UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 0-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

California **(State or other jurisdiction of** **incorporation or organization)**	**95-3629339** **(I.R.S. Employer** **Identification No.)**
701 North Haven Ave, Suite 350, Ontario, California **(Address of Principal Executive Offices)**	**91764** **(Zip Code)**
(Registrant s telephone number, including area code)	**(909) 980-4030**

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

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

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

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

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

Number of shares of common stock of the registrant: 104,484,371 outstanding as of October 31, 2011.

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CVB FINANCIAL CORP.

2010 QUARTERLY REPORT ON FORM 10-Q

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GENERAL

Forward Looking Statements

Certain statements in this Report on Form 10-Q, including, but not limited to, statements under the heading Management Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995, including but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business prospects, strategic alternatives, business strategies, regulatory and competitive outlook, capital and financing needs and availability, acquisition and divestiture opportunities, investment and expenditure plans, plans and objectives of management for future operations and other similar forecasts and statements of expectations of assumptions underlying any of the foregoing. Words such as will likely result, aims , anticipates , believes , could , estimates , expects , hopes , intends , may , plans , projects , seeks , should , wil words and similar expressions are intended to identify these forward looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, local, regional, national and international economic conditions and events and the impact they may have on us and our customers; ability to attract deposits and other sources of liquidity; oversupply of inventory and continued deterioration in values of California real estate, both residential and commercial; a prolonged slowdown in construction activity; changes in the financial performance and/or condition of our borrowers; changes in the level of non-performing assets and charge-offs; the effect of acquisitions we may make; the effect of changes in laws and regulations (including laws and regulations concerning financial reform, taxes, banking, securities, executive compensation and insurance) with which we and our subsidiaries must comply; changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; inflation, interest rate, securities market and monetary fluctuations; cybersecurity breaches of our systems; political instability; acts of war or terrorism, or natural disasters, such as earthquakes, or the effects of pandemic flu; the timely development and acceptance of new banking products and services and perceived overall value of these products and services by users; changes in consumer spending, borrowing and savings habits; technological changes; the ability to increase market share and control expenses; changes in the competitive environment among financial and bank holding companies and other financial service providers; continued volatility in the credit and equity markets and its effect on the general economy; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; changes in our organization, management, compensation and benefit plans; the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries, including, but not limited to, the current investigation by the Securities and Exchange Commission and the related class-action lawsuits filed against us, and the results of regulatory examinations or reviews. The Company cautions that the foregoing factors are not exclusive. For additional information concerning these factors and other factors which may cause actual results to differ from the results discussed in our forward-looking statements, see the periodic filings the Company makes with the Securities and Exchange Commission, and, in particular, the information set forth in Item 1A herein and in Item 1A. Risk Factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

Amounts in thousands, except share data

	September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 33,493	$ 67,279
Interest-bearing balances due from Federal Reserve	409,449	286,769
Interest-bearing balances due from depository institutions		50,227
Total cash and cash equivalents	442,942	404,275
Interest-bearing balances due from depository institutions	50,190	50,190
Investment securities available-for-sale	2,167,159	1,791,558
Investment securities held-to-maturity	2,574	3,143
Investment in stock of Federal Home Loan Bank (FHLB)	76,207	86,744
Non-covered loans held-for-sale	4,239	2,954
Covered loans held-for-sale	5,726	
Non-covered loans and lease finance receivables	3,170,365	3,373,728
Allowance for credit losses	(95,528)	(105,259)
Net Loans and lease finance receivables	3,074,837	3,268,469
Covered loans and lease finance receivables	280,337	374,012
Premises and equipment, net	36,725	40,921
Bank owned life insurance	115,494	112,901
Accrued interest receivable	23,140	23,647
Intangibles	6,399	9,029
Goodwill	55,097	55,097
FDIC loss sharing asset	56,452	101,461
Non-covered other real estate owned	15,956	5,290
Covered other real estate owned	14,193	11,305
Deferred tax asset	28,832	52,559
Income tax receivable	30,357	21,561
Other assets	43,051	21,575
TOTAL ASSETS	$ 6,529,907	$ 6,436,691
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,977,137	$ 1,701,523

Interest-bearing	2,612,007	2,817,305
Total deposits	4,589,144	4,518,828
Demand Note to U.S. Treasury	1,930	1,917
Customer repurchase agreements	485,273	542,188
Borrowings	548,594	553,390
Accrued interest payable	4,243	4,985
Deferred compensation	8,758	9,221
Junior subordinated debentures	115,055	115,055
Other liabilities	77,035	47,252
TOTAL LIABILITIES	5,830,032	5,792,836
COMMITMENTS AND CONTINGENCIES		
Stockholders Equity:		
Preferred stock, authorized, 20,000,000 shares without par; none issued or outstanding		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 104,581,689 (2011) and 106,075,576 (2010)	480,121	490,226
Retained earnings	180,518	147,444
Accumulated other comprehensive income, net of tax	39,236	6,185
Total stockholders equity	699,875	643,855
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,529,907	$ 6,436,691

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

Amounts in thousands, except per share

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income:				
Loans, including fees	$ 52,788	$ 58,165	$ 158,800	$ 185,105
Investment securities:				
Taxable	9,407	11,461	28,397	41,938
Tax-preferred	5,951	6,324	17,791	19,265
Total investment income	15,358	17,785	46,188	61,203
Dividends from FHLB stock	52	105	183	233
Federal funds sold and interest bearing deposits with other institutions	332	418	1,053	757
Total interest income	68,530	76,473	206,224	247,298
Interest expense:				
Deposits	1,979	4,310	6,987	14,439
Borrowings	5,748	8,652	17,286	30,162
Junior subordinated debentures	823	896	2,467	2,529
Total interest expense	8,550	13,858	26,740	47,130
Net interest income before provision for credit losses	59,980	62,615	179,484	200,168
Provision for credit losses		25,300	7,068	48,500
Net interest income after provision for credit losses	59,980	37,315	172,416	151,668
Other operating income:				
Impairment loss on investment securities	(25)		(144)	(98)
Plus: Reclassification of credit-related impairment loss from other comprehensive income	(402)	(127)	(402)	(714)
Net impairment loss on investment securities recognized in earnings	(427)	(127)	(546)	(812)
Service charges on deposit accounts	4021	4,225	11,773	12,686
Trust and Investment Services	2056	1,928	6,468	6,255
Bankcard services	771	760	2,295	2,110
BOLI income	733	813	2,589	2,394
Reduction in FDIC loss sharing asset, net	(844)	(2,630)	(1,118)	(14,800)
Gain on sale of securities		30,119		38,900
Other	1204	1,631	2,025	3,193
Total other operating income	7,514	36,719	23,486	49,926
Other operating expenses:				
Salaries and employee benefits	17,579	17,311	53,459	52,863
Occupancy and equipment	4,152	4,807	12,554	14,641
Professional services	3,728	4,135	12,365	9,823

Amortization of intangibles	862	934	2,629	2,824
Provision for unfunded commitments	(1,650)	450	(918)	2,150
Prepayment penalties on borrowings		12,963		18,663
Other	8,187	8,718	26,229	25,723
Total other operating expenses	32,858	49,318	106,318	126,687
Earnings before income taxes	34,636	24,716	89,584	74,907
Income taxes	12,253	6,789	29,563	21,846
Net earnings	$ 22,383	$ 17,927	$ 60,021	$ 53,061
Earnings allocated to restricted stock	81	58	229	181
Net earnings allocated to common shareholders	$ 22,302	$ 17,869	$ 59,792	$ 52,880
Comprehensive income	$ 36,453	$ 3,439	$ 93,072	$ 55,104
Basic earnings per common share	$ 0.21	$ 0.17	$ 0.57	$ 0.50
Diluted earnings per common share	$ 0.21	$ 0.17	$ 0.57	$ 0.50
Cash dividends per common share	$ 0.085	$ 0.085	$ 0.255	$ 0.255

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(Unaudited)

Amounts and shares in thousands

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income	Total
Balance January 1, 2011	106,076	$ 490,226	$ 147,444	$ 6,185		$ 643,855
Repurchase of common stock	(1,503)	(11,837)				(11,837)
Proceeds from exercise of stock options	9	57				57
Tax benefit from exercise of stock options		2				2
Stock-based compensation expense		1,673				1,673
Cash dividends declared						
Common ($0.255 per share)			(26,947)			(26,947)
Comprehensive income:						
Net earnings			60,021		$ 60,021	60,021
Other comprehensive gain:						
Unrealized gain on securities available-for-sale, net				32,818	32,818	32,818
Portion of impairment loss on investment securities reclassified in the current year, net				233	233	233
Comprehensive income					$ 93,072	
Balance September 30, 2011	104,582	$ 480,121	$ 180,518	$ 39,236		$ 699,875
Balance January 1, 2010	106,263	$ 491,226	$ 120,612	$ 26,390		$ 638,228
Repurchase of common stock	(600)	(4,768)				(4,768)
Proceeds from exercise of stock options	255	1,146				1,146
Tax benefit from exercise of stock options		459				459
Stock-based compensation expense		1,676				1,676
Cash dividends declared						
Common ($0.255 per share)			(27,087)			(27,087)
Comprehensive income:						
Net earnings			53,061		$ 53,061	53,061
Other comprehensive gain:						
Unrealized gain on securities available-for-sale, net				1,629	1,629	1,629
Portion of impairment loss on investment securities reclassified in the current year, net				414	414	414
Comprehensive income					$ 55,104	
Balance September 30, 2010	105,918	$ 489,739	$ 146,586	$ 28,433		$ 664,758

	At September 30, 2011	At September 30, 2010
Disclosure of reclassification amount		
Unrealized gain on securities arising during the period	$ 56,582	$ 41,610
Tax benefit	(23,764)	(17,476)
Less:		
Reclassification adjustment for net gain on securities included in net income	402	(38,088)
Add:		
Tax expense on reclassification adjustments	(169)	15,997
Net unrealized gain on securities	$ 33,051	$ 2,043

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Amounts in thousands

	For the Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and dividends received	$ 203,106	$ 229,991
Service charges and other fees received	24,889	27,274
Interest paid	(27,279)	(48,574)
Cash paid to vendors and employees	(91,806)	(103,870)
Income taxes paid	(57,000)	(35,776)
Net cash provided by operating activities	51,910	69,045
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities		743,769
Proceeds from repayment of investment securities	239,791	213,130
Proceeds from redemption of FHLB stock	10,537	7,232
Proceeds from maturity of investment securities	84,410	185,789
Purchases of investment securities	(631,043)	(907,695)
Net decrease in loans and lease finance receivables	258,064	201,976
Proceeds from sales of premises and equipment	180	114
Proceeds from sales of other real estate owned	11,917	6,972
Proceeds from FDIC shared-loss agreements	43,891	
Purchase of premises and equipment	(679)	(5,811)
Other, net		(329)
Net cash provided by investing activities	17,068	445,147
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in transaction deposits	315,291	87,231
Net decrease in time deposits	(244,975)	(3,150)
Repayment of advances from Federal Home Loan Bank		(250,000)
Repayment of FCB Subordinated Debt	(5,000)	
Net increase/(decrease) in other borrowings	13	(198,673)
Net (decrease)/increase in customer repurchase agreements	(56,915)	72,440
Cash dividends on common stock	(26,947)	(27,087)
Repurchase of common stock	(11,837)	(4,768)
Proceeds from exercise of stock options	57	1,146
Tax benefit related to exercise of stock options	2	459
Net cash used in financing activities	(30,311)	(322,402)
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,667	191,790
CASH AND CASH EQUIVALENTS, beginning of period	404,275	104,480
CASH AND CASH EQUIVALENTS, end of period	$ 442,942	$ 296,270

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

Amounts in thousands

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30, 2011	2010
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net earnings	$ 60,021	$ 53,061
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of investment securities		(38,900)
Loss on sales of premises and equipment	11	64
(Gain)/Loss on sale of other real estate owned	(202)	686
Credit-related impairment loss on investment securities held-to-maturity	546	812
Increase from bank owned life insurance	(2,589)	(2,394)
Net amortization of premiums on investment securities	9,130	3,570
Accretion of SJB Discount	(11,638)	(22,333)
Provisions for credit losses	7,068	48,500
Provisions for revaluation of other real estate owned	3,849	
Decrease in FDIC Loss Sharing Asset	1,118	14,800
Stock-based compensation	1,673	1,676
Depreciation and amortization	7,313	7,965
Change in accrued interest receivable	507	3,142
Change in accrued interest payable	(742)	(1,377)
Change in other assets and liabilities	(24,155)	(227)
Total adjustments	(8,111)	15,984
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 51,910	$ 69,045
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Securities purchased and not settled	$ 20,883	$
Transfer from loans to other real estate owned	$ 29,117	$ 25,547

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the nine months ended September 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated unaudited financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America for interim financial reporting. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission. In the opinion of management, the accompanying condensed consolidated unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

Principles of Consolidation The consolidated financial statements include the accounts of CVB Financial Corp. (the Company) and its wholly owned subsidiary: Citizens Business Bank (the Bank) after elimination of all intercompany transactions and balances. The Company also has three inactive subsidiaries: CVB Ventures, Inc.; Chino Valley Bancorp; and ONB Bancorp. The Company is also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II, CVB Statutory Trust III and FCB Trust II. CVB Statutory Trusts I and II were created in December 2003 and CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. The Company acquired FCB Trust II through the acquisition of First Coastal Bancshares (FCB). In accordance with ASC 810 Consolidation (previously Financial Accounting Standards Board Interpretation No. 46R Consolidation of Variable Interest Entities), these trusts do not meet the criteria for consolidation.

Nature of Operations The Company s primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank also provides automobile and equipment leasing to customers through its Citizens Financial Services Group and trust and investment-related services to customers through its CitizensTrust Division. The Bank s customers consist primarily of small to mid-sized businesses and individuals located in San Bernardino County, Riverside County, Orange County, Los Angeles County, Madera County, Fresno County, Tulare County, Kern County and San Joaquin County. The Bank operates 43 Business Financial Centers, five Commercial Banking Centers, and three wealth management offices with its headquarters located in the city of Ontario.

The Company s operating business units have been divided into two main segments: (i) Business Financial and Commercial Banking Centers (Centers) and (ii) Treasury. The Business Financial and Commercial Banking Centers lines of business generally consist of loans, deposits, and fee generating products and services that the Bank offers to its clients and prospects. The other segment is Treasury, which manages the investment portfolio of the Company. The Company s remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in Other.

The internal reporting of the Company considers all business units. Funds are allocated to each business unit based on its need to fund assets (use of funds) or its need to invest funds (source of funds).

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Net income is determined based on the actual net income of the business unit plus the allocated income or expense based on the sources and uses of funds for each business unit. Non-interest income and non-interest expense are those items directly attributable to a business unit.

Cash and due from banks Cash on hand, cash items in the process of collection, and amounts due from correspondent banks, the Federal Reserve Bank and interest-bearing balances due from depository institutions, with initial terms of ninety days or less, are included in Cash and due from banks.

Investment Securities The Company classifies as held-to-maturity those debt securities that the Company has the positive intent and ability to hold to maturity. Securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available-for-sale. Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized gains and losses being included in current earnings. Available-for-sale securities are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects, presented as a separate component of stockholders equity. Realized gains and losses on sales of securities are recognized in earnings at the time of sale and are determined on a specific-identification basis. Purchase premiums and discounts are recognized in interest income using the effective-yield method over the terms of the securities. For mortgage-backed securities (MBS), the amortization or accretion is based on estimated average lives of the securities. The lives of these securities can fluctuate based on the amount of prepayments received on the underlying collateral of the securities. The Company s investment in Federal Home Loan Bank (FHLB) stock is carried at cost.

At each reporting date, securities are assessed to determine whether there is an other-than-temporary impairment. Other-than-temporary impairment on investment securities is recognized in earnings when there are credit losses on a debt security for which management does not intend to sell and for which it is more-likely-than-not that the Company will not have to sell prior to recovery of the noncredit impairment. In those situations, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security s amortized cost and its fair value would be included in other comprehensive income.

Loans Held for Sale Loans held for sale include mortgage loans originated for resale and other non-covered or covered loans transferred from our held-for-investment portfolio when a decision is made to sell a loan(s) and are reported at the lower of cost or fair value. Occasionally, we may transfer other loans from our held for investment loan portfolio to loans held for sale when a decision is made to sell a loan(s). Normally a formal marketing strategy or plan for sale is developed at the time the decision to sell the loan(s) is made. Cost generally approximates fair value at any reporting date, as the mortgage loans were recently originated. The transfer of the loan to held for sale is done at the lower of cost or fair value and if a reduction in value is required at time of the transfer, a charge-off is recorded against the allowance for credit losses. Any subsequent decline in value or any subsequent gain on sale of the loan is recorded to current earnings and reported as part of other non-interest income. Gains or losses on the sale of loans that are held for sale are recognized at the time of sale and determined by the difference between net sale proceeds and the net book value of the loans. We do not currently retain servicing on any mortgage loans sold.

Loans and Lease Finance Receivables Non-covered loans and lease finance receivables are reported at the principal amount outstanding, less deferred net loan origination fees. In the ordinary course of business, the Company enters into commitments to extend credit to its customers. These commitments are not reflected in the accompanying consolidated financial statements. As of September 30, 2011, the Company had entered into commitments with certain customers amounting to $593.4 million compared to $570.1 million at December 31, 2010. Letters of credit at September 30, 2011 and December 31, 2010, were $64.6 million and $70.4 million, respectively.

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Interest on non-covered loans and lease finance receivables is credited to income based on the principal amount outstanding. Non-covered loans are considered delinquent when principal or interest payments are past due 30 days or more and generally remain on accrual status between 30 and 89 days past due. Interest income is not recognized on non-covered loans and lease finance receivables when collection of interest is deemed by management to be doubtful. Non-covered loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. In general, the accrual of interest on non-covered loans is discontinued when the loan becomes 90 days past due, or when the full collection of principal and interest is no longer probable. Factors considered in determining that the full collection of principal and interest is no longer probable include cash flow and liquidity of the borrower or property, the financial position of the guarantors and their willingness to support the loan as well as other factors and involve significant judgment. When an asset is placed on non-accrual status, previously accrued but unpaid interest is reversed against income. Subsequent collections of cash are applied as reductions to the principal balance unless the loan is returned to accrual status. Interest is not recognized using a cash-basis method. Non-accrual loans may be restored to accrual status when principal and interest become current and when the borrower is able to demonstrate payment performance for a sustained period, typically for six months. A non-accrual loan may return to accrual status sooner based on other significant events or mitigating circumstances. This policy is consistently applied to all classes of non-covered financing receivables.

The Company receives collateral to support loans, lease finance receivables, and commitments to extend credit for which collateral is deemed necessary. The most significant categories of collateral are real estate, principally commercial and industrial income-producing properties, real estate mortgages, and assets utilized in dairy, livestock and agribusiness.

Nonrefundable fees and direct costs associated with the origination or purchase of non-covered loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income over the loan term using the effective-yield method.

Loans are reported as a troubled debt restructuring when the Company grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, reduction of the stated interest rate, or extending the maturity date(s) at a stated interest rate lower than the current market rate for new debt with similar risk. Loans modified that are not reported as a troubled debt restructuring include modifications such as certain extensions of maturity dates, insignificant changes in payment terms, or reductions of interest rates to current market rates where the modified terms are not considered concessions taken into account such items as additional payments made by the borrower to reduce the balance of the loan, additional collateral provided by the borrower, the proportion of the loan to the current liquidity and financial position of guarantors, an insignificant delay in the timing of payments, current market rates for new debt with similar risk to a borrower not in financial difficulty and other factors.

As a result of concessions on troubled debt restructured loans, these loans (both nonaccrual and accrual restructured loans) are deemed impaired. Impairment on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan s carrying value. The impairment amount if any is normally charged-off against the allowance for loan and lease losses.

A loan that has been placed on nonaccrual that is subsequently restructured will usually remain on nonaccrual status until the borrower is able to demonstrate repayment performance in compliance with the restructured terms for a sustained period, typically for six months. A troubled debt restructured loan may return to accrual status sooner based on other significant events or mitigating circumstances. A loan that has not been placed on nonaccrual may be restructured and such loan may remain on accrual status after such troubled debt restructuring.

A loan is generally considered impaired when based on current events and information it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan for which there is an insignificant delay or amount of payments is not considered an impaired loan. Generally, impaired loans include loans on nonaccrual status and performing restructured loans. Depending on a particular loan s circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan s effective interest rate, the fair value of the collateral less estimated costs to sell if the loan is collateral-dependent or an observable market price of the loan (usually only if the loan is held for sale). The Company s policy is to record a specific valuation allowance, which is included in the allowance for credit losses, or charge off that portion of an impaired loan that exceeds its fair value less selling costs. The majority of impaired loans that are collateral dependent are charged-off down to their estimated fair value of the collateral at each reporting date. The fair value is based on current appraisals. These are typically ordered at the time the loan is transferred to our special assets group or when the loan is showing signs of weakness or concern. These appraisals are normally updated at least annually, or more frequent, if there are concerns or indications that the value of the collateral may have changed significantly since the previous appraisal. The appraisals are performed by Bank-approved third-party appraisers. A specific valuation allowance is only recorded on collateral dependent impaired loans when a current appraisal is not yet available, an appraisal is still under review or on single-family mortgage loans if the loans are currently under review for a loan modification. These valuation allowances are generally based on previous appraisals adjusted for current market conditions, based on preliminary appraisal values that are still being reviewed or for single-family loans under review for modification on an appraisal or indications of comparable home sales from external sources. Charge-offs on non-collateral dependent loans are generally recorded when the probability of collection is remote. Charge-offs of unsecured consumer loans are recorded when the loan reaches 120 days past due or sooner as circumstances dictate. Except for the charge-offs of unsecured consumer loans, the charge-off policy is applied consistently across all portfolio segments. Generally, loans that have been charged-off remain on nonaccrual unless the loan has been restructured and the borrower has demonstrated repayment performance under the modified terms for a sustained period and the company believes it will collect all principal and interest due according to the modified terms.

Impairment of single-family mortgage loans that have been modified in accordance with the various government modification programs has been measured based on the present value of the expected cash flows discounted at the loan s pre-modification interest rate. Three such single-family mortgage loans have been returned to accrual status after demonstrating sustained repayment performance. The Company recognizes the change in present value attributable to the passage of time as interest income on such performing single-family mortgage loans and the amount of interest income recognized has been insignificant.

At September 30, 2011, the Company had non-covered impaired loans of $97.4 million. Of this amount, $989,000 consisted of non-accrual residential construction and land loans, $13.8 million in non-accrual commercial construction loans, $18.8 million of non-accrual single family mortgage loans, $25.4 million of non-accrual commercial real estate loans, $3.3 million of non-accrual commercial and industrial loans, $2.6 million of non-accrual dairy and livestock loans and $347,000 of non-accrual consumer loans. Non-covered impaired loans also include $55.7 million of loans whose terms were modified in a troubled debt restructure, of which $23.5 million are classified as non-accrual. The remaining balance of $32.2 million consists of 13 loans performing according to the restructured terms. These impaired loans had specific reserves of $3.1 million at September 30, 2011. At December 31, 2010, the Company had classified as impaired, non-covered loans with a balance of $170.3 million.

Covered Loans We refer to covered loans as those loans that we acquired in the San Joaquin Bank acquisition for which we will be reimbursed for a substantial portion of any future losses under the terms of the FDIC loss sharing agreement. We account for loans under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (acquired impaired loan accounting) when (i) we acquire loans deemed to be impaired when there is evidence of credit deterioration since their origination and it is

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probable at the date of acquisition that we would be unable to collect all contractually required payments and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition. Acquired impaired loans are accounted for individually or in pools of loans based on common risk characteristics. The excess of the loan s or pool s scheduled contractual principal and interest payments over all cash flows expected at acquisition is the nonaccretable difference. The remaining amount, representing the excess of the loan s cash flows expected to be collected over the fair value is the accretable yield (accreted into interest income over the remaining life of the loan or pool).

Provision and Allowance for Credit Losses The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management s judgment, is appropriate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors that would deserve current recognition in estimating inherent credit losses.

There are different qualitative risks for the loans in each portfolio segment. The construction and real estate segments predominant risk characteristic is the collateral and the geographic location of the property collateralizing the loan as well as the operating cash flow for commercial real estate properties. The commercial and industrial segment s predominant risk characteristics are the cash flow of the businesses we lend to, the global cash flows and liquidity of the guarantors as well as economic and market conditions. The dairy and livestock segment s predominant risk characteristics are milk and beef prices in the market as well as the cost of feed and cattle. The municipal lease segment s predominant risk characteristics are the municipality s general financial condition and tax revenues or if applicable the specific project related financial condition. The consumer, auto and other segment s predominant risk characteristics are employment and income levels as it relates to consumers and cash flows of the businesses as it relates to equipment and vehicle leases to businesses.

The Company s methodology is consistently applied across all the portfolio segments taken into account the applicable historical loss rates and the qualitative factors applicable to each pool of loans. A key factor in the Company s methodology is the loan risk rating (Pass, Special Mention, Substandard, Doubtful and Loss). Loan risk ratings are updated as facts related to the loan or borrower become available. In addition, all term loans in excess of $1.0 million are subject to an annual internal credit review process where all factors underlying the loan, borrower and guarantors are reviewed and may result in changes to the loan s risk rating. There has been no significant changes to the methodology or policies in the periods presented, except for one new factor added to the allowance for credit losses methodology during the quarter ended September 30, 2011. As part of the qualitative analysis, this new factor is used to adjust the historical loan loss rates to include an adjustment for indicated volatility in the value of various types of real estate collateral in our market area. The estimate is reviewed quarterly by the Board of Directors and management and periodically by various regulatory entities and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

A provision for credit losses on the covered portfolio will be recorded if there is deterioration in the expected cash flows on covered loans compared to those previously estimated without regard to the reimbursement from the FDIC under the FDIC loss sharing agreement. The portion of the loss on covered loans reimbursable from the FDIC is recorded in noninterest income as an increase in FDIC loss sharing asset. Decreases in expected cash flows on the acquired impaired loans as of the measurement date compared to previously estimated are recognized by recording a provision for credit losses on acquired impaired loans. Loans accounted for as part of a pool are measured based on the expected cash flows of the entire pool.

The provision for credit losses is charged to expense. During the first nine months of 2011, we recorded a provision for credit losses of $7.1 million. The allowance for credit losses was $95.5 million as of September 30, 2011, or 3.01% of total non-covered loans and leases compared to $105.3 million as of December 31, 2010, or 3.12% of total non-covered loans and leases.

Premises and Equipment Premises and equipment are stated at cost, less accumulated depreciation, which is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Properties under capital lease and leasehold improvements are amortized over the shorter of estimated economic lives of 15 years or the initial terms of the leases. Estimated lives are 3 to 5 years for computer equipment, 5 to 7 years for furniture, fixtures and equipment, and 15 to 40 years for buildings and improvements. Long-lived assets are reviewed periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The existence of impairment is based on undiscounted cash flows. To the extent impairment exists, the impairment is calculated as the difference in fair value of assets and their carrying value. The impairment loss, if any, would be recorded in noninterest expense.

FDIC Loss Sharing Asset The FDIC loss sharing asset is initially recorded at fair value which represents the present value of the estimated cash payments from the FDIC for future losses on covered loans. The ultimate collectability of this asset is dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC. The loss estimates used in calculating the FDIC loss sharing asset are determined on the same basis as the loss estimates on the related covered loans and is the present value of the cash flows the Company expects to collect from the FDIC under the shared-loss agreement. The difference between the present value and the undiscounted cash flow the Company expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset is adjusted for any changes in expected cash flows based on the loan performance. Any increases in cash flow of the loans over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the loans over those expected will increase the FDIC indemnification asset. Increase and decreases to the FDIC indemnification asset are recorded as adjustments to other operating income.

Non-covered Other Real Estate Owned Non-covered other real estate owned (OREO) represents real estate acquired through foreclosure in satisfaction of commercial and real estate loans and is stated at fair value, minus estimated costs to sell (fair value at time of foreclosure). Non-covered loan balances in excess of fair value of the real estate acquired at the date of acquisition are charged against the allowance for credit losses. Any subsequent operating expenses or income, reduction in estimated values, and gains or losses on disposition of such properties are charged to current operations.

Covered Other Real Estate Owned All other real estate owned acquired in the FDIC-assisted acquisition of SJB are included in a FDIC shared-loss agreement and are referred to as covered other real estate owned. Covered other real estate owned is reported exclusive of expected reimbursement cash flows from the FDIC. Fair value adjustments on covered other real estate owned result in a reduction of the covered other real estate carrying amount and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss to the Company charged against earnings.

Business Combinations and Intangible Assets The Company has engaged in the acquisition of non FDIC-assisted financial institutions and the assumption of deposits and purchase of assets from other financial institutions in its market area. The Company has paid premiums on certain transactions, and such premiums are recorded as intangible assets, in the form of goodwill or other intangible assets. Goodwill is not being amortized whereas identifiable intangible assets with finite lives are amortized over their useful lives. The Company performed its annual impairment test as of July 1, 2011 to determine whether and to what extent, if any, recorded goodwill was impaired. There was no recorded impairment as of September 30, 2011.

At September 30, 2011 goodwill was $55.1 million. As of September 30, 2011, intangible assets that continue to be subject to amortization include core deposit premiums of $6.4 million (net of $25.6 million of accumulated amortization). Amortization expense for such intangible assets was $2.6 million for the nine months ended September 30, 2011. Estimated amortization expense for the remainder of 2011 is expected to be $852,000. Estimated amortization expense for the succeeding years is $2.2 million for 2012, $1.1 million for 2013, $475,000 for 2014, $437,000 for 2015 and $1.3 million for the period from 2016 to 2019. The weighted average remaining life of intangible assets is approximately 1.7 years.

Bank Owned Life Insurance The Company invests in Bank-Owned Life Insurance (BOLI). BOLI involves the purchasing of life insurance by the Company on a select group of employees. The Company is the owner and primary beneficiary of these policies. BOLI is recorded as an asset at cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other non-interest income and are not subject to income tax.

Income Taxes Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the tax law. Based on historical and future expected taxable earnings and available strategies, the Company considers the future realization of these deferred tax assets more likely than not.

The tax effects from an uncertain tax position are recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of other operating expense.

Earnings per Common Share The Company calculates earnings per common share (EPS) using the two-class method. The two-class method requires the Company to present EPS as if all of the earnings for the period are distributed to common shareholders and any participating securities, regardless of whether any actual dividends or distributions are made. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities. The Company grants restricted shares under the 2008 Equity Incentive Plan that qualify as participating securities. Restricted shares issued under this plan are entitled to dividends at the same rate as common stock.

Basic earnings per common share are computed by dividing income allocated to common stockholders by the weighted-average number of common shares outstanding during each period. The computation of diluted earnings per common share considers the number of tax-effected shares issuable upon the assumed exercise of outstanding common stock options. Share and per share amounts have been retroactively restated to give effect to all stock dividends and splits. The number of shares outstanding at September 30, 2011 was 104,581,689. The tables below presents the reconciliation of earnings per share for the periods indicated.

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Earnings Per Share Reconciliation

(Amounts and shares in thousands, except per share amounts)

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Earnings per common share				
Net earnings available to common shareholders	$ 22,383	$ 17,927	$ 60,021	$ 53,061
Less: Net earnings allocated to restricted stock	81	58	229	181
Net earnings allocated to common shareholders (numerator)	$ 22,302	$ 17,869	$ 59,792	$ 52,880
Weighted Average Shares Outstanding (denominator)	105,117	105,685	105,474	105,926
Earnings per common share	$ 0.21	$ 0.17	$ 0.57	$ 0.50
Diluted earnings per common share				
Net income allocated to common shareholders (numerator)	$ 22,302	$ 17,869	$ 59,792	$ 52,880
Weighted Average Shares Outstanding	105,117	105,685	105,474	105,926
Incremental shares from assumed exercise of outstanding options	89	110	81	171
Diluted Weighted Average Shares Outstanding (denominator)	105,206	105,795	105,555	106,097
Diluted earnings per common share	$ 0.21	$ 0.17	$ 0.57	$ 0.50

Stock-Based Compensation At September 30, 2011, the Company has three stock-based employee compensation plans, which are described more fully in Note 17 in the Company s Annual Report on Form 10-K. The Company accounts for stock compensation using the modified prospective method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are fair valued as of grant date and compensation costs recognized over the vesting period on a straight-lined basis. Also under this method, unvested stock awards as of January 1, 2006 are recognized over the remaining service period with no change in historical reported earnings.

Derivative Financial Instruments All derivative instruments, including certain derivative instruments embedded in other contracts, are recognized on the consolidated balance sheet at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. Changes in fair value of derivatives designated and accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in Other Comprehensive Income, net of deferred taxes and are subsequently reclassified to earnings when the hedged transaction affects earnings. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

Statement of Cash Flows Cash and cash equivalents as reported in the statements of cash flows include cash and due from banks, interest-bearing balances due from depository institutions and federal funds sold with original maturities of three months or less. Cash flows from loans and deposits are reported net.

CitizensTrust This division provides trust, investment and brokerage related services, as well as financial, estate and business succession planning services. CitizensTrust services its clients through three offices in Southern California: Pasadena, Ontario, and Irvine. CitizensTrust has approximately $2.0 billion in assets under administration, including $1.6 billion in assets under management. The amount of these funds and the related liability have not been recorded in the accompanying consolidated balance sheets because they are not assets or liabilities of the Bank or Company, with the exception of any funds held on deposit with the Bank.

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from

those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for credit losses. Other significant estimates which may be subject to change include fair value determinations and disclosures, impairment of investments, goodwill, loans, determining the amount and realization of the FDIC loss sharing asset, and valuation of deferred tax assets, other intangibles and OREO.

Other Contingencies In the ordinary course of business, the Company becomes involved in litigation. Based upon the Company s internal records and discussions with legal counsel, the Company records reserves as appropriate, for estimates of the probable outcome of all cases brought against the Company. Except as discussed in Part II Other Information Item 1. Legal Proceedings, at September 30, 2011 the Company does not have any litigation reserves and is not aware of any material pending legal action or complaints asserted against the Company.

Recent Accounting Pronouncements In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The update provides additional guidance for creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The provisions of this standard are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to restructurings occurring on or after January 1, 2011. The adoption of this guidance on July 1, 2011 did not have a material effect on the Company s consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment.* The provisions of ASU 2011-08 permits an entity an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further impairment testing is required. ASU 2011-08 includes examples of events and circumstances that may indicate that a reporting unit s fair value is less than its carrying amount. The provisions of ASU No. 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted provided that the entity has not yet performed its annual impairment test for goodwill. The Company performs its annual impairment test for goodwill on July 1 of each year. The adoption of ASU 2011-08 is not expected to have a material impact on the Company s statements of income and condition.

Reclassification Certain amounts in the prior periods financial statements and related footnote disclosures have been reclassified to conform to the current presentation with no impact on previously reported net income or stockholders equity.

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2. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are shown below. The majority of securities held are publicly traded, and the estimated fair values were obtained from an independent pricing service based upon market quotes.

	September 30, 2011				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Amounts in thousands)				
Investment Securities Available-for-Sale:					
Government agency & government-sponsored enterprises	$ 46,336	$ 275	$	$ 46,611	2.15%
Residential mortgage-backed securities	927,695	21,436	(511)	948,620	43.77%
CMO s / REMIC s Residential	516,952	13,600	(67)	530,485	24.48%
Municipal bonds	608,528	33,362	(447)	641,443	29.60%
Total Investment Securities	$ 2,099,511	$ 68,673	$ (1,025)	$ 2,167,159	100.00%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Amounts in thousands)				
Investment Securities Available-for-Sale:					
Government agency & government-sponsored enterprises	$ 106,368	$ 119	$ (214)	$ 106,273	5.93%
Residential mortgage-backed securities	801,370	13,405	(6,366)	808,409	45.12%
CMO s / REMIC s Residential	267,556	4,300	(1,379)	270,477	15.10%
Municipal bonds	605,199	10,943	(9,743)	606,399	33.85%
Total Investment Securities	$ 1,780,493	$ 28,767	$ (17,702)	$ 1,791,558	100.00%

Approximately 70.14% of the available-for-sale portfolio at September 30, 2011 represents securities issued by the U.S government or U.S. government-sponsored enterprises, with the implied guarantee of payment of principal and interest. The remaining CMO/REMICs are backed by agency-pooled collateral or whole loan collateral. All non-agency available-for-sale CMO/REMIC issues held are rated investment grade or better by either Standard & Poor s or Moody s, as of September 30, 2011 and December 31, 2010.

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Composition of the Fair Value and Gross Unrealized Losses of Securities:

	September 30, 2011					
	Less than 12 months		12 months or longer		Total	
Description of Securities	**Fair Value**	**Gross Unrealized Holding Losses**	**Fair Value**	**Gross Unrealized Holding Losses**	**Fair Value**	**Gross Unrealized Holding Losses**
			(Amounts in thousands)			
Held-To-Maturity						
CMO	$	$	$ 2,574	$	$ 2,574	$
Available-for-Sale						
Government agency	$	$	$	$	$	$
Residential mortgage-backed securities	79,630	511			79,630	511
CMO s/REMIC s Residential	22,749	67			22,749	67
Municipal bonds	3,898	87	13,002	360	16,900	447
	$ 106,277	$ 665	$ 13,002	$ 360	$ 119,279	$ 1,025

	December 31, 2010					
	Less than 12 months		12 months or longer		Total	
Description of Securities	**Fair Value**	**Gross Unrealized Holding Losses**	**Fair Value**	**Gross Unrealized Holding Losses**	**Fair Value**	**Gross Unrealized Holding Losses**
			(Amounts in thousands)			
Held-To-Maturity						
CMO	$	$	$ 3,143	$ 401	$ 3,143	$ 401
Available-for-Sale						
Government agency	$ 79,635	$ 214	$	$	$ 79,635	$ 214
Residential mortgage-backed securities	449,806	6,366			449,806	6,366
CMO s/REMIC s Residential	144,234	1,379			144,234	1,379
Municipal bonds	225,928	8,844	5,585	899	231,513	9,743
	$ 899,603	$ 16,803	$ 5,585	$ 899	$ 905,188	$ 17,702

The tables above show the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2011 and December 31, 2010. The Company has reviewed individual securities to determine whether a decline in fair value below the amortized cost is other-than-temporary.

The following summarizes our analysis of these securities and the unrealized losses. This assessment was based on the following factors: i) the length of the time and the extent to which the fair value has been less than amortized cost; ii) adverse condition specifically related to the security, an industry, or a geographic area and whether or not the Company expects to recover the entire amortized cost, iii) historical and implied volatility of the fair value of the security; iv) the payment structure of the security and the likelihood of the issuer being able to make payments in the future; v) failure of the issuer of the security to make scheduled interest or principal payments, vi) any changes to the rating of the security by a rating agency, and vii) recoveries or additional declines in fair value subsequent to the balance sheet date.

CMO Held-to-Maturity We have one investment security classified as held-to-maturity. This security was issued by Countrywide Financial and is collateralized by Alt-A mortgages. The mortgages are primarily fixed-rate, 30-year loans, originated in early 2006 with average FICO scores of 715 and an average LTV of 71% at origination. The security was a senior security in the securitization, was rated AAA at origination and was supported by subordinate securities. This security is classified as held-to-maturity

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as we have both the intent and ability to hold this debt security to maturity as the amount of the security, $2.6 million, is not significant to our liquidity needs. We acquired this security in February 2008 at a price of 98.25%. The significant decline in the fair value of the security first appeared in August 2008 as the current financial crisis in the markets occurred and the market for securities collateralized by Alt-A mortgages diminished.

As of September 30, 2011, we had no unrealized loss on this security and the fair value on the security was 59% of the current par value. The security is rated non-investment grade. We evaluated the security for an other than temporary decline in fair value as of September 30, 2011. We assess for credit impairment using a cash flow model. The key assumptions include default rates, severities and prepayment rates. This security was determined to have additional credit impairment during the third quarter of 2011 due to continued degradation in expected cash flows primarily due to higher loss forecasts. We determined the amount of the credit impairment by discounting the expected future cash flows of the underlying collateral. We recognized an other-than-temporary impairment loss of $546,000 during the first nine months of 2011.

The following table provides a roll-forward of credit-related other-than-temporary impairment recognized in earnings for the nine months ended September 30, 2011.

	For the nine months ended September 30, 2011 (Amounts in thousands)	
Balance, beginning of the period	$	1,227
Addition of OTTI that was not previously recognized		546
Reduction for securities sold during the period		
Reduction for securities with OTTI recognized in earnings because the security might be sold before recovery of its amortized cost basis		
Addition of OTTI that was previously recognized because the security might not be sold before recovery of its amortized cost basis		
Reduction for increases in cash flows expected to be collected that are recognized over the remaining life of the security		
Balance, end of the period	$	1,773

Government Agency The government agency bonds are backed by the full faith and credit of Agencies of the U.S. Government. These securities are bullet securities, that is, they have a defined maturity date on which the principal is paid. The contractual term of these investments provides that the Company will receive the face value of the bond at maturity which will equal the amortized cost of the bond. Interest is received throughout the life of the security. There was no loss greater than 12 months on these securities at September 30, 2011.

Mortgaged-Backed Securities and CMO/REMICs Almost all of the mortgage-backed and CMO/REMICs securities are issued by the government-sponsored enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying residential mortgages. All mortgage-backed securities are rated investment grade with an average life of approximately 3.20 years. The contractual cash flows of 99.62% of these investments have the implied guarantee of the U.S. government provided to the U.S. government-sponsored agencies. The remaining 0.38% is issued by banks. Accordingly, it is expected the securities would not be settled at a price less than the amortized cost of the bonds. There was no loss greater than 12 months on these securities at September 30, 2011.

Municipal Bonds Ninety-nine percent of our $641.4 million municipal bond portfolio contains securities which have an underlying rating of investment grade. The majority of our municipal bonds are insured by the largest bond insurance companies with remaining maturities of approximately 6.16 years.

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The unrealized loss greater than 12 months on these securities at September 30, 2011 was $360,000. The Company diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Company s exposure to any single adverse event. Because we believe the decline in fair value is attributable to the changes in interest rates and not credit quality and because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized costs, which may be at maturity, management does not consider these investments to be other than temporarily impaired at September 30, 2011.

We are continually monitoring the quality of our municipal bond portfolio in light of the current financial problems exhibited by certain monoline insurance companies. Many of the securities that would not be rated without insurance are pre-refunded and/or are general obligation bonds. Based on our monitoring of the municipal marketplace, to our knowledge, none of the municipalities are exhibiting financial problems that would lead us to believe there is a loss in any given security.

At September 30, 2011 and December 31, 2010, investment securities having an amortized cost of approximately $2.08 billion and $1.74 billion respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at September 30, 2011, by contractual maturity, are shown below. Although mortgage-backed securities and CMO/REMICs have contractual maturities through 2029, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed securities and CMO/REMICs are included in maturity categories based upon estimated prepayment speeds.

	Available-for-sale		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(amounts in thousands)		
Due in one year or less	$ 118,285	$ 120,634	3.18%
Due after one year through five years	1,568,458	1,615,177	2.96%
Due after five years through ten years	349,878	367,200	3.71%
Due after ten years	62,890	64,148	3.94%
	$ 2,099,511	$ 2,167,159	3.13%

The investment in FHLB stock is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through September 30, 2011.

3. LOAN AND LEASE FINANCE RECEIVABLES

The following is a summary of the components of held-for-investment loan and lease finance receivables (amounts in thousands):

	September 30, 2011		
	Non-Covered Loans	Covered Loans	Total
Commercial and Industrial	$ 475,630	$ 35,320	$ 510,950
Real Estate:			
Construction	77,364	24,065	101,429
Commercial Real Estate	1,958,287	213,763	2,172,050
SFR Mortgage	188,066	3,584	191,650
Consumer	50,179	8,489	58,668
Municipal lease finance receivables	115,532	271	115,803
Auto and equipment leases, net of unearned discount	16,237		16,237
Dairy and Livestock	292,049		292,049
Agribusiness	2,136	46,491	48,627
Gross Loans	$ 3,175,480	$ 331,983	$ 3,507,463
Less: Purchase accounting discount		(51,646)	(51,646)
Less: Deferred net loan fees	(5,115)		(5,115)
Gross loans, net of deferred loan fees	$ 3,170,365	$ 280,337	$ 3,450,702
Less: Allowance for credit losses	(95,528)		(95,528)
Net Loans	$ 3,074,837	$ 280,337	$ 3,355,174

	December 31, 2010		
	Non-Covered Loans	Covered Loans	Total
Commercial and Industrial	$ 460,399	$ 39,587	$ 499,986
Real Estate:			
Construction	138,980	84,498	223,478
Commercial Real Estate	1,980,256	292,014	2,272,270
SFR Mortgage	218,467	5,858	224,325
Consumer	56,747	10,624	67,371
Municipal lease finance receivables	128,552	576	129,128
Auto and equipment leases, net of unearned discount	17,982		17,982
Dairy and Livestock	376,143		376,143
Agribusiness	1,686	55,618	57,304
Gross Loans	$ 3,379,212	$ 488,775	$ 3,867,987
Less: Purchase accounting discount		(114,763)	(114,763)
Less: Deferred net loan fees	(5,484)		(5,484)
Gross loans, net of deferred loan fees	$ 3,373,728	$ 374,012	$ 3,747,740
Less: Allowance for credit losses	(105,259)		(105,259)