, the Proposed Capital Rules increase the required capital for certain categories of assets, including non-amortizing and high loan-to-value ratio residential mortgages, high volatility construction real estate loans and certain exposures related to securitizations. In addition, the Proposed Capital Rules remove the filter for accumulated other comprehensive income in the current capital rules, which currently prevents unrealized gains and losses from being included in the calculation of a banking organization's capital. This change would result in unrealized gains and losses on "available for sale" securities affecting Tier I equity, hedges and any adjustments to the funded status of defined benefit plans, which could result in increased volatility in the amount of required capital.

The financial services industry, members of Congress, and state regulatory agencies provided extensive comments on the Proposed Capital Rules to the federal banking agencies. In response to such commentary, the federal banking agencies

extended the deadline for the Proposed Capital Rules to go into effect and indicated that a final rule would be issued in 2013. The final capital rule may differ significantly in substance or in scope from the Proposed Capital Rules. Accordingly, the Company is not yet in a position to determine the full effect of the Proposed Capital Rules on its capital requirements.

Prompt Corrective Action. The FDIC has promulgated corresponding regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under the regulations, a bank is “well capitalized” if it has: (i) a total risk-based capital ratio of 10.0% or greater; (ii) a Tier I risk-based capital ratio of 6.0% or greater; (iii) a leverage ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. A bank is “adequately capitalized” if it has: (i) a total risk-based capital ratio of 8.0% or greater; (ii) a Tier I risk-based capital ratio of 4.0% or greater; and (iii) a leverage ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of a “well capitalized” bank. The FDIC must also take into consideration (i) concentrations of credit risk; (ii) interest rate risk; and (iii) risks from non-traditional activities, as well as an institution’s ability to manage those risks, when determining the adequacy of an institution’s capital. This evaluation will be made as part of the institution’s regular safety and soundness examination. The Bank is currently considered “well capitalized” under all regulatory definitions.

Generally, a bank, upon receiving notice that it is “undercapitalized,” becomes subject to the prompt corrective action provisions of Section 38 of the FDIA that, for example, (i) restrict payment of capital distributions and management fees, (ii) require that the FDIC monitor the condition of the institution and its efforts to restore its capital, (iii) require submission of a capital restoration plan, (iv) restrict the growth of the institution’s assets and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is “critically undercapitalized,” a ratio of tangible equity to total assets that is equal to or less than 2.0%, will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

Dividend Restrictions

Restrictions on Bank Holding Company Dividends. The Federal Reserve has the authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The Federal Reserve has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company’s net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization’s capital needs, asset quality and overall financial condition. Federal Reserve policy further provides that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of bank subsidiaries, or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company’s ability to serve as a source of strength to bank subsidiaries. The ability of the Company to pay dividends to shareholders may also depend on the receipt of dividends from the Bank.

Restrictions on Bank Dividends. The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Under Massachusetts law, the board of directors of the Bank may declare from “net profits” cash dividends no more often than quarterly, provided that there is no impairment to the trust company’s capital stock. Moreover, prior approval by the Commissioner is required if the total of all dividends declared by the Bank in any calendar year would exceed the total of its net profits for that year combined with its retained net profits for the previous two years, less any required transfer to surplus or a fund for the retirement of any preferred stock.

Transactions with Affiliates

Under Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder, the Company, its non-bank subsidiaries and other affiliates of the Bank may borrow, obtain credit from or otherwise engage in “covered transactions” with the Bank to the extent that such transactions do not exceed 10% of the capital stock and surplus of

the Bank (for covered transactions between the Bank and one affiliate) and 20% of the capital stock and surplus of the Bank (for covered transactions between the Bank and all affiliates). The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the Bank or one of its affiliates is an investment adviser. A “covered transaction” includes, among other things, a loan or extension of credit; an investment in securities issued by an affiliate; asset purchases; the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company; the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate; a securities borrowing or lending transaction with an affiliate that creates a credit exposure to such affiliate; or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements.

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Consumer Protection Regulation

The Company and the Bank are subject to federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices, including the Equal Credit Opportunity Act, Fair Housing Act, Home Ownership Protection Act, Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), GLBA, Truth in Lending Act, the CRA, the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with clients when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the CFPB, which has the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC will examine the Bank for compliance with CFPB rules and will enforce CFPB rules with respect to the Bank.

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan. The CFPB issued a final rule that requires creditors, such as the Bank, to make a reasonable good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling. The rule provides creditors with minimum requirements for making such ability-to-repay determinations. Creditors are required to consider the following eight underwriting factors: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. While the Dodd-Frank Act provides that qualified mortgages are entitled to a presumption that the creditor satisfied the ability-to-repay requirements, the final rule provides a safe harbor for loans that satisfy the definition of a qualified mortgage and are not "higher priced." Higher-priced loans are subject to a rebuttable presumption. A "qualified mortgage" is a loan that does not contain certain risky features (such as negative amortization, interest-only payments, balloon payments, a term exceeding 30 years), has a debt-to-income ratio of not more than 43%, and for which the creditor considers and verifies the consumer's current debt obligations, alimony, and child support. The rule becomes effective on January 10, 2014.

The Dodd-Frank Act also allows borrowers to assert violations of certain provisions of the Truth-in-Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages.

Privacy and Customer Information Security. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its clients with an annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information except as provided in such policies and procedures. The GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of client information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any client. The Bank is also required to send a notice to clients whose "sensitive information" has been compromised if unauthorized use of this information is "reasonably possible." Most of the states, including the states where the Bank

operates, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. In addition, Massachusetts has promulgated data security regulations with respect to personal information of Massachusetts residents. Pursuant to the FACT Act, the Bank must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act. Under the Bank Secrecy Act ("BSA"), a financial institution, is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the U.S. Treasury any cash transactions involving more than $10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than $5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, is designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system. The USA PATRIOT Act has significant implications for financial institutions and businesses of other types involved in the transfer of money. The USA PATRIOT Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under Section 3 of the BHCA to acquire a bank or an application under the Bank Merger Act to merge banks or affect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target. In addition, under the USA PATRIOT Act financial institutions are required to take steps to monitor their correspondent banking and private banking relationships as well as, if applicable, their relationships with "shell banks."

OFAC. The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the Company.

Regulation of Other Activities

Investment Management and Wealth Advisory. Certain subsidiaries of the Company are registered with the SEC as investment advisers under the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act"). As an investment adviser, each is subject to the Investment Advisers Act and related SEC regulation. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary, recordkeeping, operational, and disclosure obligations. Certain investment management and wealth advisory subsidiaries of the Company are also subject to regulation under the securities laws and fiduciary laws of certain states.

The Dodd-Frank Act requires the SEC to study the standard of care for brokers and investment advisers and report its findings to Congress. Further, the Dodd-Frank Act permits the SEC to impose a uniform standard of care on brokers and investment advisers based on the study's findings. Pursuant to the Dodd-Frank Act, the SEC must also harmonize the enforcement of fiduciary standard violations under the Exchange Act and the Investment Advisers Act. It is unclear how the studies and rulemaking relating to the fiduciary duties of brokers and investment advisers will affect the Company and its investment management and wealth advisory subsidiaries.

Each of the mutual funds for which one or more of the Company's investment management subsidiaries acts as sub-adviser is registered with the SEC under the Investment Company Act of 1940, as amended (the "1940 Act"). Shares of each such fund are registered with the SEC under the Securities Act, and the shares of each fund are

qualified for sale (or exempt from such qualification) under the laws of each state and the District of Columbia to the extent such shares are sold in any of such jurisdictions. The Company is also subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), and to regulations promulgated thereunder, insofar as it is a "fiduciary" under ERISA with respect to certain of its clients. ERISA and the applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code") impose certain duties on persons who are fiduciaries under ERISA, and prohibit certain transactions by the fiduciaries (and certain other related parties) to such plans.

As sub-advisers to registered investment companies, the Company's investment management subsidiaries are subject to requirements under the 1940 Act and related SEC regulations. Under provisions of the 1940 Act and Investment

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Advisers Act governing advisory contracts, an assignment terminating the Company's sub-advisory contract can occur as a result of the acquisition of a firm by the Company.

The foregoing laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict certain subsidiaries of the Company from conducting their business in the event that they fail to comply with such laws and regulations. Possible sanctions that may be imposed in the event of such noncompliance include the suspension of individual employees, limitations on the business activities for specified periods of time, revocation of registration as an investment adviser, commodity trading adviser and/or other registrations, and other censures and fines.

Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds. The Dodd-Frank Act limits banking organizations, such as the Company, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain circumstances, in a provision commonly referred to as the "Volcker Rule." Under the Dodd-Frank Act, proprietary trading generally means trading by a banking entity or its affiliate for its own account. Hedge funds and private equity funds are described by the Dodd-Frank Act as funds that would be registered under the 1940 Act but for certain enumerated exemptions. The Volcker Rule restrictions apply to the Company, the Bank, and all of their subsidiaries and affiliates.

VI.Taxation

Federal Taxation

The Company and its incorporated affiliates are subject to federal income taxation generally applicable to corporations under the Code. In addition, the Bank is subject to Subchapter H of the Code, which provides specific rules for the treatment of securities, reserves for loan losses, and any common trust funds.

The Company and its incorporated affiliates are members of an affiliated group of corporations within the meaning of Section 1504 of the Code and file a consolidated federal income tax return. Some of the advantages of filing a consolidated tax return include the avoidance of tax on intercompany distributions and the ability to offset operating and capital losses of one company against operating income and capital gains of another company.

The Company's taxable income includes its share of the taxable income or loss from its subsidiaries that are limited liability companies.

State and Local Taxation

The Company and its affiliates are subject to the tax rate established in the state in which they operate. Substantially all of the Company's taxable state and local income is derived from Massachusetts, California, New York, and the City of New York.

The Massachusetts tax rate is 9.0% on taxable income apportioned to Massachusetts. Massachusetts' taxable income is defined as federal taxable income subject to certain modifications. These modifications include a deduction for 95% of dividends received from entities in which the Company owns 15% or more of the voting stock, income from federally tax exempt obligations and deductions for certain expenses allocated to federally tax exempt obligations.

The California tax rate is 8.84% for corporations that are not financial institutions and 10.84% for financial institutions. The California tax is on California taxable income, which is defined as federal taxable income subject to certain modifications. These modifications include income from federally tax exempt obligations and deductions for certain expenses allocated to federally tax exempt obligations.

The New York state tax rate is generally 7.1% on taxable income apportioned to New York (subject to various alternative minimum taxes that may be based on taxable assets, investment capital, alternative net income, a minimum taxable base, or flat fees), plus a surcharge for business operations in the Metropolitan Commuter Transportation district. New York taxable income is defined as federal taxable income subject to certain modifications. These modifications include a deduction for 60% of dividends received from subsidiary capital, income from federally tax exempt obligations, and deductions for certain expenses allocated to federally tax exempt obligations.

The New York City tax rate is generally 8.85% under the General Corporation Tax and generally 9.0% for banking corporations on taxable income apportioned to New York City (in each case subject to various alternative minimum taxes). New York City taxable income is defined as federal taxable income subject to certain modifications. These modifications include a deduction for 60% of dividends received from subsidiary capital, income from federally tax exempt obligations, and deductions for certain expenses allocated to federally tax exempt obligations.

ITEM 1A.RISK FACTORS

Before deciding to invest in us or deciding to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC. The risks and uncertainties described below and in our other filings are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose your investment.

Risks Related to our Banking Business

Our banking business is highly regulated, which could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business.

We are subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the Commissioner and the FDIC. Federal and state laws and regulations govern numerous matters, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The FDIC and the Commissioner have the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we and the Bank may conduct business and obtain financing.

Our banking business is also affected by the monetary policies of the Federal Reserve. Changes in monetary or legislative policies may affect the interest rates the Bank must offer to attract deposits and the interest rates it must charge on loans, as well as the manner in which it offers deposits and makes loans. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions generally, including the Bank.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. It is impossible to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Other changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See Part I. Item 1. “Business-Supervision and Regulation.”

Additional requirements imposed by the Dodd-Frank Act could adversely affect us.

The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. Because many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, it is difficult to forecast the impact that such rulemaking will have on us, our clients, or the financial industry. Certain provisions of the Dodd-Frank Act that affect deposit insurance assessments, the payment of interest on demand deposits and interchange fees could increase the costs associated with the Bank’s deposit-generating activities, as well as place limitations on the revenues that those deposits may generate. In addition, the Dodd-Frank Act established the CFPB as an independent bureau of the Federal Reserve. The CFPB has the authority to prescribe rules for all

depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and services or impose greater costs on us and our subsidiaries. The Dodd-Frank Act also established new minimum mortgage underwriting standards for residential mortgages, and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities. The CFPB recently issued a final rule that requires creditors, such as the Bank, to make a reasonable good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling. The rule provides creditors with minimum requirements for making such ability-to-repay determinations. See Part 1. Item 1. "Business-Supervision and Regulation-The Dodd-Frank Act."

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Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under the Dodd-Frank Act, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations; may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and related regulations; and may make it more difficult for us to attract and retain qualified executive officers and employees.
We may become subject to more stringent capital requirements.
The Dodd-Frank Act requires the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. In addition, the federal banking agencies issued three joint proposed rules, or the Proposed Capital Rules, that implement the Basel III capital standards and establish the minimum capital levels required under the Dodd-Frank Act. The Proposed Capital Rules establish a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a “well capitalized” institution, and increase the minimum total Tier I capital ratio for a “well capitalized” institution from 6% to 8%. Additionally, the Proposed Capital Rules require an institution to maintain a 2.5% common equity Tier I capital conservation buffer over the 6.5% minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Proposed Capital Rules also phase out trust preferred securities from Tier I capital and increase the required capital for certain categories of assets, including non-amortizing and high loan-to-value ratio residential mortgages, high volatility construction real estate loans, and certain exposures related to securitizations, and remove the filter for accumulated other comprehensive income in the current capital rules which currently prevents unrealized gains and losses from being included in the calculation of the institution’s regulatory capital. At December 31, 2012, approximately 71% of the Company's residential loan portfolio consisted of interest-only, or non-amortizing, loans. See Part I. Item 1. “Business-Supervision and Regulation - Capital Requirements.”
The federal banking agencies extended the deadline for the proposed capital rules to go into effect and indicated that final rules would be issued in 2013. The final capital rules may differ significantly in substance or in scope from the proposed capital rules. However, the final capital rules are expected to increase our capital requirements and related compliance costs. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.
Deterioration in local economies or real estate markets could negatively impact our banking business.
The Bank primarily serves individuals and smaller businesses located in four geographic regions: New England, San Francisco Bay, Southern California, and the Pacific Northwest. The ability of the Bank’s clients to repay their loans is impacted by the economic conditions in these areas.
The Bank’s commercial loans are generally concentrated in the following client groups:
- real estate developers and investors;
- financial service providers;
- technology companies;
- manufacturing and communications companies;
- professional service providers;
- general commercial and industrial companies; and
- individuals.

The Bank’s commercial loans, with limited exceptions, are secured by real estate (usually income producing residential and commercial properties), marketable securities, or corporate assets (usually accounts receivable, equipment or inventory). Substantially all of the Bank’s residential mortgage and home equity loans are secured by residential property. Consequently, the Bank’s ability to continue to originate real estate loans may be impaired by adverse changes in local and regional economic conditions in the real estate markets, or by acts of nature, including earthquakes, hurricanes, and flooding. Due to the concentration of real estate collateral in the geographic regions in

which we operate, these events could have a material adverse impact on the ability of the Bank’s borrowers to repay their loans and affect the value of the collateral securing these loans.

Competition in the banking industry may impair our ability to attract and retain banking clients at current levels.
Competition in the markets in which the Bank operates may limit the ability of the Bank to attract and retain banking clients. The Bank's competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are able to serve the credit and investment needs of larger clients. The Bank also faces competition from out-of-state financial intermediaries that have opened low-end production offices or that solicit deposits in its respective market areas. Because the Bank maintains a smaller staff and has fewer financial and other resources than larger institutions with which it competes, it may be limited in its ability to attract clients. In addition, the Bank's current commercial banking clients may seek alternative banking sources as they develop needs for credit facilities larger than the Bank can accommodate. If the Bank is unable to attract and retain banking clients, it may be unable to continue its loan growth and its results of operations and financial condition may otherwise be negatively impacted.
Our cost of funds for banking operations may increase as a result of general economic conditions, interest rates and competitive pressures.
The Bank has traditionally obtained funds principally through deposits and borrowings. As a general matter, deposits are a cheaper source of funds than borrowings, because interest rates paid for deposits are typically less than interest rates charged for borrowings. Historically and in comparison to commercial banking averages, the Bank has had a higher percentage of its time deposits in denominations of $100,000 or more. Within the banking industry, the amounts of such deposits are generally considered more likely to fluctuate than deposits of smaller denominations. If, as a result of general economic conditions, market interest rates, competitive pressures, or otherwise, the amount of deposits at the Bank decreases relative to its overall banking operations, the Bank may have to rely more heavily on borrowings as a source of funds in the future.
Defaults in the repayment of loans may require additional loan loss reserves and negatively impact our banking business.
A borrower's default on its obligations under one or more loans by the Bank may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loan. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, the Bank may have to charge-off the loan in whole or in part. In such situations, the Bank may acquire real estate or other assets, if any, which secure the loan through foreclosure or other similar available remedies. In such cases, the amount owed under the defaulted loan often exceeds the value of the assets acquired.
The Bank's management periodically makes a determination of an allowance for loan losses based on available information, including the quality of its loan portfolio, certain economic conditions, the value of the underlying collateral, and the level of its nonaccruing and criticized loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of provision required for the allowance for loan losses. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, changes in estimates, or an increase in defaulted loans, management determines that additional increases in the allowance for loan losses are necessary, we will incur additional expenses.
If it is determined that the Bank should sell certain loans or a portfolio of loans, we are required to classify those loans as "held for sale" which requires us to carry such loans at the lower of cost or market. If we decide to sell loans at a time when the fair value of those loans is less than their carrying value, the adjustment will result in a loss. We may from time to time decide to sell particular loans or groups of loans, and the required adjustment could negatively affect our financial condition or results of operations.
In addition, bank regulatory agencies periodically review the Bank's allowance for loan losses and the values it attributes to real estate acquired through foreclosure or other similar remedies. Such regulatory agencies may require

the Bank to adjust its determination of the value for these items. These adjustments could negatively impact our results of operations or financial condition.

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Fluctuations in interest rates may negatively impact our banking business.

Fluctuations in interest rates may negatively impact the business of the Bank. The Bank's main source of income from operations is net interest income, which represents the difference between the interest income earned on interest-bearing assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and regulatory authorities. The Bank's net interest income can be affected significantly by changes in market interest rates. Changes in relative interest rates may reduce the Bank's net interest income as the difference between interest income and interest expense decreases. As a result, the Bank has adopted asset and liability management policies to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments funding sources, and derivatives. However, even with these policies in place, a change in interest rates can impact our results of operations or financial condition. An increase in interest rates could also have a negative impact on the Bank's results of operations by reducing the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures, and charge-offs, but also necessitate further increases to our allowances for loan losses. Fluctuations in interest rates, in certain circumstances, may also lead to high levels of loan prepayments, which may also have an adverse impact on our net interest income.

Prepayments of loans may negatively impact our banking business.

Generally, the Bank's clients may prepay the principal amount of their outstanding loans at any time. The speed at which such prepayments occur, as well as the size of such prepayments, are within our clients' discretion. If clients prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, our interest income will be reduced. A significant reduction in interest income could have a negative impact on our results of operations and financial condition.

Our loan portfolio includes commercial loans, commercial real estate loans, and construction and land loans, which are generally riskier than other types of loans.

At December 31, 2012, our commercial loans, commercial real estate loans, and construction and land loans portfolios comprised 55% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

Environmental liability associated with commercial lending could result in losses.

In the course of business, the Bank may acquire, through foreclosure, properties securing loans it has originated or purchased which are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we or the Bank might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to our Investment Management and Wealth Advisory Businesses

Our investment management and wealth advisory businesses are highly regulated, and the regulators have the ability to limit or restrict our activities and impose fines or suspensions on the conduct of our business.

Our investment management and wealth advisory businesses are highly regulated, primarily at the federal level. The failure of any of our subsidiaries that provide investment management and wealth advisory services to comply with applicable laws or regulations could result in fines, suspensions of individual employees or other sanctions including revocation of such affiliate's registration as an investment adviser.

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All of our investment managers and wealth advisory affiliates are registered investment advisers under the Investment Advisers Act. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary, record keeping, operational and disclosure obligations. These subsidiaries, as investment advisers, are also subject to regulation under the federal and state securities laws and the fiduciary laws of certain states. In addition, the affiliates acting as sub-advisers to mutual funds are subject to certain provisions and regulations of the Investment Company Act of 1940.

We are also subject to the provisions and regulations of ERISA to the extent that we act as a "fiduciary" under ERISA with respect to certain of our clients. ERISA and the applicable provisions of the federal tax laws, impose a number of duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving the assets of each ERISA plan which is a client, as well as certain transactions by the fiduciaries (and certain other related parties) to such plans.

In addition, applicable law provides that all investment contracts with mutual fund clients may be terminated by the clients, without penalty, upon no more than 60 days' notice. Investment contracts with institutional and other clients are typically terminable by the client, also without penalty, upon 30 days' notice.

Changes in these laws or regulations could have a material adverse impact on our profitability and mode of operations.

Our investment management businesses may be negatively impacted by changes in economic and market conditions.

Our investment management business may be negatively impacted by changes in general economic and market conditions because the performance of such business is directly affected by conditions in the financial and securities markets. The financial markets and businesses operating in the securities industry are highly volatile (meaning that performance results can vary greatly within short periods of time) and are directly affected by, among other factors, domestic and foreign economic conditions and general trends in business and finance, all of which are beyond our control. We cannot assure you that broad market performance will be favorable in the future. Declines in the financial markets or a lack of sustained growth may result in a corresponding decline in our performance and may adversely affect the assets that we manage.

In addition, our management contracts generally provide for fees payable for investment management services based on the market value of assets under management, although there are a portion of our contracts that provide for the payment of fees based on investment performance in addition to a base fee. Because most contracts provide for a fee based on market values of securities, fluctuations in securities prices may have a material adverse effect on our results of operations and financial condition.

We may not be able to attract and retain investment management and wealth advisory clients at current levels due to competition.

Due to intense competition, our investment management and wealth advisory subsidiaries may not be able to attract and retain clients at current levels. Competition is especially strong in our geographic market areas, because there are numerous well-established, well-resourced, well-capitalized, and successful investment management and wealth advisory firms in these areas.

Our ability to successfully attract and retain investment management and wealth advisory clients is dependent upon our ability to compete with competitors' investment products, level of investment performance, client services and marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted.

Investment management contracts are typically terminable upon less than 30 days' notice. Most of our investment management clients may withdraw funds from accounts under management generally in their sole discretion. Wealth advisory client contracts must typically be renewed on an annual basis and are terminable upon relatively short notice. The combined financial performance of our investment management and wealth advisory affiliates is a significant factor in our overall results of operations and financial condition.

Our investment management business is highly dependent on investment managers to produce investment returns and to solicit and retain clients, and the loss of a key investment manager could adversely affect our investment

management and wealth advisory business.

We rely on our investment managers to produce investment returns. We believe that investment performance is one of the most important factors for the growth of our assets under management. Poor investment performance could impair our revenues and growth because existing clients might withdraw funds in favor of better performing products, which would result in lower investment management fees or our ability to attract funds from existing and new clients might diminish.

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The market for investment managers is extremely competitive and is increasingly characterized by frequent movement of investment managers among different firms. In addition, our individual investment managers often have regular direct contact with particular clients, which can lead to a strong client relationship based on the client's trust in that individual manager. The loss of a key investment manager could jeopardize our relationships with our clients and lead to the loss of client accounts. Losses of such accounts could have a material adverse effect on our results of operations and financial condition.

Risks Related to Our Overall Business and Operations

Our business and earnings have been adversely affected, and may continue to be adversely affected, by the U.S. and international financial market and economic conditions.

The performance of our business has been and may continue to be adversely affected by general business and economic conditions in the U.S., including the level and volatility of short- and long-term interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, the availability and cost of credit, investor confidence, and the strength of the U.S. economy. Deterioration of any of these conditions can adversely affect our consumer and commercial businesses and securities portfolios, as well as our earnings.

We may incur significant losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance, and legal reporting systems; internal controls; management review processes; and other mechanisms. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application may not be effective and may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes. Market conditions over the last several years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

We may be unable to attract and retain key employees.

Our success depends, in large part, on our ability to attract and retain key employees. Competition for the best people can be intense and we may not be able to hire or retain the key employees that we depend upon for success. The unexpected loss of services of one or more of our key employees could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience, and the difficulty of promptly finding qualified replacement employees.

Our ability to attract and retain clients and employees could be adversely affected to the extent our reputation is harmed.

Our ability to attract and retain clients and employees at our banking, investment management, and wealth advisory subsidiaries could be adversely affected to the extent our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; privacy; properly maintaining client and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions, reputational harm, and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines, and penalties and cause us to incur related costs and expenses. In addition, our investment management business is dependent on the integrity of our asset managers and our employees. If an asset manager or employee were to misappropriate any client funds, the reputation of our asset management business could be negatively affected, which may result in the loss of accounts and have a material adverse effect on our results of operations and financial condition.

We may suffer losses as a result of operational risk or technical system failures.

The potential for operational risk exposure exists throughout our organization. Integral to our performance is the continued effectiveness of our internal processes, systems, relationships with third parties, and the associates and executives in our day-to-day and ongoing operations. Operational risk also encompasses the failure to execute on strategic objectives in a successful, timely, and cost-effective manner. Failure to properly manage operational risk subjects us to risks of loss that may vary in size, scale, and scope, including loss of clients, operational or technical failures, unlawful tampering with our technical systems, ineffectiveness or exposure due to interruption in third party support, as well as the loss of key individuals or failure on the part of key individuals to perform properly. Although we seek to mitigate operational risk through a system of internal controls, losses from operational risk could take the form of explicit charges, increased operational costs, harm to our reputation, or foregone opportunities.

Risks Related to Accounting and Accounting Changes

Our financial statements are based in part on assumptions and estimates, which, if wrong, could cause unexpected losses in the future.

Pursuant to accounting principles generally accepted in the U.S. (“GAAP”), we are required to use certain assumptions and estimates in preparing our financial statements, including in determining loan loss reserves, reserves related to litigation, and the fair value of certain assets and liabilities, among other items. If assumptions or estimates underlying our financial statements are incorrect, we may experience material losses. For additional information, see Part II. Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies.”

Changes in accounting standards can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to anticipate and implement and can materially impact how we record and report our financial condition and results of operations.

Goodwill and other intangible asset impairment would negatively affect our financial condition and results of operations.

When the purchase price of an acquired business exceeds the fair value of its tangible assets, the excess is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill is determined by the excess of the purchase price over the net identifiable assets acquired. At December 31, 2012, our goodwill and net intangible assets totaled $135.1 million. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we will be required to write down the value of these assets. Our goodwill and intangible assets are tested for impairment annually in the fourth quarter at the reporting unit level. In addition, an impairment test could be triggered between annual testing dates if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying amount. We took impairment charges at various times in 2007, 2008 and 2009. We cannot assure you that we will not be required to take further impairment charges in the future. Any impairment charge would have a negative effect on our shareholders’ equity and financial results.

Our deferred tax assets may not ultimately be realized or our tax positions may be subject to challenge by taxing authorities.

Our deferred tax assets may provide significant future tax savings. Our use of these deferred tax benefits may depend on a number of factors including our ability to generate significant future taxable income; the character of that income (ordinary versus capital); the absence of a future ownership change that could limit or eliminate the tax benefits; the acceptance by the taxing authorities of the positions taken on our tax returns as to the amount and timing of our income and expenses; and future changes in laws or regulations relating to tax credits, tax deductions, and net operating losses.

We assess the likelihood that deferred tax assets will be realizable based primarily on future taxable income and tax planning strategies and, if necessary, establish a valuation allowance for those deferred tax assets determined to not likely be realizable. Management judgment is required in determining the appropriate recognition of deferred tax assets and liabilities, including projections of future taxable income, as well as the character of that income.

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In evaluating the need for a valuation allowance, management considers the following:

- cumulative pre-tax income or loss, as adjusted for permanent book-to-tax differences, over the current and previous two years;
- future reversals of existing taxable temporary differences;
- the projection of future taxable income to be generated by operations during the available loss carryforward period;
- tax planning strategies that are available and whether any are limited based upon the Company's market capitalization in excess of its book value; and
- whether there has been any operating loss or tax credit carry-overs expiring unused.

There can be no absolute assurance however, that the net deferred tax assets will ultimately be realized.

Risks Related to Our Liquidity

We are a holding company and depend on our subsidiaries for dividends, distributions, and other payments.

We are a separate and distinct legal entity from the Bank and our non-banking subsidiaries and depend on dividends, distributions, and other payments from the Bank and our non-banking subsidiaries to fund dividend payments on our common and preferred stock and to fund all payments on our other obligations. Many of our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the payment of cash dividends or other distributions from those subsidiaries to us. Regulatory action of that kind could impede access to funds we need to make payments on our obligations or dividend payments. Additionally, if our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our common and preferred shareholders. Furthermore, our right to participate in a distribution of assets upon an affiliate's liquidation or reorganization is subject to the prior claims of the affiliate's creditors.

Holders of our common stock are entitled to receive dividends only when, as, and if declared by our board of directors. Although we have historically declared cash dividends on our common stock, we are not required to do so and our board of directors may reduce or eliminate our common stock dividend in the future. Further, the Federal Reserve has issued guidelines for evaluating proposals by large bank holding companies to increase dividends or repurchase or redeem shares, which includes a requirement for such firms to develop a capital distribution plan. The Federal Reserve has indicated that it is considering expanding these requirements to cover all bank holding companies, which may in the future restrict our ability to pay dividends. A reduction or elimination of dividends could adversely affect the market price of our common stock.

Risks Related to Our Common Stock

Future capital offerings may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources or, if our or the Bank's capital ratios fall below required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of debt, common or preferred stock, trust preferred securities, and senior or subordinated notes. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock.

Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Although holders of our common stock are not entitled to preemptive rights or other protections against dilution, the terms of our Series B preferred stock do provide for certain anti-dilution adjustments. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings.

We cannot assure you that such capital will be available to us on acceptable terms or at all. Our inability to raise sufficient additional capital on acceptable terms when needed could adversely affect our businesses, financial condition, and results of operations. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

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The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- quarterly variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts, and investors;
- changes in expectations as to our future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions, and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- our past and future dividend practices;
- future sales of our equity or equity-related securities; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, stock, commodity or real estate valuations or volatility.

Anti-takeover provisions could negatively impact our shareholders.

Provisions of Massachusetts law and provisions of our articles of organization and by-laws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. Our articles of organization authorize our board of directors to issue preferred stock without shareholder approval and such preferred stock could be issued as a defensive measure in response to a takeover proposal. These and other provisions could make it more difficult for a third party to acquire us, even if an acquisition might be in the best interest of our shareholders.

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2.PROPERTIES

The Company and its subsidiaries primarily conduct operations in leased premises; however, the Bank owns two of its office locations. The Company’s headquarters are located at Ten Post Office Square, Boston, Massachusetts. The premises for our non-bank affiliates are generally located in the vicinity of the headquarters of such affiliates. Generally, the initial terms of the leases for our leased properties range from five to fifteen years. Most of the leases also include options to renew at fair market value for periods of five to ten years. In addition to minimum rentals, certain leases include escalation clauses based upon various price indices and include provisions for additional payments to cover taxes.

ITEM 3.LEGAL PROCEEDINGS

The Company is involved in routine legal proceedings occurring in the ordinary course of business. In the opinion of management, final disposition of these proceedings will not have a material adverse effect on the consolidated balance sheets or consolidated statements of operations of the Company.

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

I.Market for Common Stock

The Company's common stock, par value $1.00 per share, is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "BPFH." At March 8, 2013, there were 78,997,218 shares of common stock outstanding. The number of holders of record of the Company's common stock as of March 8, 2013 was 1,133. The closing price of the Company's common stock on March 8, 2013 was $9.29.

The following table sets forth the high and low sale prices for the Company's common stock for the periods indicated, as reported by NASDAQ:

	High	Low
Fiscal year ended December 31, 2012		
Fourth Quarter	$9.97	$8.35
Third Quarter	$10.20	$8.51
Second Quarter	$10.01	$7.65
First Quarter	$10.75	$7.77
Fiscal year ended December 31, 2011		
Fourth Quarter	$8.40	$5.58
Third Quarter	$7.14	$5.23
Second Quarter	$7.48	$5.86
First Quarter	$7.55	$6.17

II.Dividends

The Company paid dividends on its common stock of $0.04 in both 2012 and 2011. On January 16, 2013, the Company announced an increase in its quarterly dividend from $0.01 per share to $0.05 per share.

The Company is a legal entity separate and distinct from its affiliates. These affiliates are the principal assets of the Company and, as such, provide the main source of payment of dividends by the Company. See Part I. Item 1. "Business-Supervision and Regulation-Dividend Restrictions," which is incorporated by reference herein, for a discussion of statutory restrictions on the payment of dividends by the Company and the Bank. The payment of dividends by the Company and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. There are no such comparable statutory restrictions on the Company's Investment Managers' and Wealth Advisors' ability to pay dividends.

III.Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding securities authorized for issuance under our equity compensation plans shall be included in the definitive Proxy Statement (the "Proxy Statement") for the 2013 Annual Meeting of Shareholders to be held on April 17, 2013 and is incorporated herein by reference.

IV.Recent Sales of Unregistered Securities

None.

V.Issuer Repurchases

In the first quarter of 2012, the Company repurchased all of the 5.44 million in stock warrants held by affiliates of the Carlyle Group and BPFH Director John Morton III.

On January 16, 2013, the Company announced that its Board of Directors approved a share repurchase program of up to 5% of the Company's outstanding shares. Under the program, shares may be repurchased from time to time in the open market for a two-year period.

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VI.Performance Graph

The Total Return Performance Graph set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Company's common stock, based on the market price of the Company's common stock, with the total return on companies within the NASDAQ Composite Index and companies within the SNL $5B-$10B Bank Index. The calculation of cumulative return assumes a $100 investment in the Company's common stock, the NASDAQ Composite Index, and the SNL $5B-$10B Bank Index on December 31, 2007. It also assumes that all dividends are reinvested during the relevant periods.

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Source: SNL

	Year Ending December 31,					
	2007	2008	2009	2010	2011	2012
BPFH	$100.00	$25.69	$21.85	$24.96	$30.44	$34.69
NASDAQ Composite Index	100.00	60.02	87.24	103.08	102.26	120.42
SNL Bank $5B-$10B	100.00	87.73	67.45	73.17	72.61	85.41

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ITEM 6.SELECTED FINANCIAL DATA

The following table represents selected financial data for the five fiscal years ended December 31. The data set forth below does not purport to be complete. It should be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere herein, including the Company's Consolidated Financial Statements and related notes. All items presented below, for all years presented, have been adjusted for discontinued operations related to the divestiture of DTC in 2012 and the five affiliates divested in 2009.

	2012	2011	2010	2009	2008 (1)
At December 31:		(In thousands, except share data)			
Total balance sheet assets	$6,465,005	$6,049,372	$6,153,901	$6,050,265	$7,283,848
Assets of discontinued operations	—	10,676	10,208	7,718	1,586,377
Loans held for sale	308,390	12,069	9,145	12,714	36,846
Total loans (excluding loans held for sale)	4,814,136	4,651,228	4,481,347	4,308,040	4,130,081
Allowance for loan losses	84,057	96,114	98,403	68,444	64,091
Cash and investments (2)	1,050,025	1,091,564	1,335,216	1,385,104	1,129,590
Goodwill and intangible assets	135,054	138,749	144,161	144,894	149,652
Deposits	4,885,059	4,530,411	4,486,726	4,255,219	3,748,912
Deposits held for sale	194,084	—	—	—	—
Borrowed funds	668,087	834,671	1,027,925	992,034	1,329,898
Total shareholders' equity	603,102	566,125	518,878	651,154	648,676
Nonperforming assets	64,361	73,212	119,916	106,938	76,828
Net loans charged-off	(8,757)	(15,449)	(57,219)	(40,606)	(192,485)
Assets under management and advisory:					
Private Banking	$3,941,000	$3,571,000	$3,592,000	$3,479,000	$3,253,000
Investment Management	8,444,000	7,594,000	8,140,000	7,048,000	6,381,000
Wealth Advisory	8,052,000	6,994,000	6,844,000	6,256,000	5,492,000
Inter-company relationships	(20,000)	(19,000)	(19,000)	(18,000)	(16,000)
Total assets under management and advisory	$20,417,000	$18,140,000	$18,557,000	$16,765,000	$15,110,000
For The Year Ended December 31:					
Net interest income	$183,276	$178,954	$180,760	$159,520	$150,208
Provision for loan losses	(3,300)	13,160	87,178	44,959	196,643
Net interest income/ (loss) after provision for loan losses	186,576	165,794	93,582	114,561	(46,435)
Fees and other income	114,362	118,441	105,628	121,275	124,135
Operating expense	225,939	225,799	230,828	215,618	208,261
Restructuring expense	5,911	8,055	—	—	—
Impairment of goodwill and intangibles	—	—	—	(1)	133,202
Income/ (loss) from continuing operations before income taxes	69,088	50,381	(31,618)	20,219	(263,763)
Income tax expense/ (benefit)	20,330	14,280	(19,491)	1,762	(70,678)
Net income/ (loss) from continuing operations	48,758	36,101	(12,127)	18,457	(193,085)
Net income/ (loss) from discontinued operations	7,635	6,184	3,743	(9,448)	(191,316)
Less: Net income attributable to noncontrolling interests	3,122	3,148	2,586	3,778	4,351

Net income/ (loss) attributable to the Company	$53,271	$39,137	$(10,970)	$5,231	$(388,752)

(Continued)

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	2012	2011	2010	2009	2008 (1)
At December 31:		(In thousands, except share data)			
Per Share Data:					
Total diluted earnings/ (loss) per share	$0.61	$0.46	$(0.29)	$(0.52)	$(8.87)
Diluted earnings/ (loss) per share from continuing operations	$0.52	$0.39	$(0.34)	$(0.38)	$(4.85)
Weighted average basic common shares outstanding	76,019,991	75,169,611	71,321,162	66,696,977	47,528,418
Weighted average diluted common shares outstanding	76,973,516	75,481,028	71,321,162	66,696,977	47,528,418
Cash dividends per share	$0.04	$0.04	$0.04	$0.04	$0.22
Book value per share (3)	$6.92	$6.51	$6.04	$6.51	$7.36
Selected Operating Ratios:					
Return/ (loss) on average assets	0.84%	0.64%	(0.18)%	0.09%	(5.55)%
Return/ (loss) on average equity	9.18%	7.27%	(1.91)%	0.81%	(61.50)%
Net interest margin (4)	3.22%	3.25%	3.30%	3.09%	3.14%
Total fees and other income/total revenue (5)	38.42%	39.83%	36.88%	43.19%	45.25%
Asset Quality Ratios:					
Nonaccrual loans (excluding loans held for sale) to total loans (excluding loans held for sale)	1.26%	1.46%	2.35%	2.01%	0.89%
Nonperforming assets to total assets	1.00%	1.21%	1.95%	1.77%	1.05%
Allowance for loan losses to total loans (excluding loans held for sale)	1.75%	2.07%	2.20%	1.59%	1.55%
Allowance for loan losses to nonaccrual loans (excluding loans held for sale)	1.38	1.41	0.93	0.79	1.74
Allowance for loan losses to classified loans (excluding loans held for sale) (6)	0.56	0.58	0.48	0.49	1.01
Other Ratios:					
Dividend payout ratio	6.56%	8.70%	nm	nm	nm
Total equity to total assets ratio	9.33%	9.36%	8.43%	10.76%	8.91%
Tangible common equity to tangible assets ratio (non-GAAP) (7)	7.67%	7.37%	6.33%	6.66%	5.07%

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nm - not meaningful

(1) Earnings for 2008 were reduced by $115.3 million, or $2.43 per share, for the after-tax and noncontrolling interest impact of impairment charges at FPB, Charter, DGHM and the Holding Company; and by $124.3 million, or $2.61 per share, for the after-tax provisions for loan losses. These charges were slightly offset by the gains recognized, net of tax, of $14.2 million, or $0.30 per share, from the repurchase of the Company's 3% Contingent Convertible Senior Notes due 2027. To determine net-of-tax amounts, an assumed effective tax rate of approximately 37% is used, except for the non-deductible impairment at the Private Banking affiliates and portions of the impairment at DGHM.

(2) Cash and investments includes the following line items from the consolidated balance sheets: cash and cash equivalents, investment securities, and stock in Federal Home Loan Banks.

(3)

Book value per share is calculated by reducing the Company's total equity by the preferred stock balance, then dividing that value by the total common shares outstanding as of the end of that period.

(4) Net interest margin represents net interest income on a fully-taxable equivalent basis as a percent of average interest-earning assets.

(5) Total revenue is defined as net interest income plus fees and other income.

(6) Classified loans are defined as loans whose credit quality is substandard, doubtful, or loss.

(7) The Company calculates tangible assets by adjusting total assets to exclude goodwill and intangible assets. The Company calculates tangible common equity by adjusting total shareholders' equity to exclude goodwill, intangible assets, and, in 2008 and 2009, the equity from the TARP funding of $154 million, and to include the difference between maximum redemption value and value per Accounting Research Bulletin 51, Consolidated Financial Statements ("ARB 51") for redeemable non-controlling interests. The Company uses certain non-GAAP financial measures, such as the Tangible Common Equity to Tangible Assets ratio, to provide information for investors to effectively analyze financial trends of ongoing business activities, and to enhance comparability with peers across the financial sector. A reconciliation from the Company's GAAP Total Shareholders' Equity to Total Assets ratio to the Non-GAAP Tangible Common Equity to Tangible Assets ratio is presented below:

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	2012		2011		2010		2009		2008	
Total balance sheet assets	$6,465,005		$6,049,372		$6,153,901		$6,050,265		$7,283,848	
LESS: Goodwill and intangible assets, net (a)	(135,054	)	(145,600	)	(151,212	)	(150,117	)	(178,543	)
Tangible assets (non-GAAP)	$6,329,951		$5,903,772		$6,002,689		$5,900,148		$7,105,305	
Total shareholders' equity	$603,102		$566,125		$518,878		$651,154		$648,676	
LESS: Goodwill and intangible assets, net (a)	(135,054	)	(145,600	)	(151,212	)	(150,117	)	(178,543	)
TARP Funding	—		—		—		(154,000	)	(154,000	)
ADD: Difference between maximum redemption value of non-controlling interests and value under ARB 51	17,201		14,381		12,578		46,016		43,800	
Total adjustments	(117,853	)	(131,219	)	(138,634	)	(258,101	)	(288,743	)
Tangible Common Equity (non-GAAP)	$485,249		$434,906		$380,244		$393,053		$359,933	
Total Equity/Total Assets	9.33	%	9.36	%	8.43	%	10.76	%	8.91	%
Tangible Common Equity/Tangible Assets (non-GAAP)	7.67	%	7.37	%	6.33	%	6.66	%	5.07	%

(a) Includes goodwill and intangible assets of divested affiliates for years 2011 - 2008.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements, the notes thereto, and other statistical information included in this annual report.

Executive Summary

The Company offers a wide range of wealth management services to high net worth individuals, families, businesses and select institutions through its three reportable segments: Private Banking, Investment Management, and Wealth Advisory. This Executive Summary provides an overview of the most significant aspects of our operating segments and the Company's operations in 2012. Details of the matters addressed in this summary are provided elsewhere in this document and, in particular, in the sections immediately following.

Net income attributable to the Company was $53.3 million for the year ended December 31, 2012, compared to net income of $39.1 million in 2011 and a net loss of $11.0 million in 2010. The Company recognized diluted earnings per share of $0.61 for the year ended December 31, 2012, compared to diluted earnings per share of $0.46 in 2011 and diluted loss per share of $0.29 in 2010.

Key items that affected the Company's 2012 results include:

The Company recorded a credit to the provision for loan losses of $3.3 million for the year ended December 31, 2012, compared to a provision for loan losses of $13.2 million in 2011. The 2012 credit to the provision for loan losses was primarily due to:

- Reductions in criticized loans;
- Lower net charge-offs;
- The transfer of $276.7 million of loans from the Pacific Northwest market to loans held for sale at the loans' carrying amounts as a result of the announced plans for the Bank to sell its three offices in this market area. As a result of this transfer, a credit of $4.7 million was recorded to the allowance for loan losses; and
- The transfer from the loan portfolio to loans held for sale at the loans' carrying amounts, and the subsequent sale, of approximately $108.7 million of residential loans.
- The above credits to the provision for loan losses were partially offset by loan growth during 2012.

The low interest rate environment continues to affect net interest income. Net interest margin ("NIM") decreased 3 basis points to 3.22% in 2012 from 3.25% in 2011, after decreasing 5 basis points from 3.30% in 2010. While NIM has declined, net interest income for the year ended December 31, 2012 was $183.3 million, an increase of $4.3 million, or 2%, compared to 2011. The 2012 increase is due to lower average rates paid on the Company's deposits and borrowings, prepayment penalties, and the increase in volume of the loan portfolio. These factors were partially offset by lower average yields on loans.

Recurring fees and income, which includes investment management and trust fees, wealth advisory fees, other banking fee income, and gain on sale of loans, net, for the year ended December 31, 2012 was $109.4 million, an increase of $2.5 million, or 2%, from 2011. The 2012 increase is due primarily to increases in wealth advisory fees and gains on sale of loans.

The Company recorded total operating expenses of $231.9 million for the year ended December 31, 2012, compared to total operating expenses of $233.9 million in 2011. The 2012 expenses include restructuring charges of $5.9 million primarily related to severance costs for changes made in 2012 to the Company's management structure at the Bank and Holding Company. In addition, $2.1 million in prepayment penalties were incurred in 2012 related to the prepayment of FHLB borrowings and repurchase agreements. The purpose of these transactions was to actively manage the Company's cost of funds as the declining yields on interest earning assets continue to compress NIM.

Assets under management and advisory ("AUM") increased 13% during 2012 due to $0.6 billion of net flows and $1.7 billion of market appreciation. Increases in AUM were experienced in all three segments.

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The Company continued to actively manage its balance sheet in 2012 in order to maintain capital, reduce credit and operating risk, and increase profitability. The Company continues to pursue expense reduction opportunities enabled by the improved credit quality profile and the Bank consolidation. The Company's focus is to continue to actively manage its balance sheet while managing for increased growth across all markets and businesses.

Private Banking

The following table presents a summary of profits/ (losses), revenues and expenses for the Private Banking segment continuing operations for 2012, 2011, and 2010.

	As of and for the year ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	% Change	$ Change	% Change
	(In thousands)						
Net interest income	$189,260	$186,006	$190,104	$3,254	2 %	$(4,098)	(2)%
Fees and other income:							
Investment management and trust fees	23,645	23,553	23,257	92	— %	296	1 %
Other income	10,119	15,185	12,827	(5,066)	(33)%	2,358	18 %
Total fees and other income	33,764	38,738	36,084	(4,974)	(13)%	2,654	7 %
Total revenues	223,024	224,744	226,188	(1,720)	(1)%	(1,444)	(1)%
Provision/ (credit) for loan losses	(3,300)	13,160	87,178	(16,460)	(125)%	(74,018)	(85)%
Operating expenses	145,197	146,322	149,996	(1,125)	(1)%	(3,674)	(2)%
Restructuring expense	4,014	5,446	—	(1,432)	(26)%	5,446	nm
Income/ (loss) before income taxes	77,113	59,816	(10,986)	17,297	29 %	70,802	nm
Income tax expense/ (benefit)	25,901	19,697	(10,219)	6,204	31 %	29,916	nm
Net income/ (loss) attributable to the Company	$51,212	$40,119	$(767)	$11,093	28 %	$40,886	nm
Total loans (1)	$4,813,614	$4,648,759	$4,478,427	$164,855	4 %	$170,332	4 %
Assets	$6,269,390	$5,843,089	$5,948,100	$426,301	7 %	$(105,011)	(2)%
Deposits (2)	$4,955,472	$4,639,169	$4,598,911	$316,303	7 %	$40,258	1 %
AUM	$3,941,000	$3,571,000	$3,592,000	$370,000	10 %	$(21,000)	(1)%

nm - not meaningful

(1) Loans presented in this table are loans from the Private Banking segment and do not include loans of non-banking affiliates or the Holding Company. Loans presented in this table also do not include loans held for sale.

(2) Deposits presented in this table do not include intercompany eliminations related to deposits in the Bank from non-banking affiliates or the Holding Company. Deposits presented in this table also do not include deposits held for sale.

The Company's Private Banking segment reported net income attributable to the Company of $51.2 million in the year ended December 31, 2012, compared to net income attributable to the Company of $40.1 million in 2011 and a net loss attributable to the Company of $0.8 million in 2010. The credit to the provision for loan losses in 2012 and the

decrease in the provision for loan losses from 2010 to 2011 are the primary drivers of the increases in net income in 2012 and 2011. The positive effects of the changes in provision/ (credit) for loan losses were partially offset by decreased other income in 2012 and increased restructuring expense in 2011.

During 2012, the Bank implemented a senior executive restructuring of Bank leadership in order to create a more streamlined organization and to refine the Bank's cost base. To implement the new structure the Bank incurred severance charges of $2.9 million in the year ended December 31, 2012.

AUM increased $0.4 billion, or 10%, to $3.9 billion at December 31, 2012 from $3.6 billion at December 31, 2011, due to both positive net flows and investment performance.

Total loans at the Bank increased $164.9 million, or 4%, to $4.8 billion, or 77% of total assets at the Bank, at December 31, 2012 from $4.6 billion, or 80% of total assets at the Bank, at December 31, 2011. When normalized for loans in the Pacific Northwest region, which were classified as held for sale at December 31, 2012, total loans at the Bank increased 9% in 2012 from $4.4 billion at December 31, 2011. A discussion of the Company's loan portfolio can be found below in Part II.

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Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio and Credit Quality."
Deposits at the Bank increased $316.3 million, or 7%, to $5.0 billion in 2012 from $4.6 billion in 2011 and 2010. A discussion of the Company's deposits can be found below in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition."

Investment Management
The following table presents a summary of profits/ (losses), revenues and expenses for the Investment Management segment continuing operations for 2012, 2011, and 2010.

	As of and for the year ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	% Change	$ Change	% Change
	(In thousands)						
Investment management and trust fees	$39,163	$39,803	$36,942	$(640)	(2)%	$2,861	8%
Other income and net interest income	69	73	178	(4)	(5)%	(105)	(59)%
Total revenues	39,232	39,876	37,120	(644)	(2)%	2,756	7%
Operating expenses	31,359	31,181	29,720	178	1%	1,461	5%
Income/ (loss) before income taxes	7,873	8,695	7,400	(822)	(9)%	1,295	18%
Income tax expense/ (benefit)	2,688	2,803	2,682	(115)	(4)%	121	5%
Noncontrolling interests	1,599	1,727	1,383	(128)	(7)%	344	25%
Net income/ (loss) attributable to the Company	$3,586	$4,165	$3,335	$(579)	(14)%	$830	25%
AUM	$8,444,000	$7,594,000	$8,140,000	$850,000	11%	$(546,000)	(7)%

The Company's Investment Management segment reported net income attributable to the Company of $3.6 million in the year ended December 31, 2012, compared to net income attributable to the Company of $4.2 million in 2011 and $3.3 million in 2010. The $0.6 million, or 14%, decrease in 2012 was primarily due to a decrease in investment management and trust fees and an increase in operating expenses. The decrease in investment management and trust fees while AUM increased was related to timing of the changes in AUM in 2011 and 2012 compared to the timing of client billings.
AUM increased $0.9 billion, or 11%, to $8.4 billion at December 31, 2012 from $7.6 billion at December 31, 2011. In 2012, the increase in AUM was primarily the result of market appreciation of $0.9 billion, partially offset by net outflows.

Wealth Advisory
The following table presents a summary of profits/ (losses), revenues and expenses for the Wealth Advisory segment continuing operations for 2012, 2011, and 2010.

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	As of and for the year ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	% Change	$ Change	% Change
	(In thousands)						
Wealth advisory fees	$37,659	$34,553	$31,733	$3,106	9 %	$2,820	9 %
Other income and net interest income	14	27	23	(13)	(48)%	4	17 %
Total revenues	37,673	34,580	31,756	3,093	9 %	2,824	9 %
Operating expenses	28,001	25,193	23,872	2,808	11 %	1,321	6 %
Income/ (loss) before income taxes	9,672	9,387	7,884	285	3 %	1,503	19 %
Income tax expense/ (benefit)	3,561	3,439	2,942	122	4 %	497	17 %
Noncontrolling interests	1,523	1,421	1,203	102	7 %	218	18 %
Net income/ (loss) attributable to the Company	$4,588	$4,527	$3,739	$61	1 %	$788	21 %
AUM	$8,052,000	$6,994,000	$6,844,000	$1,058,000	15 %	$150,000	2 %

The Company’s Wealth Advisory segment reported net income attributable to the Company of $4.6 million in the year ended December 31, 2012, compared to net income attributable to the Company of $4.5 million in 2011 and $3.7 million in 2010. The $0.1 million, or 1%, increase in 2012 was due to increased wealth advisory fee revenue offset by increased salaries and employee benefits expense and increased professional services expense.

AUM increased $1.1 billion, or 15%, to $8.1 billion at December 31, 2012 from $7.0 billion at December 31, 2011, after increasing $150.0 million, or 2%, from $6.8 billion at December 31, 2010. AUM changes for the Wealth Advisors in 2012 were primarily the result of market appreciation of $0.6 billion and net inflows of $0.5 billion.

The Wealth Advisory segment adds fee income to the Company’s revenue base that is more resistant to fluctuations in market conditions in comparison to the Investment Management segment since financial planning fees are typically less correlated to the equity markets.

Critical Accounting Policies

Critical accounting policies are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that its most critical accounting policies upon which its financial condition depends, and which involve the most complex or subjective decisions or assessments are as follows:

Allowance for Loan and Lease Losses

The allowance for loan losses (“allowance”) is an estimate of the inherent risk of loss in the loan portfolio as of the consolidated balance sheet dates. Management estimates the level of the allowance based on all relevant information available. The allowance is established through the provision for loan losses, which is a direct charge to earnings. Loan losses are charged to the allowance when management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged-off are credited to the allowance when received in cash.

The Company’s allowance is accounted for in accordance with guidance issued by various regulatory agencies, including: the Federal Financial Institutions Examination Council Policy Statement on the Allowance for Loan and Lease Losses (December 2006); SEC Staff Accounting Bulletin No. 102, Selected Loan Loss Methodology and Documentation Issues; the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC”) 310, Receivables (“ASC 310”); and ASC 450, Contingencies.

The allowance consists of three primary components: general reserves on acceptable or pass graded loans, allocated reserves on non-impaired special mention and substandard loans, and the allocated reserves on impaired loans. The allowance involves a high degree of management judgment and estimates, and results in an adequate allowance which is reflective of the inherent risk of loss in the loan portfolio at the measurement date.

General reserves are calculated for each loan pool consisting of acceptable or pass graded loans segregated by portfolio segment, by applying estimated net loss percentages based upon the Bank’s actual historical net charge-offs and, adjusted as appropriate, on a consistent manner based upon consideration of qualitative factors to arrive at a total loss factor for each portfolio segment. The rationale for qualitative adjustments is to more accurately reflect the current inherent risk of loss in

the respective portfolio segments than would be determined through the sole consideration of the Bank's actual historical net charge-off rates. The numerical factors assigned to each qualitative factor are based upon observable data, if applicable, as well as management's analysis and judgment. The qualitative factors considered by the Company include:

- Volume and severity of past due, nonaccrual, and adversely graded loans,
- Volume and terms of loans,
- Concentrations of credit,
- Management's experience, as well as loan underwriting and loan review policy and procedures,
- Economic and business conditions impacting the Bank's loan portfolio, as well as consideration of collateral values, and
- External factors, including consideration of loss factor trends, competition, and legal and regulatory requirements.

The Bank makes an independent determination of the applicable loss rate for these factors based on relevant local market conditions, credit quality, and portfolio mix. Each quarter, the Bank reviews the loss factors to determine if there have been any changes in its loan portfolio, market conditions, or other risk indicators which would result in a change to the current loss factor.

Allocated reserves on non-impaired special mention and substandard loans reflect management's assessment of increased risk of losses associated with these types of graded loans. An allocated reserve is assigned to these pools of loans based upon management's consideration of the credit attributes of individual loans within each pool of loans, including consideration of loan to value ratios, past due status, strength and willingness of the guarantors, and other relevant attributes, including the qualitative factors considered for the general reserve as discussed above. These considerations are determined separately for each type of portfolio segment. The allocated reserves are a multiple of the general reserve for each respective portfolio segments, with a greater multiple for loans with increased risk (i.e., special mention loans versus substandard loans).

A loan (usually a commercial type loan) is considered impaired in accordance with ASC 310 when, based upon current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment is measured based on the fair value of the loan, expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, impairment may be determined based upon the observable market price of the loan, or the fair value of the collateral, less estimated costs to sell, if the loan is "collateral dependent." For collateral dependent loans, appraisals are generally used to determine the fair value. Generally real estate appraisals are updated every 12 to 18 months or sooner, if deemed necessary during periods of declining values, if a loan continues to be impaired. Appraised values are generally discounted for factors such as the Bank's intention to liquidate the property quickly in a foreclosure sale or the date when the appraisal was performed if the Bank believes that collateral values have declined since the date the appraisal was done. The Bank may use a broker opinion of value in addition to an appraisal to validate the appraised value. In certain instances, the Bank may use broker opinions of value while an appraisal is being prepared due to the time constraint generally in obtaining new appraisals.

If the loan is deemed to be collateral dependent, generally the difference between the book balance (client balance less any prior charge-offs or client interest payments applied to principal) and the fair value of the collateral is taken as a partial charge-off through the allowance for loan losses in the current period. If the loan is not determined to be collateral dependent, then a specific allocation is established for the difference between the book balance of the loan and the expected future cash flows discounted at the loan's effective interest rate. Charge-offs for loans not considered to be collateral dependent are made when it is determined a loss has been incurred. Impaired loans are removed from the general loan pools. There may be instances where the loan is considered impaired although based on the fair value of underlying collateral or the discounted expected future cash flows there is no impairment to be recognized. In addition, all loans which are classified as troubled debt restructurings ("TDRs") are considered impaired.

In addition to the three primary components of the allowance for loan losses discussed above (general reserve, allocated reserves on non-impaired special mention and substandard loans, and the allocated reserves on impaired loans), generally the Bank also maintains an insignificant amount of additional allowance for loan losses (the unallocated allowance for loan losses) which primarily relates to a general imprecision assessment of the potential variability of applicable qualitative factors subject to a higher degree of variability. The respective qualitative factors, as discussed above, are considered for each respective portfolio segment. Only the assessment of the potential variability of applicable qualitative factors is included in the unallocated allowance for loan losses. The unallocated allowance for loan losses is not considered significant by the Company.

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While this evaluation process utilizes historical and other objective information, the classification of loans and the establishment of the allowance for loan losses rely to a great extent on the judgment and experience of management. While management evaluates currently available information in establishing the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance for loan losses as well as loan grades/classifications. Such agencies may require the financial institution to recognize additions to the allowance or increases to adversely graded classified loans based on their judgments about information available to them at the time of their examination.

Valuation of Goodwill/Intangible Assets and Analysis for Impairment

The Company allocates the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Other intangible assets identified in acquisitions generally consist of advisory contracts, core deposit intangibles, and non-compete agreements. The value attributed to advisory contracts is based on the time period over which they are expected to generate economic benefits. The advisory contracts are generally amortized over 8-15 years depending on the contract. Core deposit intangibles are valued based on the expected longevity of the core deposit accounts and the expected cost savings associated with the use of the existing core deposit base rather than alternative funding sources. The core deposit intangibles are generally amortized, on an accelerated basis, over a period of 10-12 years. The Company currently has no core deposit intangibles. Non-compete agreements are valued based on the expected receipt of future economic benefits protected by clauses in the non-compete agreements that restrict competitive behavior. Non-compete agreements are amortized over the life of the agreement, generally seven years.

Other intangible assets with definite lives are tested for impairment at the reporting unit level at least annually in the fourth quarter or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. The Company tests other intangible assets with definite lives for impairment by comparing the carrying amount to the sum of the net undiscounted cash flows expected to be generated by the asset whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset exceeds its net undiscounted cash flows, then an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value, determined based upon the discounted value of the expected cash flows generated by the asset. The intangible impairment test is performed at the reporting unit level, and each affiliate is considered a reporting unit for goodwill and intangible impairment testing purposes, if applicable. Intangible assets with an indefinite useful economic life are not amortized, but are subject to impairment testing at the reporting unit on an annual basis, or when events or changes in circumstances indicate that the carrying amounts are impaired.

The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized but is tested for impairment at the reporting unit level, defined as the affiliate level, at least annually in the fourth quarter or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value.

The first step ("Step 1") of impairment testing requires a comparison of each reporting unit's fair value to its carrying value to identify potential impairment. The reporting units fall under one of the three segments: Private Banking, Investment Management, and Wealth Advisory.

For the Private Banking segment, the Company utilizes a market approach to determine fair value. For the market approach, earnings and market capitalization multiples of comparable public companies are selected and applied to the Private Banking reporting unit's applicable metrics.

For the Investment Management and Wealth Advisory segments, the Company utilizes both the income and market approaches to determine fair value. The income approach is primarily based on discounted cash flows derived from assumptions of income statement activity. For the market approach, earnings before interest, taxes, depreciation and amortization ("EBITDA") and revenue multiples of comparable companies are selected and applied to the financial services reporting unit's applicable metrics.

The aggregate fair values are compared to market capitalization as an assessment of the appropriateness of the fair value measurements. A control premium analysis is performed to determine whether the implied control premium was within range of overall control premiums observed in the market place.

The second step ("Step 2") of impairment testing is necessary only if a reporting unit's carrying amount exceeds its fair value. Step 2 compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the reporting unit. The excess goodwill is recognized as an impairment loss.

Income Tax Estimates

The Company accounts for income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). The deferred tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting basis for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets.

In accordance with ASC 740, deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of the tax benefit depends upon the existence of sufficient taxable income within the carry-back and carry-forward periods.

Management considered the following items in evaluating the need for a valuation allowance:

- Cumulative pre-tax income, as adjusted for permanent book-to-tax differences, during the 2010 through 2012 period.
- Deferred tax assets are expected to reverse in periods when there will be taxable income.
- The Company projects sufficient future taxable income to be generated by operations during the available carryforward period.
- Certain tax planning strategies are available, such as reducing investments in tax-exempt securities.
- The Company has not had any operating loss or tax credit carry-overs expiring unused in recent years.

The Company believes that it is more likely than not that the net deferred tax asset will be realized based primarily on the generation of future taxable income, as well as the ability to carry back current taxable income. The net deferred tax asset at December 31, 2012 and 2011 is net of a valuation allowance for capital losses. Capital losses are deductible to the extent of offsetting capital gains and the Company does not anticipate that it will generate capital gains in future periods. Therefore, the Company has recorded a valuation allowance on capital losses in excess of capital gains as of December 31, 2012 and 2011.

Results of Operations

Comparison of Years Ended December 31, 2012, 2011 and 2010

Net Income/ (Loss). The Company recorded net income from continuing operations for the year ended December 31, 2012 of $48.8 million, compared to net income of $36.1 million and a loss of $12.1 million in 2011 and 2010, respectively. Net income attributable to the Company, which includes income/ (loss) from both continuing and discontinued operations, for the year ended December 31, 2012 was $53.3 million, compared to income of $39.1 million and a loss of $11.0 million in 2011 and 2010, respectively.

The Company recognized diluted earnings per share from continuing operations for the ended December 31, 2012 of $0.52 per share, compared to earnings of $0.39 per share and a loss of $0.34 per share in 2011 and 2010, respectively. Diluted earnings per share attributable to common shareholders, which includes both continuing and discontinued operations, for the year ended December 31, 2012 was $0.61 per share, compared to earnings of $0.46 per share and a loss of $0.29 per share in 2011 and 2010, respectively. Net income/ (loss) from continuing operations in 2012, 2011

and 2010 was offset by charges that reduce income available to common shareholders. See Part II. Item 8. “Financial Statements and Supplementary

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Data—Note 16: Earnings Per Share" for further detail on the charges made to arrive at income attributable to the common shareholder.

The Company's 2012 earnings were positively impacted by the credit to the provision for loan losses, an increase in wealth advisory fee revenue, lower interest expense and lower operating expenses. These changes were partially offset by lower interest income and lower gains on sale of OREO.

The Company's 2011 earnings were positively impacted by improving asset quality, as seen in the lower provision for loan losses, improved performance in the fee-based businesses, and improved Holding Company performance. These improvements were partially offset by restructuring expenses due to the merger of the Bank and a decrease in net interest margin due to the interest rate environment.

The Company's 2010 earnings were adversely impacted by the provision for loan losses of $87.2 million and increased operating expenses associated with managing a large portfolio of problematic loans, as well as increased salaries and employee benefits expense, primarily associated with executive transition charges.

The following discussions are based on the Company's continuing operations, unless otherwise stated.

The following table presents selected financial highlights:

	Year ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	%	$ Change	%
	(In thousands)						
Net interest income	$183,276	$178,954	$180,760	$4,322	2%	$(1,806)	(1)%
Provision/ (credit) for loan losses	(3,300)	13,160	87,178	(16,460)	nm	(74,018)	(85)%
Fees and other income:							
Investment management and trust fees	62,808	63,356	60,199	(548)	(1)%	3,157	5%
Wealth advisory fees	37,659	34,553	31,733	3,106	9%	2,820	9%
Other banking fee income	5,664	6,503	6,869	(839)	(13)%	(366)	(5)%
Gain on sale of loans, net	3,225	2,489	5,249	736	30%	(2,760)	(53)%
Other income	5,006	11,540	1,578	(6,534)	(57)%	9,962	nm
Total fees and other income	114,362	118,441	105,628	(4,079)	(3)%	12,813	12%
Expenses:							
Operating expenses	225,939	225,799	230,828	140	—%	(5,029)	(2)%
Restructuring expense	5,911	8,055	—	(2,144)	(27)%	8,055	nm
Total operating expenses	231,850	233,854	230,828	(2,004)	(1)%	3,026	1%
Income/ (loss) before income taxes	69,088	50,381	(31,618)	18,707	37%	81,999	nm
Income tax expense/ (benefit)	20,330	14,280	(19,491)	6,050	42%	33,771	nm
Net income/ (loss) from continuing operations	48,758	36,101	(12,127)	12,657	35%	48,228	nm
Net income from discontinued operations	7,635	6,184	3,743	1,451	23%	2,441	65%
Less: Net income attributable to noncontrolling interests	3,122	3,148	2,586	(26)	(1)%	562	22%
Net income/ (loss) attributable to the Company	$53,271	$39,137	$(10,970)	$14,134	36%	$50,107	nm

nm - not meaningful

Net Interest Income and Margin

Net interest income represents the difference between interest earned, primarily on loans and investments, and interest paid on funding sources, primarily deposits and borrowings. Interest rate spread is the difference between the average rate earned on total interest-earning assets and the average rate paid on total interest-bearing liabilities. Net interest margin ("NIM") is the amount of net interest income, on a fully taxable-equivalent ("FTE") basis, expressed as a percentage of average interest-earning assets. The average rate earned on earning assets is the amount of annualized taxable equivalent interest

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income expressed as a percentage of average earning assets. The average rate paid on interest-bearing liabilities is equal to annualized interest expense as a percentage of average interest-bearing liabilities. When credit quality declines and loans are placed on nonaccrual status, NIM can decrease because the same assets are earning less income. Loans that are graded substandard but are still accruing interest income of $90.1 million at December 31, 2012 could be placed on nonaccrual status if their credit quality declines further.

Net interest income for the year ended December 31, 2012 was $183.3 million, an increase of $4.3 million, or 2%, compared to 2011, after a decrease of $1.8 million, or 1%, from 2010 to 2011. The increase for the year is due to recovery of nonaccrual interest income, prepayment penalties, increase in volume of the loan portfolio and lower average rates paid on the Company's deposits and borrowings. These factors were partially offset by lower average yields on loans. The NIM was 3.22%, 3.25%, and 3.30% for the years ended December 31, 2012, 2011, and 2010, respectively.

The following tables present the composition of the Company's NIM on a FTE basis for the years ended December 31, 2012, 2011, and 2010; however, the discussion following these tables reflects non-FTE data.

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(In Thousands)	Year Ended December 31, Average Balance			Interest Income/ Expense (3)			Average Yield/ Rate (3)		
AVERAGE BALANCE SHEET:	2012	2011	2010	2012	2011	2010	2012	2011	2010
AVERAGE ASSETS	(In thousands)								
Interest-Earning Assets:									
Cash and Investments (1):									
Taxable investment securities	$297,646	$377,812	$290,677	$3,875	$5,561	$6,126	1.30 %	1.47 %	2.11 %
Non-taxable investment securities (2)	192,913	191,513	194,119	5,038	5,764	7,827	2.61 %	3.01 %	4.04 %
Mortgage-backed securities	266,114	236,435	237,540	6,186	7,297	8,086	2.32 %	3.09 %	3.40 %
Federal funds sold and other	239,371	446,953	530,741	719	1,069	1,306	0.30 %	0.24 %	0.25 %
Total Cash and Investments	996,044	1,252,713	1,253,077	15,818	19,691	23,345	1.59 %	1.57 %	1.86 %
Loans: (3)									
Commercial and Construction (2)	2,706,444	2,399,402	2,567,009	134,755	130,441	144,402	4.98 %	5.44 %	5.63 %
Residential	1,962,192	1,761,736	1,595,056	71,664	75,071	76,940	3.65 %	4.26 %	4.82 %
Home Equity and Other Consumer	290,680	312,507	286,044	9,435	11,697	12,532	3.25 %	3.74 %	4.38 %
Total Loans	4,959,316	4,473,645	4,448,109	215,854	217,209	233,874	4.35 %	4.86 %	5.26 %
Total Earning Assets	5,955,360	5,726,358	5,701,186	231,672	236,900	257,219	3.89 %	4.14 %	4.51 %
Less: Allowance for Loan Losses	97,094	100,483	81,393						
Cash and due from Banks (non-interest bearing)	56,022	58,349	30,375						
Other Assets (4)	424,278	417,893	488,860						
TOTAL AVERAGE ASSETS	$6,338,566	$6,102,117	$6,139,028						
AVERAGE LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS’ EQUITY									
Interest-Bearing Liabilities:									
Deposits (5):									
Savings and NOW	$500,084	$517,659	$555,244	$827	$1,375	$2,029	0.17 %	0.27 %	0.37 %

Money Market	2,189,344	1,898,999	1,701,772	8,777	10,524	15,223	0.40 %	0.55 %	0.89 %
Certificates of Deposits	810,590	1,027,347	1,316,818	8,036	12,580	19,518	0.99 %	1.22 %	1.48 %
Total Deposits	3,500,018	3,444,005	3,573,834	17,640	24,479	36,770	0.50 %	0.71 %	1.03 %
Junior Subordinated Debentures	167,786	190,473	193,645	6,258	7,434	10,028	3.73 %	3.90 %	5.18 %
FHLB Borrowings and Other	663,165	656,772	648,226	16,114	18,875	22,414	2.43 %	2.87 %	3.46 %
Total Interest-Bearing Liabilities	4,330,969	4,291,250	4,415,705	40,012	50,788	69,212	0.92 %	1.18 %	1.57 %
Noninterest Bearing Demand Deposits	1,304,514	1,141,563	1,025,431						
Payables and Other Liabilities (4)	103,271	109,970	104,836						
Total Average Liabilities	5,738,754	5,542,783	5,545,972						
Redeemable Noncontrolling Interests	19,822	21,018	20,175						
Average Shareholders' Equity	579,990	538,316	572,881						
TOTAL AVERAGE LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' EQUITY	$6,338,566	$6,102,117	$6,139,028						
Net Interest Income - on a FTE Basis				$191,660	$186,112	$188,007			
FTE Adjustment (2)				8,384	7,158	7,247			
Net Interest Income (GAAP Basis)				$183,276	$178,954	$180,760			
Interest Rate Spread							2.97 %	2.96 %	2.94 %
Net Interest Margin							3.22 %	3.25 %	3.30 %

(1) Investments classified as available for sale are shown in the average balance sheet at amortized cost.

(2) Interest income on non-taxable investments and loans is presented on a FTE basis using statutory rates. The discussion following these tables reflects non-FTE data, except where noted.

(3) Includes loans held for sale and nonaccrual loans.

(4) Includes assets and liabilities of discontinued operations, if any.

(5) Includes deposits held for sale.

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Rate/Volume Analysis

The following table describes the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volumes (changes in average balance multiplied by prior year average rate) and (ii) changes attributable to changes in rate (change in average interest rate multiplied by prior year average balance), while (iii) changes attributable to the combined impact of volumes and rates have been allocated proportionately to separate volume and rate categories. Changes in rate are presented on a non-FTE basis in the table below.

	2012 vs. 2011 Change Due To			2011 vs. 2010 Change Due To		
	Rate	Volume	Total	Rate	Volume	Total
	(In thousands)					
Interest income on interest-earning assets:						
Cash and investments (1)	$(77)	$(3,610)	$(3,687)	$(2,940)	$(6)	$(2,946)
Loans:						
Commercial and construction (1)	(12,266)	15,168	2,902	(5,681)	(8,899)	(14,580)
Residential mortgage	(11,408)	8,001	(3,407)	(9,466)	7,597	(1,869)
Home equity and other consumer loans	(1,483)	(779)	(2,262)	(1,928)	1,093	(835)
Total interest income	(25,234)	18,780	(6,454)	(20,015)	(215)	(20,230)
Interest expense on interest-bearing liabilities:						
Deposits:						
Savings and NOW	$(502)	$(46)	$(548)	$(525)	$(129)	$(654)
Money market	(3,198)	1,451	(1,747)	(6,306)	1,607	(4,699)
Certificates of deposit	(2,155)	(2,389)	(4,544)	(3,064)	(3,874)	(6,938)
Borrowed funds	(3,439)	(498)	(3,937)	(6,339)	206	(6,133)
Total interest expense	(9,294)	(1,482)	(10,776)	(16,234)	(2,190)	(18,424)
Net interest income	$(15,940)	$20,262	$4,322	$(3,781)	$1,975	$(1,806)

(1) Interest income on non-taxable investments and loans is presented on a non-FTE basis in this Rate-Volume table. The discussion following this table also reflects non-FTE data, except where noted.

Net Interest Income. Net interest income increased 2% from 2011 to 2012, after decreasing 1% from 2010 to 2011. The increase in 2012 was primarily due to lower interest expense due to lower rates and volume. The decline in net interest income in 2011 is primarily due to the low interest rate environment which has compressed the Company's net interest margin, the mix of the loan portfolio to lower risk and lower rate residential loans, and lower loan growth than in recent years. These changes are discussed in more detail below.

The Company's net interest margin, on a FTE basis, decreased 3 basis points to 3.22% in 2012 from 3.25% in 2011, after decreasing 5 basis points in 2011 from 3.30% in 2010. The decrease in the Company's net interest margin in 2012 and 2011 is primarily related to the lower interest rates earned on loans and investments as borrowers refinance at lower current market rates and maturing investments are reinvested at lower current market rates as well as the mix in the loan portfolio. Due to the already low market rates on deposits and borrowings, the decline in interest rates on loans and investments cannot be completely offset by lower cost of funds.

Interest and Dividend Income. Interest and dividend income for the year ended December 31, 2012 was $223.3 million, a decrease of $6.5 million, or 3%, compared to 2011, after a decrease of $20.2 million, or 8%, in 2011 from

2010. The decreases are primarily due to lower loan yields in both 2012 and 2011, partially offset in 2012 by increased loan volume. Included in interest and dividend income is the amortization of loan fees, (net of deferred costs), of $(0.2) million, $(0.5) million, and $(0.4) million for the years ended December 31, 2012, 2011, and 2010, respectively.

The Bank generally has interest income that is either recovered or reversed related to nonaccruing loans each quarter. Based on the net amount recovered or reversed, the impact on interest income and related yields can be either positive or negative. In addition, the Bank collects prepayment penalties on certain commercial loans that pay off prior to maturity

which could also impact interest income and related yields positively. The amount and timing of prepayment penalties varies from quarter to quarter.

Interest income on commercial loans (including construction loans), on a non-FTE basis, for the year ended December 31, 2012 was $128.2 million, an increase of $2.9 million, or 2%, compared to 2011, after decreasing $14.6 million, or 10%, in 2011 from 2010. The 2012 increase is primarily the result of a 13% increase in average balance, partially offset by a 48 basis point decrease in average yield. The 2011 decrease is primarily the result of a 7% decrease in average balance and a 23 basis point decrease in average yield. The 2012 increase in the average balance is related to the organic growth of the commercial loan portfolio at the Bank, as discussed below in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio and Credit Quality." The 2012 decrease in the average yield is the result of market conditions leading to lower rates due to competition for higher quality loans and lower client demand. The 2011 decrease in the average balance of commercial and construction loans is primarily the result of lower demand for commercial loans due to economic conditions and the competition for high quality new commercial loans. In addition, in 2011, the Bank reduced the amount of new construction and land loan originations and focused more on residential loans. The 2011 decrease in the average yields on commercial loans is the result of market conditions leading to lower rates due to the competition for high quality loans and lower client demand.

Interest income on residential mortgage loans for the year ended December 31, 2012 was $71.7 million, a decrease of $3.4 million, or 5%, compared to 2011, after decreasing $1.9 million, or 2%, in 2011 from 2010. The 2012 decrease is primarily the result of a 61 basis point decrease in average yield, partially offset by an 11% increase in average balance. The 2011 decrease is primarily the result of a 56 basis point decrease in average yield, partially offset by a 10% increase in average balance. The 2012 and 2011 decreases in the average yields are primarily due to adjustable rate mortgage ("ARM") loans repricing to lower rates, clients refinancing into lower rates and new loan originations at historically low rates. The decline in U.S. Treasury yields and LIBOR, the indexes to which the ARMs are typically linked, has decreased the yields on these mortgage loans. The 2012 and 2011 increases in the average balances are due to the organic growth of the residential loan portfolio at the Bank.

Interest income on home equity and other consumer loans for the year ended December 31, 2012 was $9.4 million, a decrease of $2.3 million, or 19%, compared to 2011, after decreasing $0.8 million, or 7%, in 2011 from 2010. The 2012 decrease is primarily the result of a 49 basis point decrease in average yield and a 7% decrease in average balance. The 2011 decrease is primarily the result of a 64 basis point decrease in average yield, partially offset by a 9% increase in average balance. The 2012 and 2011 decreases in average yield are primarily due to lower market rates on consumer loans. The 2012 and 2011 decrease and increase, respectively, in average balances are primarily due to changes in average balances in consumer loans, which typically vary depending on client demand.

Investment income, on a non-FTE basis, for the year ended December 31, 2012 was $14.0 million, a decrease of $3.7 million, or 21%, compared to 2011, after decreasing $2.9 million, or 14%, in 2011 from 2010. The 2012 decrease is primarily the result of a 20% decrease in average balance, while the average yield remained flat. The 2011 decrease is primarily the result of a 24 basis point decrease in average yield, with no change in average balance. The decrease in the average balance in 2012 is primarily due to timing and volume of deposit balances as compared to the level of loans outstanding. The decline in the average yields in 2011 is primarily due to lower yields on short-term liquid investments such as U.S. Treasury and Agency securities as well as longer term mortgage-backed securities and municipals. Investment decisions are made based on anticipated liquidity, loan demand, and asset-liability management considerations.

Interest expense. Interest expense on deposits and borrowings for the year ended December 31, 2012 was $40.0 million, a decrease of $10.8 million, or 21%, compared to 2011, after decreasing $18.4 million, or 27%, in 2011 from 2010.

Interest expense on deposits for the year ended December 31, 2012 was $17.6 million, a decrease of $6.8 million, or 28%, compared to 2011, after decreasing $12.3 million, or 33%, in 2011 from 2010. The 2012 decrease is primarily

the result of a 21 basis point decrease in average rate, partially offset by a 2% increase in average balance. The 2011 decrease is primarily the result of a 32 basis point decrease in average rate and a 4% decrease in average balance. While 2012 and 2011 average rates declined in all three categories of deposits, the average balance increase was only experienced in money market accounts whereas savings accounts and certificates of deposit experienced decreases in average balance. The 2012 and 2011 decreases in the average rates paid are primarily due to the Bank’s ability to lower interest rates on money market accounts and certificates of deposit due to the low interest rate environment.

Interest paid on borrowings for the year ended December 31, 2012 was $22.4 million, a decrease of $3.9 million, or 15%, compared to 2011, after decreasing $6.1 million, or 19%, in 2011 from 2010. The 2012 decrease is primarily the result of a 42 basis point decrease in average rate as well as a 2% decrease in average balance. The 2011 decrease is primarily the result of a 74 basis point decrease in average rate, partially offset by a 1% increase in average balance. The 2012 and 2011 decreases in the average rate paid are primarily due to the higher-rate FHLB borrowings maturing and being replaced with current lower rates, and the repurchase of a portion of the Company's junior subordinated debt.

Provision/ (credit) for loan losses. For the year ended December 31, 2012, the provision/ (credit) for loan losses was a credit of $3.3 million, compared to provisions of $13.2 million and $87.2 million in 2011 and 2010, respectively. The 2012 credit to the provision for loan losses was primarily due to reductions in criticized loans; lower loan charge-offs, net of recoveries, of $8.9 million; the fourth quarter 2012 sale of approximately $109.9 million of residential loans; and the fourth quarter announcement of the Pacific Northwest transaction. These reductions were partially offset by 2012 loan growth. In December 2012, the Bank announced plans to sell its three offices in the Pacific Northwest market, and $276.7 million in loans related to those offices were classified as held for sale as of December 31, 2012. As a result of this transfer to held for sale at the loans' carrying amounts, a credit of $4.7 million was recorded to the allowance for loan losses. The decline in the 2011 provision from 2010 reflected the improved asset quality during 2011, lower charge-offs, the change in mix in the loan portfolio toward more residential loans, and lower loan growth. The loan loss provision was elevated in 2010 due to the adverse credit issues experienced primarily in the San Francisco Bay market.

The provision/ (credit) for loan losses is determined as a result of the required level of the allowance for loan losses, estimated by management, which reflects the inherent risk of loss in the loan portfolio as of the balance sheet dates. The factors used by management to determine the level of the allowance for loan losses include the trends in problem loans, economic and business conditions, strength of management, real estate collateral values, and underwriting standards. For further details, see Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio and Credit Quality" below.

Fees and other income. For the year ended December 31, 2012, fees and other income was $114.4 million, a decrease of $4.1 million, or 3%, compared to 2011, after an increase of $12.8 million, or 12%, from 2010 to 2011. The 2012 decrease is primarily due to lower level of gains recognized in 2012 compared to 2011 from the sale of OREO and the repurchase of debt, and decreases in investment management and trust fees and other income, partially offset by the increase in wealth advisory fees and in gains on sale of loans. The 2011 increase is attributable to increases in investment management and wealth advisory fees, the 2011 gain on the repurchase of debt, and gain on sale of OREO.

Investment management and trust fee income for the year ended December 31, 2012 was $62.8 million, a decrease of $0.5 million, or 1%, compared to 2011. AUM at the Bank and Investment Managers increased $1.2 billion, or 11%, in the past twelve months to $12.4 billion at December 31, 2012. $1.0 billion of the increase is due to market, with the remaining $0.2 billion due to positive net flows. Investment management and trust fees from the Bank and Investment Managers are typically calculated based on a percentage of AUM. Changes in revenue generally lag behind changes in AUM. The decrease in investment management and trust fees while AUM increased was related to timing of the changes in AUM in 2011 and 2012 compared to the timing of client billings. The AUM decreases in the second half of 2011 negatively impacted revenue in the first two quarters of 2012.

Wealth advisory fee income for the year ended December 31, 2012 was $37.7 million, an increase of $3.1 million, or 9%, compared to 2011, after an increase of $2.8 million, or 9% from 2010 to 2011. AUM as of December 31, 2012, managed by the Wealth Advisors was $8.1 billion, an increase of $1.1 billion, or 15%, compared to December 31, 2011. AUM changes for the Wealth Advisors in 2012 were primarily the result of market appreciation of $0.6 billion and net inflows of $0.5 billion. AUM changes for the Wealth Advisors in 2011 were primarily the result of net inflows of $0.2 billion, partially offset by market depreciation of $0.1 billion.

Gain on sale of loans for the year ended December 31, 2012 was $3.2 million, an increase of $0.7 million, or 30%, compared to 2011, after decreasing $2.8 million, or 53%, from 2010 to 2011. During 2012, in addition to its regular practice of originating certain loans with the intent of immediately selling them, the Company sold $108.7 million of residential loans from its loan portfolio, recognizing a $0.9 million gain on sale. The 2011 decrease is attributable to the larger than normal gain on sale of loans in 2010 related to the sale of a special portfolio of non-strategic loans.
Gain on repurchase of debt for the year ended December 31, 2012 was $3.4 million, a decrease of $0.8 million, or 19%, compared to 2011, while there was no gain on repurchase of debt in 2010. During 2012, the Company repurchased $38.4 million of its junior subordinated debt, compared to the repurchase of $11.6 million in 2011. The weighted-average discount on the repurchases was 12.1% in 2012 compared to 39.7% in 2011. The Company did not repurchase any debt during 2010. The Company used available cash on hand to repurchase the securities.

Gain/ (loss) on sale of OREO for the year ended December 31, 2012 was a gain of $0.8 million, a decrease of $4.5 million, or 84%, compared to 2011, after an $8.2 million increase from the loss on sale of OREO in 2010 to the gain in 2011. OREO properties are recorded at the lower of the recorded investment in the loan at the time of acquisition or the fair value, as established by a current appraisal, comparable sales, and other estimates of value obtained principally from independent sources, less estimated costs to sell. The 2011 net gain was due to net gains on sales of OREO properties of $6.5 million, partially offset by $1.1 million in valuation allowances taken on properties in OREO during the year. In 2011, the Bank was able to sell the majority of the OREO properties at gains compared to the carrying values as a result of the stabilization of real estate values, waiting for buyers at fair value versus selling quickly in a liquidation sale at distressed prices, and in some cases increasing the value of properties by locating tenants for the unleased space. As credit quality of the overall loan portfolio improves, fewer properties move into OREO upon foreclosure.

Total Operating Expense. Total operating expense for the year ended December 31, 2012 was $231.9 million, a decrease of $2.0 million, or 1%, compared to 2011, after an increase of $3.0 million, or 1%, from 2010 to 2011. Included in operating expense are restructuring expenses of $5.9 million for the year ended December 31, 2012, compared to $8.1 million in 2011. Excluding the restructuring, operating expense for the year ended December 31, 2012 was flat when compared to 2011, after a decrease of $5.0 million, or 2%, from 2010 to 2011.

Salaries and employee benefits expense, the largest component of operating expense, for the year ended December 31, 2012 was $143.9 million, an increase of $1.0 million, or 1%, compared to 2011, after an increase of $3.8 million, or 3%, from 2010 to 2011. The increase in 2012 is primarily due to increased sales personnel and performance- and commission-based compensation, partially offset by efficiencies resulting from the Bank merger. The increase in 2011 is primarily due to increased variable compensation related to the attainment of performance targets, and increases in equity compensation.

Professional services expense for the year ended December 31, 2012 was $13.1 million, a decrease of $3.7 million, or 22%, compared to the same period in 2011 after a decrease of $2.5 million, or 13%, from 2010 to 2011. The decreases in 2012 and 2011 were primarily due to decreases in legal services for general corporate and loan workout matters, as well as decreases in 2012 director and audit fees as a result of the Bank merger.

Occupancy and equipment expense for the year ended December 31, 2012 was $30.8 million, an increase of $1.1 million, or 4%, compared to 2011, after an increase of $2.3 million, or 8%, from 2010 to 2011. The increases in 2012 and 2011 are primarily related to new offices opened by the Bank in the past two years as well as a new office opened in 2011 by KLS in California.

FDIC insurance expense for the year ended December 31, 2012 was $4.0 million, a decrease of $2.2 million, or 35%, compared to 2011, after a decrease of $2.5 million, or 29%, in 2011 from 2010. The decreases in 2012 and 2011 are primarily due to the consolidation of the Bank charters and the change in the FDIC’s assessment rate methodology, which was effective April 1, 2011, and a lower assessment rate in 2012. The current FDIC insurance rates depend on a combination of CAMELs component ratings, profitability, credit quality, and the Tier I leverage ratio. See Part I. Item 1. “Business -Supervision and Regulation - Regulation of the Bank” for further detail.

Other expense for the year ended December 31, 2012 was $17.0 million, an increase of $3.0 million, or 21%, compared to 2011, after a decrease of $5.4 million, or 28%, from 2010 to 2011. The 2012 increase is primarily due to $2.1 million in prepayment penalties recognized in 2012 and the 2011 credit to the provision for off balance sheet loan commitments of $1.6 million. The Company prepaid certain repurchase agreements and FHLB borrowings in 2012 in order to manage its cost of funds as the declining yields on interest earning assets continue to compress NIM. The 2011 decrease was primarily due to the 2011 credit to the provision for off balance sheet loan commitments of $1.6 million and the 2010 legal settlement costs of $2.5 million.

Income Tax Expense/ (Benefit). Income tax expense/ (benefit) for continuing operations for the year ended December 31, 2012 was an expense of $20.3 million. The effective tax rate for continuing operations for the year ended December 31, 2012 was 29.4%, compared to effective tax rates of 28.3% and 61.7% in 2011 and 2010, respectively.

The effective tax rate and expense for 2012, 2011, and 2010 are not consistent primarily due to earnings from tax-exempt investments, non-deductible compensation, state and local taxes, income tax credits and income attributable to noncontrolling interest. These factors each have a different impact on the effective tax rate due primarily to the variable levels of income or loss before taxes in years 2012, 2011, and 2010. See Part II. Item 8. “Financial Statements and Supplementary Data - Note 17: Income Taxes” for further detail.

Net Income/ (Loss) from Discontinued Operations. Net income/ (loss) from discontinued operations for the year ended December 31, 2012, was $7.6 million, an increase of $1.5 million, or 23%, compared to 2011, after an increase of $2.4 million, or 65%, from 2010 to 2011. The 2012 increase is primarily due to additional revenue received from affiliates divested in 2012 and in 2009 as part of the negotiated sale agreements. The 2011 increase is primarily due to a full year of revenue

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recognized in 2011, as compared to 2010 when the first continuing payments from the 2009 sales were not recognized until the second quarter of 2010 due to contractual holdback periods.

Financial Condition

Condensed Consolidated Balance Sheets and Discussion

	December 31,		$	%
	2012	2011	Change	Change
	(In thousands)			
Assets:				
Total cash and investments	$1,050,025	$1,091,564	$(41,539)	(4)%
Loans held for sale	308,390	12,069	296,321	nm
Total loans	4,814,136	4,651,228	162,908	4%
Less: allowance for loan losses	84,057	96,114	(12,057)	(13)%
Net loans	4,730,079	4,555,114	174,965	4%
Goodwill and intangible assets	135,054	138,749	(3,695)	(3)%
Other assets	241,457	251,876	(10,419)	(4)%
Total assets	$6,465,005	$6,049,372	$415,633	7%
Liabilities and Equity:				
Deposits	$4,885,059	$4,530,411	$354,648	8%
Deposits held for sale	194,084	—	194,084	nm
Total borrowings	668,087	834,671	(166,584)	(20)%
Other liabilities	95,386	96,474	(1,088)	(1)%
Total liabilities	5,842,616	5,461,556	381,060	7%
Redeemable noncontrolling interests	19,287	21,691	(2,404)	(11)%
Total shareholders' equity	603,102	566,125	36,977	7%
Total liabilities, redeemable noncontrolling interests and shareholders' equity	$6,465,005	$6,049,372	$415,633	7%

nm - not meaningful

Total Assets. Total assets increased $415.6 million, or 7%, to $6.5 billion at December 31, 2012 from $6.0 billion at December 31, 2011. This increase was due to increases in loans and deposits, slightly offset by decreases in cash and investments and borrowings.

Cash and Investments. Total cash and investments (consisting of cash and cash equivalents, investment securities, and stock in the FHLBs) decreased $41.5 million, or 4%, to $1.1 billion, or 16% of total assets at December 31, 2012 from $1.1 billion, or 18% of total assets at December 31, 2011. The decrease was due to the $145.2 million, or 17%, decrease in investment securities, partially offset by the $105.4 million, or 52%, increase in cash and cash equivalents. The changes in cash and investments are the net result of short-term fluctuations in liquidity due to changes in levels of deposits, borrowings and loans outstanding.

The majority of the investments held by the Company are held by the Bank. The Bank's investment policy requires management to maintain a portfolio of securities which will provide liquidity necessary to facilitate funding of loans, to cover deposit fluctuations, and to mitigate the Bank's overall balance sheet exposure to interest rate risk, while at the same time earning a satisfactory return on the funds invested. The securities in which the Bank may invest are subject to regulation and are generally limited to securities that are considered "investment grade."

Investment maturities, principal payments, and sales of the Company's available for sale securities provided $0.5 billion of cash proceeds during the year ended December 31, 2012, which was used to purchase new investments or

fund a portion of loan growth. The timing of sales and reinvestments is based on various factors, including management's evaluation of interest rate trends, credit risk, and the Company's liquidity. The sale of investments resulted in a recognized net gain for the year ended December 31, 2012 of $0.9 million, due primarily to changes in interest rates, the majority of which were previously recorded in unrealized gains within other comprehensive income. The Company's available for sale investment portfolio carried a total of $9.9 million of unrealized gains and $1.1 million of unrealized losses at December 31, 2012, compared to $11.7 million of unrealized gains and $0.6 million of unrealized losses at December 31, 2011. For information regarding the weighted average yield and maturity of investments, see Part II. Item 8. "Financial Statements and Supplementary Data—Note 4: Investment Securities."

No impairment losses were recognized through earnings related to available for sale securities during the year ended December 31, 2012 and 2011. The amount of investment securities in an unrealized loss position greater than 12 months as well as the total amount of unrealized losses was not significant and was primarily due to movements in interest rates since the securities were purchased. At December 31, 2012, the Company had no intent to sell any securities in an unrealized loss position at December 31, 2012 and it is not more likely than not that the Company would be forced to sell any of these securities prior to the full recovery of all unrealized losses.

The following table summarizes the Company's carrying value (fair value) of available for sale investments and carrying value (amortized cost) of held to maturity investments at the dates indicated:

	December 31,		
	2012	2011	2010
	(In thousands)		
Available for sale:			
U.S. government and agencies	$2,753	$4,602	$81,402
Government-sponsored entities	155,002	379,423	263,599
Corporate bonds	—	4,912	18,816
Municipal bonds	210,984	200,675	194,048
Mortgage-backed securities (1)	317,927	254,344	234,257
Other	12,634	540	3,316
Total available for sale	$699,300	$844,496	$795,438
Held to maturity:			
U.S. government and agencies	$—	$—	$—
Government-sponsored entities	—	—	—
Other	—	—	500
Total held to maturity	$—	$—	$500

(1) All mortgage-backed securities are guaranteed by U.S. government agencies or Government-sponsored entities.

Loans held for sale. Loans held for sale increased $296.3 million to $308.4 million at December 31, 2012 from $12.1 million at December 31, 2011. Within loans held for sale on the consolidated balance sheet, $276.7 million of the balance at December 31, 2012 relates to the announced sale of the three Pacific Northwest offices. Excluding the loans held for sale related to the Pacific Northwest transaction, loans held for sale increased $19.6 million from 2011 to 2012. The balance of loans held for sale is usually related to the timing and volume of residential loans originated for sale and the ultimate sale transaction which is typically executed within a short-time following the loan origination. Additionally, during 2012 the Bank sold $108.7 million of residential loans that had been held in the loan portfolio. The decision to sell these residential loans was made to improve the Bank's liquidity and capital position as well as to give the Bank additional flexibility for more profitable and strategic future lending opportunities.

Goodwill and intangible assets, net. Goodwill and intangible assets decreased $3.7 million, or 3%, to $135.1 million at December 31, 2012 from $138.7 million at December 31, 2011. The decrease is due primarily to the amortization of intangible assets, partially offset by additional mortgage servicing rights added during 2012. The Company tests goodwill for impairment on an annual basis and between annual dates if events or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value, in accordance with ASC 350, Intangibles-Goodwill and Other. Management performed its annual goodwill impairment testing in the fourth quarter of 2012 and concluded at December 31, 2012 that there was no impairment, nor were there any triggering events during the year ended December 31, 2012.

Other. Other assets, consisting of OREO, premises and equipment, fees receivable, accrued interest receivable, deferred income taxes, net, other assets, and assets of discontinued operations if any, decreased $10.4 million, or 4%, to $241.5 million at December 31, 2012 from $251.9 million at December 31, 2011. The decrease is primarily due to

the sale of DTC, the assets of which were included in discontinued operations at December 31, 2011, and decreases in deferred income taxes, net, premises and equipment, and OREO, partially offset by increases in other assets.
OREO decreased $1.5 million, or 29%, to $3.6 million at December 31, 2012 from $5.1 million at December 31, 2011. The decrease is primarily due to sales of OREO properties and write-downs, partially offset by new loans transitioning into OREO.

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Deferred income taxes, net decreased $4.5 million, or 7%, to $62.2 million at December 31, 2012 from $66.8 million at December 31, 2011. The decrease is primarily due to a decline in the gross deferred tax assets for tax credit carryforwards, and goodwill and acquired intangible assets, partially offset by an increase in the gross deferred tax asset for the allowance for loan losses. At December 31, 2012, no valuation allowance on the net deferred tax asset was required, other than for capital losses, due primarily to the expectation of future taxable income, the ability to carry back current taxable income, and the availability of historical taxable income.

Other assets, which consist primarily of Bank-owned life insurance ("BOLI"), prepaid expenses, investment in partnerships, unrealized gains from interest rate derivatives, and other receivables, increased $9.9 million, or 9%, to $125.0 million at December 31, 2012 from $115.1 million at December 31, 2011. The increase is primarily due to increases in BOLI and other investments, as well as the classification of certain assets associated with the Pacific Northwest offices as held for sale at December 31, 2012 of approximately $3.2 million. These changes were partially offset by the decrease in taxes payable and amortization of prepaid FDIC insurance.

Deposits. Total deposits increased $354.6 million, or 8%, to $4.9 billion, at December 31, 2012 from $4.5 billion at December 31, 2011. Deposits are the principal source of the Bank's funds for use in lending, investments, and liquidity. Certificates of deposits represented approximately 14% and 20% of total deposits at December 31, 2012 and December 31, 2011, respectively. See Part II. Item 8. "Financial Statements and Supplementary Data—Note 10: Deposits" for further information.

The following table sets forth the average balances and interest rates paid on the Bank's deposits:

	Year Ended December 31, 2012		
	Average Balance	Average Rate	
	(In thousands)		
Noninterest bearing deposits:			
Checking accounts	$1,304,514	—	%
Interest bearing deposits:			
Savings and NOW	500,084	0.17	%
Money market	2,189,344	0.40	%
Certificates of deposit	810,590	0.99	%
Total interest bearing deposits	$3,500,018	0.50	%
Total deposits (1)	$4,804,532	0.33	%

(1) Deposit average balances include deposits held for sale.

Certificates of deposit in denominations of $100,000 or greater had the following schedule of maturities:

	December 31,	
	2012	2011
	(In thousands)	
Less than 3 months remaining	$169,104	$308,430
3 to 6 months remaining	130,108	167,083
6 to 12 months remaining	110,685	163,911
More than 12 months remaining	46,988	54,955
Total (1)	$456,885	$694,379

(1) Maturities of certificates of deposit do not include deposits held for sale.

Deposits held for sale. Deposits held for sale of $194.1 million at December 31, 2012 consisted of deposits associated with the Pacific Northwest offices. In December 2012, the Bank announced plans to sell its three offices in the Pacific Northwest market. The sale of these deposits will not have a significant impact on operating results in 2013.

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Borrowings. Total borrowings (consisting of securities sold under agreements to repurchase, FHLB borrowings, and junior subordinated debentures) decreased $166.6 million, or 20%, to $0.7 billion at December 31, 2012 from $0.8 billion at December 31, 2011.

FHLB borrowings decreased $113.7 million, or 22%, to $408.1 million at December 31, 2012 from $521.8 million at December 31, 2011. FHLB borrowings are generally used to provide additional funding for loan growth when it is in excess of deposit growth and to manage interest rate risk, but can also be used as an additional source of liquidity for the Bank. During the second half of 2012, the Company prepaid $100.0 million of FHLB borrowings and incurred related prepayment penalties of approximately $1.6 million. The purpose of these transactions was to actively manage the cost of funds as the declining yields on interest earning assets continue to compress NIM.

Repurchase agreements decreased $14.5 million, or 11%, to $116.3 million at December 31, 2012 from $130.8 million at December 31, 2011. The decrease is primarily due to the timing of a fourth quarter 2012 prepayment of $20.0 million in term repurchase agreements for which the Company incurred related prepayment penalties of approximately $0.5 million. The purpose of these transactions was to actively manage the cost of funds as the declining yields on interest earning assets continue to compress NIM. Repurchase agreements are generally linked to commercial demand deposit accounts with an overnight sweep feature.

During 2012, the Company repurchased $38.4 million of its junior subordinated debt, and recognized $3.4 million in gains on these repurchases.

Other. Other liabilities, consisting of liabilities of discontinued operations and other liabilities decreased $1.1 million, or 1%, to $95.4 million at December 31, 2012 from $96.5 million at December 31, 2011.

Liabilities of discontinued operations decreased $1.7 million, or 100%, to none at December 31, 2012 from $1.7 million at December 31, 2011. The decrease is due to the sale of DTC during the second quarter of 2012.

Loan Portfolio and Credit Quality

Loans. Total portfolio loans increased $162.9 million, or 4%, to $4.8 billion, or 74% of total assets, at December 31, 2012, from $4.7 billion, or 77% of total assets, at December 31, 2011. Increases in commercial and industrial loans of $128.3 million, or 19%, residential loans of $82.7 million, or 5%, and commercial real estate loans of $13.0 million, or 1%, were partially offset by decreases in home equity and other consumer loans of $45.0 million or 14% and construction and land loans of $16.1 million, or 10%.

The net growth in the loan portfolio was impacted by two large transactions during 2012. In the fourth quarter of 2012, as part of an agreement to sell its offices in the Pacific Northwest region, the Bank transferred $276.7 million of loans from its loan portfolio to the loans held for sale category. These loans were comprised of $40.8 million of commercial and industrial loans, $151.2 million of commercial real estate loans, $2.9 million of construction loans, $78.5 million of residential loans, and $3.3 million of home equity and other consumer loans. In 2012, the Company transferred to held for sale, and subsequently sold, approximately $108.7 million of residential loans.

The Bank specializes in lending to individuals, real estate investors, and middle market businesses, including corporations, partnerships, associations and nonprofit organizations. Loans made by the Bank to individuals may include residential mortgage loans and mortgage loans on investment or vacation properties, unsecured and secured personal lines of credit, home equity loans, and overdraft protection. Loans made by the Bank to businesses include commercial and mortgage loans, revolving lines of credit, working capital loans, equipment financing, community lending programs, and construction and land loans. The types and sizes of loans the Bank originates are limited by regulatory requirements.

The Bank’s loans are affected by the economic and real estate markets in which they are located. Generally, commercial real estate, construction, and land loans are affected more than residential loans in an economic downturn.

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Geographic concentration. The following table presents the Bank's outstanding loan balance concentrations at December 31, 2012 based on the location of the lender's regional offices. Loans totaling $2.9 million, currently in the Pacific Northwest region, are not expected to be sold as part of the sale of the Pacific Northwest offices. These loans will be managed out of the remaining regions and, therefore, have been reclassified as of December 31, 2012 in the table below. Loans from the Holding Company to certain principals of the Company's affiliate partners and relating to the sale of a previous affiliate partner, and loans at the Company's non-banking segments are identified as "Other, net."

	Commercial and Industrial		Commercial Real Estate		Construction and Land		Residential		Home Equity and Other Consumer	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands)									
New England	$691,519	86 %	$662,964	39 %	$92,766	67 %	$1,173,741	61 %	$211,946	78 %
San Francisco Bay	61,535	7 %	648,137	38 %	33,655	25 %	431,550	23 %	46,311	17 %
Southern California	53,272	7 %	380,249	23 %	11,149	8 %	300,798	16 %	14,022	5 %
Other, net	—	— %	—	— %	—	— %	—	— %	522	— %
Total	$806,326	100 %	$1,691,350	100 %	$137,570	100 %	$1,906,089	100 %	$272,801	100 %

Loan Portfolio Composition. The following table sets forth the Bank's outstanding loan balances for certain loan categories at the dates indicated and the percent of each category to total Bank loans. The table does not include immaterial loans at the Holding Company or at non-banking affiliates.

	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands)									
Commercial loans (1)	$2,497,676	52 %	$2,356,322	51 %	$2,356,413	53 %	$2,213,537	51 %	$2,158,052	52 %
Construction and land loans	137,570	3 %	153,709	3 %	150,702	3 %	315,661	7 %	431,717	11 %
Residential loans	1,906,089	39 %	1,823,403	39 %	1,673,934	37 %	1,494,703	35 %	1,352,881	33 %
Home equity, consumer, and other loans	272,279	6 %	315,325	7 %	297,378	7 %	280,209	7 %	183,794	4 %
Subtotal Bank loans	4,813,614	100 %	4,648,759	100 %	4,478,427	100 %	4,304,110	100 %	4,126,444	100 %
Less:										
Allowance for loan losses	84,057		96,114		98,403		68,444		64,091	
Net Bank loans	$4,729,557		$4,552,645		$4,380,024		$4,235,666		$4,062,353	

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(1) Includes commercial and industrial loans, and commercial real estate loans.

Commercial, Construction and Land Loans. Included within commercial loans are all commercial real estate loans, and commercial and industrial loans. Commercial real estate loans are generally acquisition financing for commercial properties such as office buildings, retail properties, apartment buildings, and industrial/warehouse space. Commercial

and industrial loans include working capital and revolving lines of credit, term loans for equipment and fixed assets, and Small Business Administration ("SBA") loans. Construction and land loans include loans for financing of new developments as well as rehab financing for existing buildings.

Residential Loans. While the Bank has no minimum size for mortgage loans, it concentrates its origination activities in the "Jumbo" segment of the market. This segment consists of loans secured by single-family and one- to four-unit properties in excess of the amount eligible for purchase by the Federal National Mortgage Association ("FNMA"), which was $0.4 million at December 31, 2012 for the "General" limit and $0.5 million to $0.6 million for the "High-Cost" limit, depending on which specific geographic region of the Bank's primary market areas the loan was originated. The majority of the Bank's residential loan portfolio, including jumbo mortgage loans, are ARMs. The ARM loans the Bank originates generally have a fixed interest rate for the first 3 to 7 years and then adjust annually based on a market index such as U.S. Treasury or LIBOR yields. ARM loans may negatively impact the Bank's interest income when they reprice if yields on U.S. Treasuries or LIBOR are low, which was the interest rate environment during 2012. If rates reset higher, the Bank could see increased delinquencies if clients' ability to make payments is impacted by the higher payments.

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Home Equity, Consumer, and Other Loans. Home equity, consumer, and other loans consist of balances outstanding on second mortgages, home equity lines of credit, consumer loans including personal lines of credit, credit cards and loans arising from overdraft protection extended to individual and business clients. The amount of home equity, consumer, and other loans typically depends on client demand.

Portfolio mix. The portfolio mix of the Bank's loans as of December 31, 2012 remained stable as compared to prior years as evidenced by the Loan Portfolio Composition table presented above. Commercial loans, which include both commercial and industrial loans and commercial real estate loans, comprised 52% of the total loan portfolio as of December 31, 2012 as compared to 51% of the total loan portfolio as of December 31, 2011. Residential loans comprised 39% of the total loan portfolio as of December 31, 2012, unchanged from 39% as of December 31, 2011. Home equity, consumer, and other loans comprised 6% of the total loan portfolio, down slightly from 7% of the total loan portfolio as of December 31, 2011. Construction and land loans comprised 3% of the total loan portfolio as of December 31, 2012, unchanged from 3% as of December 31, 2011.

The following table discloses the scheduled contractual maturities of loans in the Bank's portfolio at December 31, 2012. Loans having no stated maturity are reported as due in one year or less. The following table also sets forth the dollar amounts of loans that are scheduled to mature after one year which have fixed or adjustable interest rates.

	Commercial, Construction and Land Loans (1)			Residential Loans			Home Equity, Consumer, and Other Loans			Total Bank Loans		
	Balance	Percent		Balance	Percent		Balance	Percent		Balance	Percent	
	(In thousands)											
Amounts due:												
One year or less	$429,298	16	%	$600	—	%	$50,453	19	%	$480,351	10	%
After one through five years	976,267	37	%	744	—	%	95,329	35	%	1,072,340	22	%
Beyond five years	1,229,681	47	%	1,904,745	100	%	126,497	46	%	3,260,923	68	%
Total	$2,635,246	100	%	$1,906,089	100	%	$272,279	100	%	$4,813,614	100	%
Interest rate terms on amounts due after one year:												
Fixed	$1,366,865	62	%	$254,267	13	%	$8,832	4	%	$1,629,964	38	%
Adjustable	839,083	38	%	1,651,222	87	%	212,994	96	%	2,703,299	62	%
Total	$2,205,948	100	%	$1,905,489	100	%	$221,826	100	%	$4,333,263	100	%

(1) Includes commercial and industrial loans, commercial real estate loans, and construction and land loans.

Scheduled contractual maturities typically do not reflect the actual maturities of loans. The average maturity of loans is substantially less than their average contractual terms because of prepayments and, in the case of conventional mortgage loans, due on sale clauses, which generally gives the Bank the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage. The average life of mortgage loans tends to increase when current market rates are substantially higher than rates on existing mortgage loans and decrease when current market rates are substantially lower than rates on existing mortgages (due to refinancing of adjustable-rate and fixed-rate loans at lower rates). Under the latter circumstances, the weighted average yield on loans decreases as higher yielding loans are repaid or refinanced at lower rates. In addition, due to the likelihood that the Bank will, consistent with industry practice, "rollover" a significant portion of commercial real estate and commercial loans at or immediately prior to their maturity by renewing credit on substantially similar or revised terms, the principal repayments actually received by the Bank are anticipated to be significantly less than the amounts contractually due in any particular period. A portion of such loans also may not be

repaid due to the borrowers' inability to satisfy the contractual obligations of the loan.

The interest rates charged on loans vary with the degree of risk, maturity, and amount of the loan and are further subject to competitive pressures, market rates, the availability of funds, and legal and regulatory requirements. At December 31, 2012, approximately 62% of the Bank's outstanding loans due after one year had interest rates that were either floating or adjustable in nature. See Part II. Item 7A. "Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Sensitivity and Market Risk."

Allowance for Loan Losses. The following table is an analysis of the Bank's allowances for loan losses for the periods indicated:

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	Year ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Total loans outstanding	$4,814,136	$4,651,228	$4,481,347	$4,308,040	$4,130,081
Average loans outstanding	4,959,316	4,473,645	4,448,109	4,263,775	4,130,381
Allowance for loan losses, beginning of year	$96,114	$98,403	$68,444	$64,091	$59,933
Charged-off loans:					
Commercial, construction, and land (1)	(13,984)	(24,308)	(66,017)	(40,596)	(192,259)
Residential	(2,944)	(1,507)	(571)	(436)	(151)
Home equity, consumer, and other	(257)	(1,609)	(151)	(902)	(386)
Total charged-off loans	(17,185)	(27,424)	(66,739)	(41,934)	(192,796)
Recoveries on loans previously charged-off:					
Commercial, construction, and land (1)	7,739	11,807	9,346	1,248	305
Residential	472	100	34	69	—
Home equity, consumer, and other	217	68	140	11	6
Total recoveries	8,428	11,975	9,520	1,328	311
Net loans charged-off	(8,757)	(15,449)	(57,219)	(40,606)	(192,485)
Provision/(credit) for loan losses	(3,300)	13,160	87,178	44,959	196,643
Allowance for loan losses, end of year	$84,057	$96,114	$98,403	$68,444	$64,091
Net loans charged-off to average loans	0.18 %	0.35 %	1.29 %	0.95 %	4.66 %
Allowance for loan losses to total loans	1.75 %	2.07 %	2.20 %	1.59 %	1.55 %
Allowance for loan losses to nonaccrual loans (2)	1.38	1.41	0.93	0.79	1.74

(1) Includes commercial and industrial loans, and commercial real estate loans.
(2) Excludes loans in the held for sale category that are on nonaccrual status.

The allowance for loan losses is formulated based on the judgment and experience of management. See Part II. Item 7. “Management’s Discussion and Analysis of Financial Conditions and Results of Operations - Critical Accounting Policies” for details on the Company’s allowance for loan loss policy.

The following table represents the allocation of the Bank’s allowance for loan losses and the percent of loans in each category to total loans as of the dates indicated:

	December 31,									
	2012		2011		2010		2009		2008	
	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)
	(In thousands)									
Loan category:										
Commercial, construction and land (2)	$69,338	55 %	$82,170	54 %	$86,672	56 %	$59,263	58 %	$47,552	63 %
Residential	10,892	40 %	9,286	39 %	7,449	37 %	5,805	35 %	7,780	33 %
Home equity, consumer, and other	1,625	5 %	2,684	7 %	2,110	7 %	1,898	7 %	1,490	4 %
Unallocated	2,202		1,974		2,172		1,478		7,269	
Total allowance for loan losses	$84,057	100 %	$96,114	100 %	$98,403	100 %	$68,444	100 %	$64,091	100 %

(1) Percent refers to the amount of loans in each category as a percent of total loans.
(2) Includes commercial and industrial loans, and commercial real estate loans.

The allowance for loan losses decreased $12.0 million from $96.1 million, or 2.07% of total loans, at December 31, 2011 to $84.1 million, or 1.75% of total loans, at December 31, 2012. The decline in the overall allowance for loan losses, as well as the decline in the ratio of allowance for loan losses to total loans, is primarily the result of overall positive credit quality trends, including lower levels of net charge-offs and lower levels of criticized loans, and the fourth quarter announcement of the Pacific Northwest transaction. The transfer of $276.7 million of Pacific Northwest market loans to the held for sale portfolio was made based upon sales prices approximating the respective loans' carrying values. As a result of this

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transfer, a credit to the allowance for loan losses of $4.7 million was recorded. These items that reduced the allowance for loan losses were partially offset by additional allowance for loan losses related to the 2012 growth in the loan portfolio.

An analysis of the risk in the loan portfolio as well as management judgment is used to determine the estimated appropriate amount of the allowance for loan losses. The Company's allowance for loan losses is comprised of three primary components (general reserve, allocated reserves on non-impaired special mention and substandard loans, and allocated reserves on impaired loans). In addition, the unallocated portion of the allowance for loan losses, which is not considered a significant component of the overall allowance for loan losses, primarily relates to the inherent imprecision and potential volatility of the allowance for loan losses calculation and the qualitative judgments involved. See Part II. Item 8. "Financial Statements and Supplementary Data - Note 6: Allowance for Loan Losses" for an analysis of the Company's allowance for loan losses.

The following table presents a summary by geography of loans charged-off, net of recoveries, for the periods indicated. The geography assigned to the Private Banking data is based on the location of the lender.

	For the year ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Net loans (charged-off)/ recoveries:					
New England	$(5,593)	$(3,532)	$(3,725)	$(2,495)	$(4,003)
San Francisco Bay	(2,768)	(14,979)	(54,858)	(8,387)	(407)
Southern California	289	4,066	1,753	(13,017)	(185,904)
Pacific Northwest	(685)	(1,004)	(389)	(16,707)	(2,171)
Total net loans (charged-off)/ recoveries	$(8,757)	$(15,449)	$(57,219)	$(40,606)	$(192,485)

Nonperforming assets. The Company's nonperforming assets include nonaccrual loans and OREO. The following table sets forth information regarding nonaccrual loans (including loans in the held for sale category), OREO, loans past due 90 days or more but still accruing, delinquent loans 30-89 days past due as to interest or principal held by the Bank, and TDRs at the dates indicated. Reductions in fair values of the collateral for the nonaccrual loans, if they are collateral dependent, could result in additional future provision for loan losses depending on the timing and severity of the decline. The past due status of a loan is determined in accordance with its contractual repayment terms. All loan types are reported past due when one scheduled payment is due and unpaid for 30 days or more.

	December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Loans accounted for on a nonaccrual basis	$60,745	$68,109	$105,465	$86,770	$36,771
Loans held for sale accounted for on a nonaccrual basis	—	—	1,526	3,568	27,219
OREO	3,616	5,103	12,925	16,600	12,838
Total nonperforming assets	$64,361	$73,212	$119,916	$106,938	$76,828
Loans past due 90 days or more, but still accruing	$3,556	$32	$—	$—	$—
Delinquent loans 30-89 days past due (1)	$46,376	$26,957	$24,745	$21,194	$18,655
Troubled debt restructured loans (2)	$54,533	$55,262	$20,123	$8,003	$1,400
Nonaccrual loans as a % of total loans (3)	1.26 %	1.46 %	2.35 %	2.01 %	0.89 %
Nonperforming assets as a % of total assets	1.00 %	1.21 %	1.95 %	1.77 %	1.05 %
Delinquent loans 30-89 days past due as a % of total loans (4)	0.96 %	0.58 %	0.55 %	0.49 %	0.45 %

(1) Excludes 30-89 day delinquent loans held for sale of $0.3 million as of December 31, 2012.

(2) Includes $27.8 million, $27.8 million, $16.1 million, and $8.0 million also reported in nonaccrual loans as of December 31, 2012, 2011, 2010, and 2009 respectively.

(3) Excludes loans held for sale on nonaccrual status of $1.5 million, $3.6 million, and $27.2 million as of December 31, 2010, 2009 and 2008 respectively.

(4) Excludes loans past due 90 days or more, but still accruing of $3.6 million, and less than $0.1 million as of December 31, 2012, and 2011 respectively.

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A rollforward of nonaccrual loans for the years ended December 31, 2012 and 2011 is presented in the table below:

	December 31, 2012	2011
	(In thousands)	
Nonaccrual loans, beginning of year	$68,109	$105,465
Transfers in to nonaccrual status	54,874	103,227
Transfers out to OREO	(2,689)	(11,118)
Transfers in from/ (out to) loans held for sale	—	526
Transfers out to accrual status	(16,450)	(54,584)
Charge-offs	(16,964)	(25,869)
Paid off/ paid down	(26,135)	(49,538)
Nonaccrual loans, end of year	$60,745	$68,109

The following tables are a summary of the Private Banking credit quality and concentration data by geography of the lender, based on the location of the lender.

	December 31, 2012	2011
	(In thousands)	
Nonaccrual loans: (1)		
New England	$28,307	$33,411
San Francisco Bay	25,105	25,598
Southern California	7,333	7,323
Pacific Northwest	—	1,777
Total nonaccrual loans	$60,745	$68,109
Loans 30-89 days past due and accruing:		
New England (2)	$20,751	$9,834
San Francisco Bay	11,771	11,446
Southern California	13,854	5,677
Pacific Northwest (3)	—	—
Total loans 30-89 days past due	$46,376	$26,957
Accruing substandard loans: (4)		
New England	$27,551	$23,133
San Francisco Bay	49,854	57,199
Southern California	12,724	15,723
Pacific Northwest	—	2,186
Total accruing substandard loans	$90,129	$98,241

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(1) Of the $2.3 million of nonaccrual loans retained from the Pacific Northwest region as of December 31, 2012, $1.4 million are included in the New England regional totals, $0.7 million are included in the Southern California regional totals, and $0.2 million are included in the San Francisco Bay regional totals.

(2) In addition to loans 30-89 days past due and accruing, the Company had three loans totaling $3.6 million that were more than 90 days past due but still on accrual status as of December 31, 2012, and two loans totaling less than $0.1 million as of December 31, 2011, respectively. These loans originated in the New England region.

(3) Does not include one loan, 30-89 days past due and accruing, totaling $0.3 million that was transferred from the loan portfolio to the loans held for sale category as of December 31, 2012.

(4)

$0.6 million of accruing substandard loans retained from the Pacific Northwest region as of December 31, 2012 are included in the San Francisco Bay regional totals.

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The following tables are a summary of the Private Banking credit quality and concentration data by loan type. The loan type assigned to the Private Banking credit quality data is based on the purpose of the loan.

	December 31, 2012	2011
	(In thousands)	
Nonaccrual loans:		
Commercial and industrial	$4,337	$3,759
Commercial real estate	41,696	38,581
Construction and land	2,213	7,772
Residential	11,744	17,513
Home equity and other consumer	755	484
Total nonaccrual loans	$60,745	$68,109
Loans 30-89 days past due and accruing: (1)		
Commercial and industrial (2)	$10,894	$1,648
Commercial real estate	7,903	8,915
Construction and land	3,258	74
Residential	23,412	14,407
Home equity and other consumer	909	1,913
Total loans 30-89 days past due	$46,376	$26,957
Accruing substandard loans:		
Commercial and industrial	$9,062	$22,249
Commercial real estate	63,953	63,105
Construction and land	7,369	3,754
Residential	8,072	7,255
Home equity and other consumer	1,673	1,878
Total accruing substandard loans	$90,129	$98,241

(1) In addition to loans 30-89 days past due and accruing, as of December 31, 2012, the Company had one commercial and industrial loan totaling $0.3 million, one commercial real estate loan totaling $3.2 million, and one construction and land loan totaling $0.1 million that were more than 90 days past due but still on accrual status. As of December 31, 2011, the Company had two construction and land loans totaling less than $0.1 million that were more than 90 days past due but still on accrual status.

(2) Does not include one loan, 30-89 days past due and accruing, totaling $0.3 million, that was transferred from the loan portfolio to the loans held for sale category as of December 31, 2012.

The Bank's policy is to discontinue the accrual of interest on a loan when the collectability of principal or interest in accordance with the contractual terms of the loan agreement is in doubt. When management determines that it is probable that the Bank will not collect all principal and interest on a loan in accordance with the original loan terms, or in accordance with its restructured terms if the loan is a TDR, the loan is designated as impaired. Impaired loans are generally included within the balance of nonaccrual loans. Impaired loans totaled $81.5 million as of December 31, 2012 as compared to $89.8 million at December 31, 2011.

In certain instances, although very infrequent, loans that have become 90 days past due may remain on accrual status if the value of the collateral securing the loan is sufficient to cover principal and interest and the loan is in the process of collection. There were $3.6 million of loans 90 days or more past due, but still accruing, as of December 31, 2012 and less than $0.1 million as of December 31, 2011. The Bank's general policy for returning a loan to accrual status requires the loan to be brought current and for the client to show a history of making timely payments (generally six consecutive months). For TDRs, a return to accrual status requires timely payments (for a period of six months), along

with meeting other criteria. TDRs are assessed on a case-by-case basis.

The Company may, under certain circumstances, restructure loans as a concession to borrowers who are experiencing financial difficulty. TDRs are included in impaired loans. These TDRs typically result from the Company's loss

mitigation activities which, among other activities, could include rate reductions, payment extensions, and principal forgiveness. TDRs totaled $54.5 million and $55.3 million as of December 31, 2012 and 2011, respectively. Of the $54.5 million in TDR loans at December 31, 2012, $26.7 million were on accrual status. Of the $55.3 million in TDR loans at December 31, 2011, $27.4 million were on accrual status. As of December 31, 2012 and 2011, the Company had $0.1 million in commitments to lend additional funds to debtors for loans whose terms had been modified in a troubled debt restructuring.

Interest income recorded on nonaccrual loans and accruing TDRs and interest income that would have been recorded if the nonaccrual loans and accruing TDRs had been performing in accordance with their original terms for the full year or, if originated during the year, since origination are presented in the table below.

	Year ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Loans accounted for on a nonaccrual basis (1)	$60,745	$68,109	$106,991	$90,338	$63,990
Interest income recorded during the year on these loans (2)	1,452	1,576	3,951	3,200	6,130
Interest income that would have been recorded on these nonaccrual loans during the year if the loans had been performing in accordance with their original terms and had been outstanding for the full year or since origination, if held for part of the year	5,245	5,437	9,187	9,011	10,165
Accruing troubled debt restructured loans	26,680	27,433	3,983	1,905	—
Interest income recorded during the year on these accruing TDR loans (3)	1,128	1,222	nm	nm	—
Interest income that would have been recorded on these accruing TDR loans during the year if the loans had been performing in accordance with their original terms and had been outstanding for the full year or since origination, if held for part of the year (3)	1,681	1,983	nm	nm	—

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(1) Includes loans held for sale on nonaccrual status of $1.5 million, $3.6 million, and $27.2 million as of December 31, 2010, 2009, and 2008 respectively.

(2) Represents interest income recorded while loans were in a performing status, prior to being placed on nonaccrual status and any interest income recorded on a cash basis while the loan was on nonaccrual status.

(3) Interest income on accruing TDRs was not material (nm) for the periods ended 2010 and 2009. Interest income that would have been recorded on accruing TDRs during the year if the loans had been performing in accordance with their original terms and had been outstanding for the full year, or since origination if held for part of the year, was not material for the years ended 2010 and 2009.

The Bank continues to evaluate the underlying collateral of each nonperforming loan and pursue the collection of interest and principal. Where appropriate, the Bank obtains updated appraisals on the collateral. Please refer to Part II. Item 8. “Financial Statements and Supplementary Data—Note 5: Loan Portfolio and Credit Quality” for further information on nonperforming loans.

Delinquencies. Loans 30-89 days past due increased 72% from year end December 31, 2011. The increase in loan delinquencies is primarily due to an increase in commercial and industrial loan delinquencies, which increased by $9.2 million to $10.9 million as of December 31, 2012 from $1.7 million as of December 31, 2011, and residential loan delinquencies, which increased by $9.0 million to $23.4 million as of December 31, 2012 from $14.4 million as of December 31, 2011. The delinquent commercial and industrial loans as of December 31, 2012 included two loans

totaling $10.5 million. Of the delinquent residential loans, $20.2 million were exactly 30 days past due as of December 31, 2012 and $9.0 million were exactly 30 days past due as of December 31, 2011. The Company believes these loans are generally adequately secured and the payment performance of these borrowers varies from month to month. Further deterioration in the real estate market where the collateral is located or the local economy could lead to these delinquent loans going to nonaccrual status and/or being downgraded with respect to the loan grades. Downgrades would generally result in additional provisions for loan losses.

Potential Problem Loans. The Company classifies certain loans as “substandard,” “doubtful,” or “loss” based on criteria consistent with guidelines provided by banking regulators. Potential problem loans consist of accruing substandard loans where known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such

loans as nonperforming at some time in the future. These loans are not included in the disclosure of nonaccrual loans above. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, be restructured, or require increased allowance coverage and provision for loan losses. The Company has identified approximately $90.1 million in potential problem loans at December 31, 2012, a decrease of $8.1 million, as compared to $98.2 million at December 31, 2011. These are shown as accruing substandard loans in the preceding tables.

Liquidity

Liquidity is defined as the Company's ability to generate adequate cash to meet its needs for day-to-day operations and material long and short-term commitments. Liquidity risk is the risk of potential loss if the Company were unable to meet its funding requirements at a reasonable cost. The Company manages its liquidity based on demand, commitments, specific events and uncertainties to meet current and future financial obligations of a short-term nature. The Company's objective in managing liquidity is to respond to the needs of depositors and borrowers as well as to earnings enhancement opportunities in a changing marketplace.

At December 31, 2012, the Company's cash and cash equivalents amounted to $308.7 million. The Holding Company's cash and cash equivalents amounted to $61.2 million at December 31, 2012. Management believes that the Company and the Holding Company have adequate liquidity to meet their commitments for the foreseeable future.

Management is responsible for establishing and monitoring liquidity targets as well as strategies to meet these targets. At December 31, 2012, consolidated cash and cash equivalents and securities available for sale, less securities pledged against current borrowings, amounted to $0.9 billion, or 14% of total assets, consistent with balances at December 31, 2011. Future loan growth may depend upon the Company's ability to grow its core deposit levels. In addition, the Company has access to available borrowings through the FHLB totaling $794.4 million as of December 31, 2012 compared to $509.5 million at December 31, 2011. Combined, this liquidity totals $1.7 billion, or 26% of assets and 34% of total deposits as of December 31, 2012 compared to $1.4 billion, or 23% of assets and 30% of total deposits as of December 31, 2011.

The Bank has various internal policies and guidelines regarding liquidity, both on and off balance sheet, loans to assets ratio, and limits on the use of wholesale funds. These policies and or guidelines require certain minimum or maximum balances or ratios be maintained at all times. In light of the provisions in the Bank's internal liquidity policies and guidelines, the Bank will carefully manage amount and timing of future loan growth along with its relevant liquidity policies and balance sheet guidelines.

Holding Company Liquidity. The Company and some of the Company's majority-owned affiliates hold put and call options that would require the Company to purchase (and the majority-owned affiliates to sell) the remaining noncontrolling interests in these companies at the then fair value generally as determined by the respective agreements. At December 31, 2012, the estimated maximum redemption value for these affiliates related to outstanding put options was $19.3 million, all of which could be redeemed within the next 12 months, under certain circumstances, and is classified on the consolidated balance sheets as redeemable noncontrolling interests. These put and call options are discussed in detail in Part II. Item 8. "Financial Statements and Supplementary Data - Note 14: Noncontrolling Interests."

The Holding Company's primary sources of funds are dividends from its affiliates, access to the capital and debt markets, and private equity investments. The Holding Company recognized $7.6 million in net income from discontinued operations during the year ended December 31, 2012. The majority of this amount related to a revenue sharing agreement with Westfield. The Company also received cash proceeds from the sale of DTC in the second and fourth quarters of 2012. Additionally, the Holding Company may receive additional contingent consideration in future years. However, other than the revenue sharing agreement with Westfield, divestitures are not ongoing sources of funds for the Holding Company. Dividends from the Bank are limited by various regulatory requirements relating to

capital adequacy and retained earnings. See Part II. Item 5. "Market for Registrant's Common Equity, Related Stockholders Matters, and Issuers Purchases of Equity Securities" for further details.

The Bank has paid dividends to the Holding Company depending on its profitability and asset growth. If regulatory agencies were to require banks to increase their capital ratios, or impose other restrictions, it may limit the ability of the Bank to pay dividends to the Holding Company and/or limit the amount that the Bank could grow.

Although the Bank is currently above current regulatory requirements for capital, the Holding Company could downstream additional capital to increase the rate that the Bank could grow. Depending upon the amount of capital downstreamed by the Holding Company, the approval of the Holding Company's board of directors may be required prior to the payment, if any.

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The Company is required to pay interest quarterly on its junior subordinated debentures. Since 2010, the Company has been a party to an interest rate swap to hedge a portion of the cash flow associated with a junior subordinated debenture which converted from a fixed rate to a floating rate on December 30, 2010. The estimated cash outlay for 2013 for the interest payments, including the effect of the cash flow hedge, is approximately $4.2 million based on the debt outstanding as of the date of this filing, and estimated LIBOR.

The Company presently plans to pay cash dividends on its common stock on a quarterly basis dependent upon a number of factors such as profitability, Holding Company liquidity, and the Company's capital levels. However, the ultimate declaration of dividends by the board of directors of the Company will depend on consideration of, among other things, recent financial trends and internal forecasts, regulatory limitations, alternative uses of capital deployment, general economic conditions, and pending regulatory changes to capital requirements. Based on the current quarterly dividend rate of $0.05 per share, as announced by the Company on January 16, 2013, and estimated shares outstanding, the Company estimates the amount to be paid out in 2013 for dividends to common shareholders will be approximately $16.0 million. Based on the Company's preferred stock outstanding and the dividend rate, the Company expects to pay $1.5 million in cash dividends on preferred stock in 2013. The estimated dividend payments in 2013 could increase or decrease if the Company's board of directors voted to increase or decrease, respectively, the current dividend rate; and/or the number of shares outstanding changes significantly.

Bank Liquidity. The Bank has established various borrowing arrangements to provide additional sources of liquidity and funding. Management believes that the Bank currently has adequate liquidity available to respond to current demands. The Bank is a member of the FHLB of Boston, and as such, has access to short- and long-term borrowings from that institution. The FHLB can change the advance amounts that banks can utilize based on a bank's current financial condition as obtained from publicly available data such as FDIC Call Reports. Decreases in the amount of FHLB borrowings available to the Bank would lower its liquidity and possibly limit the Bank's ability to grow in the short term. Management believes that the Bank has adequate liquidity to meet its commitments for the foreseeable future.

In addition to the above liquidity, the Bank has access to the Federal Reserve discount window facility, which can provide short-term liquidity as "lender of last resort," brokered deposits, and federal funds lines. The use of non-core funding sources, including brokered deposits and borrowings, by the Bank may be limited by regulatory agencies. Generally, the regulatory agencies prefer that banks rely on core-funding sources for liquidity.

From time to time, the Bank purchases federal funds from the FHLB and other banking institutions to supplement its liquidity position. At December 31, 2012, the Bank had unused federal fund lines of credit totaling $236.0 million with correspondent institutions to provide it with immediate access to overnight borrowings. At December 31, 2012 and 2011, the Bank had no outstanding borrowings under these federal funds lines.

The Bank has also negotiated brokered deposit agreements with several institutions that have nationwide distribution capabilities. At December 31, 2012, the Bank had $374.3 million of brokered deposits (net of premiums paid) outstanding under these agreements, compared to $176.1 million at December 31, 2011.

If the Bank was no longer able to utilize the FHLB for borrowing, collateral currently used for FHLB borrowings could be transferred to other facilities such as the Federal Reserve's discount window. In addition, the Bank could increase its usage of brokered deposits. Other borrowing arrangements may have higher rates than the FHLB would typically charge.

Consolidated cash flow comparison for the years ended December 31, 2012 and 2011

Net cash provided by operating activities of continuing operations totaled $57.4 million and $78.8 million for the years ended December 31, 2012 and 2011, respectively. Cash flows from operating activities of continuing operations are generally the cash effects of transactions and other events that enter into the determination of net income of continuing operations. Cash provided by operating activities of continuing operations decreased $21.5 million from 2011 to 2012 due primarily to a lower amount of loans originated for sale in 2012 than in 2011 and the 2012 credit to

the provision for loan losses. These changes were partially offset by the increased net income in 2012 than in 2011 and a higher amount of proceeds from sale of loans held for sale in 2012 than in 2011.
Net cash used in investing activities of continuing operations totaled $310.1 million and $225.0 million for the years ended December 31, 2012 and 2011, respectively. Investing activities of the Company include certain loan activities, investment activities and capital expenditures. Cash used in investing activities of continuing operations increased $85.1 million from 2011 to 2012 and was due primarily to a $360.5 million increase in cash used to expand the loan portfolio, and a decrease in proceeds from the sale of OREO property in 2012. These changes were partially offset by a decrease in cash used to purchase investments, net of cash received from sales, maturities, redemptions, and principal payments on the Company's investment securities in 2012 from 2011; and the proceeds from the sale of portfolio loans in 2012.

Net cash provided by financing activities of continuing operations totaled $363.7 million for the year ended December 31, 2012, compared to net cash used in financing activities of $150.3 million for 2011. Cash provided by financing activities of continuing operations increased $514.0 million from 2011 to 2012. The 2012 cash provided by financing activities related primarily to the higher net increase in deposits and lower decrease in borrowed funds in the form of repurchase agreements. These changes were partially offset by larger repayments of FHLB borrowings and junior subordinated debt and by the repurchase of the 5.44 million in stock warrants held by affiliates of The Carlyle Group and BPFH Director John Morton III in the first quarter of 2012. See Part II. Item 8. “Financial Statements and Supplementary Data—Note 15: Equity” for additional details on the repurchase of the warrants.
Net cash provided by operating activities of discontinued operations totaled $5.6 million and $7.5 million for the years ended December 31, 2012 and 2011, respectively. Cash flows from operating activities of discontinued operations relate to the ongoing revenue sharing agreement with a divested affiliate as well as to the operating activities of DTC. The decrease is due to the additional costs incurred by the Company in 2012 related to certain divested affiliates. Net cash used in investing activities of discontinued operations totaled $1.1 million for the year ended December 31, 2011. There was an immaterial cash effect from discontinued operations on investing activities for the year ended December 31, 2012, and there was no cash effect from discontinued operations on financing activities for the years ended December 31, 2012 or 2011. Cash flows related to financing and investing activities of discontinued operations for both periods relate to activity at DTC.

Consolidated cash flow comparison for the years ended December 31, 2011 and 2010
Net cash provided by operating activities of continuing operations totaled $78.8 million and $73.5 million for the years ended December 31, 2011 and 2010, respectively. Cash flows from operating activities of continuing operations are generally the cash effects of transactions and other events that enter into the determination of net income of continuing operations. Cash provided by operating activities of continuing operations increased $5.3 million from 2010 to 2011 due primarily to a lower amount of loans originated for sale in 2011 than in 2010, the 2011 net income, and the increase in deferred income tax expense. These increases were partially offset by the lower provision for loan losses in 2011 (a non-cash reduction of net income), a lower amount of proceeds from sale of loans held for sale, and the 2011 gain on repurchase of debt (a non-cash component of revenue).
Net cash used in investing activities of continuing operations totaled $225.0 million and $172.4 million for the years ended December 31, 2011 and 2010, respectively. Investing activities of the Company include loan activities, investment activities and capital expenditures. Cash used in investing activities of continuing operations increased $52.7 million from 2010 to 2011 due primarily to a decrease in cash received from sales, maturities, redemptions, and principal payments on the Company's investment securities, net of cash used to purchase investments; the 2010 sale of portfolio loans; and a decrease in cash used in the Bank’s other lending activities. These decreases were partially offset by the 2010 cash used for the repurchase of the remaining 19% interest in KLS.
Net cash used in financing activities of continuing operations totaled $150.3 million, compared to cash provided by financing activities of continuing operations of $143.5 million for the years ended December 31, 2011 and 2010, respectively. Cash provided by financing activities of continuing operations decreased $293.7 million from 2010 to 2011. The 2011 net use of cash in financing activities related to the net repayment of borrowed funds in the form of repurchase agreements, FHLB borrowings, and junior subordinated debt. This contrasts with net cash provided by these funding sources in 2010. Also contributing to the decrease in cash provided by financing activities was the significantly lower amount of cash provided by deposits in 2011 than in 2010. These changes were partially offset by the 2010 repurchase of the Series C Preferred stock and the related decrease in dividends paid to preferred shareholders from 2010 to 2011.
Net cash provided by operating activities of discontinued operations totaled $7.5 million and $8.5 million for the years ended December 31, 2011 and 2010, respectively. Cash flows from operating activities of discontinued operations primarily relate to the ongoing revenue sharing agreement with a divested affiliate as well as to the operating activities

of DTC. Net cash used in investing activities of discontinued operations totaled $1.1 million and $6.8 million for the years ended December 31, 2011 and 2010, respectively. Cash flows related to investing activities of discontinued operations for both periods relate to activity at DTC. There was no cash effect from discontinued operations on financing activities for the years ended December 31, 2011 and 2010.

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Capital Resources

Total shareholders' equity at December 31, 2012 was $603.1 million, compared to $566.1 million at December 31, 2011, an increase of $37.0 million, or 7%. The increase in shareholders' equity was primarily the result of net income and stock compensation, partially offset by dividends paid and the repurchase of the 5.44 million warrants held by affiliates of The Carlyle Group and BPFH Director John Morton III during the first quarter 2012. See Part II. Item 8. "Financial Statements and Supplementary Data—Note 15: Equity" for additional details on the repurchase of the warrants.

As a bank holding company, the Company is subject to various regulatory capital requirements administered by federal agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. For example, under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank, which is a wholly-owned subsidiary of the Company, must meet specific capital guidelines that involve quantitative measures of the Bank's assets and certain off-balance sheet items as calculated under regulatory guidelines. The Bank's capital and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Similarly, the Company is also subject to capital requirements administered by the Federal Reserve with respect to certain non-banking activities, including adjustments in connection with off-balance sheet items.

To be categorized as "well capitalized," the Company and the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the regulatory capital and capital ratios table. In addition, the Company and the Bank cannot be subject to any written agreement, order or capital directive or prompt corrective action to be considered "well capitalized." Both the Company and the Bank maintain capital at levels that would be considered "well capitalized" as of December 31, 2012 under the applicable regulations. See Part II. Item 8. "Financial Statements and Supplementary Data—Note 24: Regulatory Matters" for additional details, including the regulatory capital and capital ratios table.

Contractual Obligations

The schedules below present a detail of the maturities of the Company's contractual obligations and commitments as of December 31, 2012. See Part II. Item 8. "Financial Statements and Supplementary Data—Notes 11 through 13" for terms of borrowing arrangements and interest rates.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Federal Home Loan Bank Borrowings	$408,121	101,529	$127,466	$111,132	$67,994
Securities sold under agreements to repurchase	116,319	83,319	33,000	—	—
Junior subordinated debentures	143,647	—	—	—	143,647
Operating lease obligations	129,851	14,039	30,619	26,531	58,662
Deferred compensation and benefits (1)	23,748	6,004	1,968	3,094	12,682
Data processing	12,429	12,226	203	—	—
Bonus and commissions	5,703	5,703	—	—	—
Severance accrual	3,623	3,623	—	—	—
Other long-term obligations	535	375	152	8	—
Total contractual obligations at December 31, 2012	$843,976	$226,818	$193,408	$140,765	$282,985

(1) Includes supplemental executive retirement plan, deferred compensation plan, salary continuation plans, long term incentive plan, and split dollar life insurance.

The amounts below related to commitments to originate loans, unused lines of credit, and standby letters of credit are at the discretion of the client and may never actually be drawn upon. The contractual amount of the Company's financial instruments with off-balance sheet risk are as follows:

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	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Unadvanced portion of loans, unused lines of credit, and commitments to originate loans	$1,014,258	$430,720	$297,654	$34,383	$251,501
Standby letters of credit	21,802	20,451	1,351	—	—
Forward commitments to sell loans	83,955	83,955	—	—	—
Total commitments at December 31, 2012	$1,120,015	$535,126	$299,005	$34,383	$251,501

Off-Balance Sheet Arrangements

The Company and its affiliates own equity interests in certain limited partnerships and limited liability companies. Most of these are investment vehicles that are managed by the Company's investment adviser affiliates. The Company accounts for these investments under the equity method of accounting so the total amount of assets and liabilities of the investment partnerships are not included in the consolidated financial statements of the Company.

Impact of Accounting Estimates

In preparing the consolidated financial statements, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change, in the near term, relate to the determination of the allowance for loan losses, evaluation of potential impairment of goodwill and other intangibles, and income tax estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes thereto presented in Part II. Item 8. "Financial Statements and Supplementary Data," have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike many industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as inflation. See Part II. Item 7A. "Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Sensitivity and Market Risk."

Recent Accounting Pronouncements

In July 2012, the FASB issued updated guidance, Accounting Standards Updates ("ASU") 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this update regarding the impairment testing applicable to indefinite-lived intangible assets, is similar to the impairment guidance issued in ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment, applicable to goodwill. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact the fair value of the indefinite-lived intangible asset and lead to the determination that it is more likely than not that the fair value of the asset is less than its carrying value. If an entity determines that it is more likely than not that the fair value of the intangible asset is less than its carrying value, an impairment test must be performed. The impairment test requires an entity to calculate the estimated fair value of the indefinite-lived intangible asset. If the carrying value of the

indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess. The updated guidance is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted provided the Company has not yet performed its 2012 impairment test or issued its financial statements. The Company does not intend to early adopt. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued new guidance, ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS ("ASU 2011-04"). The amendments in this update further clarify the requirements in U.S. GAAP for measuring fair value and enhance the disclosures for information about fair value measurements. The new guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and its adoption did not have a significant impact on the Company's consolidated financial statements.

In June 2011, the FASB issued new guidance, ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. Under this new guidance, an entity must present the components of net income and comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the option to present other comprehensive income in the statement of shareholders' equity. The new guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05, which defers indefinitely certain changes related to the presentation of reclassification adjustments in ASU 2011-05. The adoption of this ASU did not have a material effect on the Company's consolidated financial statements.

In September 2011, the FASB issued new guidance, ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This new guidance allows entities to perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value in order to determine if quantitative testing is required. This qualitative assessment is optional and is intended to reduce the cost and complexity of annual goodwill impairment tests. The new guidance was effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption was allowed provided the entity had not yet performed its 2011 impairment test or issued its financial statements. The adoption of this ASU did not have a material effect on the Company's consolidated financial statements.