

CVB FINANCIAL CORP
Form 10-Q
August 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from _____ to _____

Commission File Number: 0-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of

95-3629339
(I.R.S. Employer

incorporation or organization)

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 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 No

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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

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

Number of shares of common stock of the registrant: 104,786,079 outstanding as of July 30, 2012.

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CVB FINANCIAL CORP.

2012 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, will, and similar words and 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 property inventory and continued deterioration in values of California real estate, both residential and commercial; a prolonged slowdown or decline 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 cost or effect of acquisitions we may make; the effect of changes in laws and regulations (including laws, regulations and judicial decisions concerning financial reform, taxes, banking, securities, employment, executive compensation, insurance, and information security) with which we and our subsidiaries must comply; changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; inflation, interest rate, securities market and monetary fluctuations; cyber-security threats including loss of system functionality or theft or loss of data; 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, retain customers 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, and our ability to retain or expand our management team; 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, 2011. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by law.

Table of Contents**PART I FINANCIAL INFORMATION (UNAUDITED)****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****CVB FINANCIAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except share data)

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 105,199	\$ 35,407
Interest-earning balances due from Federal Reserve	371,496	309,936
Total cash and cash equivalents	476,695	345,343
Interest-earning balances due from depository institutions	60,000	60,000
Investment securities available-for-sale, at fair value (with amortized cost of \$2,184,386 at June 30, 2012 and \$2,130,029 at December 31, 2011)	2,259,531	2,201,526
Investment securities held-to-maturity	2,191	2,383
Investment in stock of Federal Home Loan Bank (FHLB)	65,814	72,689
Non-covered loans held-for-sale	2,880	348
Covered loans held-for-sale		5,664
Loans and lease finance receivables, excluding covered loans	3,174,908	3,219,727
Allowance for credit losses	(91,892)	(93,964)
Net non-covered loans and lease finance receivables	3,083,016	3,125,763
Covered loans and lease finance receivables, net	210,147	256,869
Premises and equipment, net	36,462	36,280
Bank owned life insurance	117,610	116,132
Accrued interest receivable	22,385	23,512
Intangibles	4,279	5,548
Goodwill	55,097	55,097
FDIC loss sharing asset	40,897	59,453
Non-covered other real estate owned	10,394	13,820
Covered other real estate owned	3,240	9,782
Income taxes	25,615	48,033
Other assets	47,710	44,673
TOTAL ASSETS	\$ 6,523,963	\$ 6,482,915
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 2,252,280	\$ 2,027,876
Interest-bearing	2,446,570	2,576,672

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Total deposits	4,698,850	4,604,548
Customer repurchase agreements	467,636	509,370
Borrowings	448,798	448,662
Accrued interest payable	3,355	3,526
Deferred compensation	8,940	8,735
Junior subordinated debentures	87,631	115,055
Other liabilities	60,500	78,205
TOTAL LIABILITIES	5,775,710	5,768,101
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 104,807,879 at June 30, 2012 and 104,482,271 at December 31, 2011	483,226	479,973
Retained earnings	221,443	193,372
Accumulated other comprehensive income, net of tax	43,584	41,469
Total stockholders' equity	748,253	714,814
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 6,523,963	\$ 6,482,915

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CVB FINANCIAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income:				
Loans held-for-sale	\$ 6	\$ 10	\$ 10	\$ 29
Loans and leases, including fees	47,692	48,980	93,720	98,325
Accelerated accretion on acquired loans	7,521	5,707	12,213	7,658
Loans, including fees	55,219	54,697	105,943	106,012
Investment securities:				
Taxable	8,786	10,152	17,956	18,990
Tax-advantaged	5,785	5,921	11,581	11,840
Total investment income	14,571	16,073	29,537	30,830
Dividends from FHLB	94	66	184	131
Federal funds sold and interest-bearing deposits with other institutions	295	346	580	721
Total interest income	70,179	71,182	136,244	137,694
Interest expense:				
Deposits	1,554	2,220	3,207	5,008
Borrowings	4,876	5,742	9,847	11,538
Junior subordinated debentures	789	825	1,628	1,644
Total interest expense	7,219	8,787	14,682	18,190
Net interest income before provision for credit losses	62,960	62,395	121,562	119,504
Provision for credit losses				7,068
Net interest income after provision for credit losses	62,960	62,395	121,562	112,436
Noninterest income:				
Net impairment loss on investment securities recognized in earnings		(119)		(119)
Service charges on deposit accounts	4,068	4,029	8,192	7,752
Trust and investment services	2,042	2,259	4,227	4,412
Bankcard services	1,007	816	1,926	1,524
BOLI Income	740	1,149	1,490	1,856
Decrease in FDIC loss sharing asset, net	(9,336)	(1,689)	(12,280)	(274)
Other	3,771	(451)	3,993	821
Total noninterest income	2,292	5,994	7,548	15,972

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Noninterest expense:				
Salaries and employee benefits	16,646	18,220	33,367	35,880
Occupancy and equipment	3,624	4,081	7,572	8,402
Professional services	1,702	5,028	3,693	8,637
Software licenses and maintenance	989	1,075	1,898	2,035
Promotion	1,314	1,205	2,565	2,530
Amortization of Intangibles	452	866	1,268	1,767
Provision for unfunded commitments				732
OREO expense	323	1,670	1,053	2,776
Other	3,899	5,010	7,745	10,701
Total noninterest expense	28,949	37,155	59,161	73,460
Earnings before income taxes	36,303	31,234	69,949	54,948
Income taxes	12,684	10,196	24,062	17,310
Net earnings	\$ 23,619	\$ 21,038	\$ 45,887	\$ 37,638
Other comprehensive income:				
Unrealized (loss) gain on securities arising during the period	\$ 3,720	\$ 28,316	\$ 3,647	\$ 32,607
Less: Reclassification adjustment for net gain on securities included in net income		(119)		(119)
Other comprehensive income, before tax	3,720	28,435	3,647	32,726
Income tax related to items of other comprehensive income	(1,563)	(12,009)	(1,532)	(13,745)
Other comprehensive income, net of tax	\$ 2,157	\$ 16,426	\$ 2,115	\$ 18,981
Comprehensive income	\$ 25,776	\$ 37,464	\$ 48,002	\$ 56,619
Basic earnings per common share	\$ 0.23	\$ 0.20	\$ 0.44	\$ 0.35
Diluted earnings per common share	\$ 0.23	\$ 0.20	\$ 0.44	\$ 0.35
Cash dividends per common share	\$ 0.085	\$ 0.085	0.17	0.17

See accompanying notes to condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Six Months Ended June 30, 2012 and 2011

(Unaudited)

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
(Dollars and shares in thousands)					
Balance January 1, 2011	106,076	\$ 490,226	\$ 147,444	\$ 6,185	\$ 643,855
Exercise of stock options	8	57			57
Tax benefit from exercise of stock options		2			2
Stock-based Compensation Expense		1,187			1,187
Cash dividends declared					
Common (\$0.17 per share)			(18,035)		(18,035)
Net earnings			37,638		37,638
Other comprehensive income				18,981	18,981
Balance June 30, 2011	106,084	\$ 491,472	\$ 167,047	\$ 25,166	\$ 683,685
Balance January 1, 2012	104,482	\$ 479,973	\$ 193,372	\$ 41,469	\$ 714,814
Exercise of stock options	326	2,240			2,240
Tax benefit from exercise of stock options		176			176
Stock-based Compensation Expense		837			837
Cash dividends declared					
Common (\$0.17 per share)			(17,816)		(17,816)
Net earnings			45,887		45,887
Other comprehensive income				2,115	2,115
Balance June 30, 2012	104,808	\$ 483,226	\$ 221,443	\$ 43,584	\$ 748,253

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CVB FINANCIAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(unaudited)

	For the Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and dividends received	\$ 135,863	\$ 135,906
Service charges and other fees received	18,983	16,241
Interest paid	(14,716)	(18,563)
Cash paid to vendors and employees	(58,934)	(64,133)
Income taxes paid	(3,000)	(57,000)
Proceeds from FDIC loss sharing agreements	6,276	29,180
Net cash provided by operating activities	84,472	41,631
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of FHLB Stock	6,875	7,000
Proceeds from repayment of investment securities	254,040	154,634
Proceeds from maturity of investment securities	65,652	41,340
Purchases of investment securities	(403,285)	(350,443)
Net decrease in loans and lease finance receivables	103,264	192,817
Proceeds from sales of premises and equipment	25	147
Proceeds from sales of other real estate owned	13,478	4,866
Purchase of premises and equipment	(2,913)	(459)
Net cash provided by investing activities	37,136	49,902
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in transaction deposits	169,280	187,962
Net decrease in time deposits	(74,978)	(202,517)
Net decrease in other borrowings		566
Net decrease in customer repurchase agreements	(41,734)	(6,768)
Repayment of FCB Statutory Trust II	(6,805)	
Partial Repayment of CBB Statutory Trust I	(20,619)	
Cash dividends on common stock	(17,816)	(18,035)
Proceeds from exercise of stock options	2,240	57
Tax benefit related to exercise of stock options	176	2
Net cash provided by (used in) financing activities	9,744	(38,733)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	131,352	52,800
CASH AND CASH EQUIVALENTS, beginning of period	345,343	404,275
CASH AND CASH EQUIVALENTS, end of period	\$ 476,695	\$ 457,075

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See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CVB FINANCIAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Dollars in thousands)

(unaudited)

	For the Six Months Ended June 30,	
	2012	2011
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net earnings	\$ 45,887	\$ 37,638
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of capitalized prepayment penalty on borrowings	136	
(Gain)/loss on sale of premises and equipment	6	(13)
(Gain)/loss on sale of other real estate owned	(825)	(74)
Credit-related impairment loss on investment securities held-to-maturity		119
Increase from bank owned life insurance	(1,478)	(1,856)
Net amortization of premiums on investment securities	11,123	5,848
Accretion of SJB Discount	(12,213)	(7,658)
Provisions for credit losses		7,068
Provisions for losses on other real estate owned	318	2,347
Change in FDIC loss sharing Asset	12,280	274
Stock-based compensation	837	1,187
Depreciation and amortization	3,968	4,995
Proceeds from FDIC loss sharing agreements	6,276	29,180
Change in accrued interest receivable	1,127	647
Change in accrued interest payable	(171)	(508)
Change in other assets and liabilities	17,201	(37,563)
Total adjustments	38,585	3,993
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 84,472	\$ 41,631

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES

Securities purchased and not settled	\$ 2,335	\$ 5,884
Transfer from loans to Other Real Estate Owned	\$ 3,003	\$ 17,538

See accompanying notes to the condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2012, and 2011

(unaudited)

1. BUSINESS

The condensed consolidated financial statements include the accounts of CVB Financial Corp. and its wholly owned subsidiaries (the Company): 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, and CVB Statutory Trust III. 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. In accordance with ASC 810 Consolidation (previously Financial Accounting Standards Board (FASB) Interpretation No. 46R Consolidation of Variable Interest Entities), these trusts do not meet the criteria for consolidation.

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 42 Business Financial Centers, five Commercial Banking Centers, and two trust office locations with its headquarters located in the city of Ontario.

2. BASIS OF PRESENTATION

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 (SEC) 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 (GAAP) for interim financial reporting. The results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results for the full year. These unaudited 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, 2011 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 condensed consolidated financial statements follows.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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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 of San Francisco (FHLB) stock is carried at cost.

At each reporting date, securities are assessed to determine whether there is an other-than-temporary impairment (OTTI). 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. 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 (ALLL). 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 that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, less deferred net loan origination fees. In the ordinary course of business, the Company enters into commitments to extend credit to its customers. To the extent that such commitments are unfunded amounts are not reflected in the accompanying condensed consolidated financial statements.

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, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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 nonaccrual 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. Nonaccrual 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 nonaccrual 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, and various personal property assets utilized in commercial and industrial business governed under the Uniform Commercial Code.

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.

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Troubled Debt Restructurings Loans are reported as a Troubled Debt Restructuring (TDR) if the Company for economic or legal reasons related to the debtor s financial difficulties grants a concession to the debtor that it would not otherwise consider. Types of modifications that may be considered concessions that result in a TDR include, but are not limited to, (i) a reduction of the stated interest rate for the remaining original life of the debt, (ii) an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement, or (iv) a reduction of interest. Where collateral is offered by a borrower and it is significant in proportion to the nature of the concession requested, to the extent that it substantially reduces the Company s risk of loss we may provide a concession. In such cases, these modifications are not considered a TDR- as, in substance, no concession was made as a result of the significant additional collateral obtained.

When determining whether or not a loan modification is a TDR under ASC 310-40, the Company evaluates loan modification requests from borrowers experiencing financial difficulties on a case-by-case basis. Any such modifications granted are unique to the borrower s circumstances, and because the Company s focus in the commercial lending sector with its unique attributes are dependent on the characteristics of each business customer, modifications of loans to those customers are not easily categorized by type, key features, or other terms, but are evaluated individually based on all relevant facts and circumstances pertaining to the modification request and the borrower s/guarantor s financial condition at the time of the request. The evaluation of whether or not the borrower is experiencing financial difficulties will include, among other relevant factors considered by the Company, a review of significant factors such as (i) whether the borrower is in default on any of its debt, (ii) whether the borrower is experiencing payment delinquency, (iii) whether the global cash flows of the borrower and the owner guarantor(s) of the borrower have diminished below what is necessary to service existing debt obligations, (iv) whether the borrowers forecasted cash flows will be insufficient to service the debt in future periods or in accordance with the contractual terms of the existing agreement through maturity, (v) whether the borrower is unable to refinance the subject debt from other financing sources with similar terms, and (vi) whether the borrower is in jeopardy as a going-concern and/or considering bankruptcy. In any case, the debtor is presumed to be experiencing financial difficulties if the Company determines it is probable the debtor will default on the original loan if the modification is not granted.

The types of loans subject to modification vary greatly, but during the subject period are concentrated in commercial and industrial loans, dairy and agricultural loans, and term loans to commercial real estate investors. Some examples of key features include payment deferrals and delays, interest rate reductions, and extensions or renewals where the contract rate may or may not be below the market rate of interest for debt with similar characteristics as those of the modified debt. The typical length of the modified terms ranges from three (3) to twelve (12) months; however, all actual modified terms will depend on the facts, circumstances and attributes of the specific borrower requesting a modification. In general, after a careful evaluation of all relevant facts and circumstances taken together, including the nature of any concession, certain modification requests will result in troubled debt restructurings while certain other modifications will not, pursuant to the criteria and judgments as discussed throughout this report. In certain cases, modification requests for delays or deferrals of principal were evaluated and determined to be exempt from TDR reporting because they constituted insignificant delays under ASC 310-40-15.

In situations where the Company has determined that the borrower is experiencing financial difficulties and is evaluating whether a concession is *insignificant*, and therefore does not result in a troubled debt restructuring, the analysis is based on an evaluation of both the *amount* and the *timing* of the restructured payments, including the following factors:

1. Whether the amount of the restructured payments subject to delay is insignificant relative to the unpaid principal balance or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due; and
2. The delay is insignificant relative to any of the following:

The frequency of payments due;

The debt s original contractual maturity; or

The debt s original expected duration.

Most modified loans *not* classified and accounted for as troubled debt restructurings were performing and paying as agreed under their original terms in the six-month period immediately preceding a request for modification. Subsequently, these modified loans continue to perform under

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the modified terms and deferrals that amounted to insignificant delays which is supported by the fact and circumstances of each individual loan as described above. Payment performance continues to be monitored once modifications are made. The Company's favorable experience regarding re-defaults under modified terms, or upon return of the loan to its original terms, indicates that such relief may improve ultimate collection and reduces the Company's risk of loss.

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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 including a restructured loan, for which there is an insignificant delay relative to the frequency of payments due, and/or original contractual maturity is not considered an impaired loan. Generally, impaired loans include loans on nonaccrual status and TDRs.

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 represents the impairment or shortfall amount as determined utilizing one of the three methods described in ASC 310-10-35-22. Impairment on non-collateral dependent restructured loans is 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 generally charged off and recorded against the allowance for credit losses at the time impairment is measurable and a probable loss is determined. As a result, most of the TDRs have no specific allowance allocated because, consistent with the Company's stated practice, any impairment is typically charged off in the period in which it is identified. Impairment on collateral dependent restructured loans is measured by determining the amount the impaired loan exceeds the fair value of the collateral less estimated selling costs. The fair value is generally determined by an appraisal of the collateral performed by a Company approved third-party independent appraiser. The majority of impaired loans that are collateral dependent are charged-off down to their estimated fair value of the collateral (less selling costs) at each reporting date based on current appraised value.

Appraisals of the collateral for impaired collateral dependent loans are typically ordered at the time the loan is identified as showing signs of inherent weakness. These appraisals are normally updated at least annually, or more frequently, if there are concerns or indications that the value of the collateral may have changed significantly since the previous appraisal. On exception, a specific valuation allowance is only recorded on collateral dependent impaired loans when a current appraisal is not yet available, a recent appraisal is still under review or on single-family mortgage loans if the loans are currently under review for a loan modification. Such 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 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.

The Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, the Company may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan. Impaired single-family mortgage loans that have been modified in accordance with the various government modification programs are also measured based on the present value of the expected cash flows discounted at the loan's pre-modification interest rate. 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.

Covered Loans We refer to covered loans as those loans that we acquired in the San Joaquin Bank (SJB) acquisition for which we will be reimbursed for a substantial portion of any future losses under the terms of the Federal Deposit Insurance Corporation (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 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 allowance for credit losses is established as management's estimate of probable losses inherent in the loan and lease receivables portfolio. The allowance is increased by the provision for losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. 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

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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 Agribusiness segment's predominant risk characteristics are the supply and demand conditions of the product, production seasonality, the scale of operations and ability to control costs, the availability and cost of water, and operator experience.

The Company's methodology is consistently applied across all portfolio segments taking 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. Periodically, we assess various attributes utilized in adjusting our historical loss factors to reflect current economic conditions. 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.

FDIC Loss Sharing Asset On October 16, 2009, the Bank acquired substantially all of the assets and assumed substantially all of the liabilities of San Joaquin Bank (SJB) from the FDIC in an FDIC-assisted transaction. The Bank entered into a loss sharing agreement with the FDIC, whereby the FDIC will cover a substantial portion of any future losses on certain acquired assets. The acquired assets subject to the loss sharing agreement are referred to collectively as covered assets. Under the terms of such loss sharing agreement, the FDIC will absorb 80% of losses and share in 80% of loss recoveries up to \$144.0 million with respect to covered assets, after a first loss amount of \$26.7 million. The FDIC will reimburse the Bank for 95% of losses and share in 95% of loss recoveries in excess of \$144.0 million with respect to covered assets. The loss sharing agreement is in effect for 5 years for commercial loans and 10 years for single-family residential loans from the October 16, 2009 acquisition date and the loss recovery provisions are in effect for 8 and 10 years, respectively for commercial and single-family residential loans from the acquisition date.

The FDIC loss sharing asset was 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 loss sharing 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. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

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Goodwill and Intangible Assets Goodwill resulting from business combinations prior to January 1, 2009, represents the excess of the purchase price over the fair value of the net assets of the businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interest in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually, or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company selected July 1 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet. There was zero recorded impairment as of June 30, 2012.

Other intangible assets consist of core deposit intangible assets arising from business combinations and are amortized using an accelerated method over their estimated useful lives.

At June 30, 2012, goodwill was \$55.1 million. As of June 30, 2012, intangible assets that continue to be subject to amortization include core deposit premiums of \$4.3 million (net of \$27.7 million of accumulated amortization). Amortization expense for such intangible assets was \$1.3 million for the six months ended June 30, 2012. Estimated amortization expense for the remainder of 2012 is expected to be \$891,000. Estimated amortization expense for the succeeding years is \$1.1 million for 2013, \$475,000 for 2014, \$437,000 for 2015, \$395,000 for 2016 and \$955,000 for the period from 2017 to 2019. The weighted average remaining life of intangible assets is approximately 1.3 years.

Fair Value of Financial Instruments We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Investment securities available-for-sale and interest-rate swaps are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a non-recurring basis, such as impaired loans and OREO. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or writedowns of individual assets. Further, we include in Note 7 to the condensed consolidated financial statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value we disclose the estimate of their fair value.

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 June 30, 2012 was 104,807,879. The tables below present the reconciliation of earnings per share for the periods indicated.

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
(In thousands, except per share amount)				
Earnings per common share				
Net earnings available to common shareholders	\$ 23,619	\$ 21,038	\$ 45,887	\$ 37,638
Less: Net earnings allocated to restricted stock	82	82	149	148
Net earnings allocated to common shareholders (numerator)	\$ 23,537	\$ 20,956	\$ 45,738	37,490
Weighted Average Shares Outstanding (denominator)	104,378	105,659	104,341	105,655
Earnings per common share	\$ 0.23	\$ 0.20	\$ 0.44	0.35
Diluted earnings per common share				
Net income allocated to common shareholders (numerator)	\$ 23,537	\$ 20,956	\$ 45,738	\$ 37,490
Weighted Average Shares Outstanding	104,378	105,659	104,341	105,655
Incremental shares from assumed exercise of outstanding options	240	105	221	79
Diluted Weighted Average Shares Outstanding (denominator)	104,618	105,764	104,562	105,734
Diluted earnings per common share	\$ 0.23	\$ 0.20	\$ 0.44	0.35

Stock-Based Compensation At June 30, 2012, the Company has three stock-based employee compensation plans, which are described more fully in Note 18 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 condensed 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.

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with GAAP 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 June 30, 2012 the Company does not have any litigation reserves and is not aware of any material pending legal action or complaints asserted against the Company.

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Recent Accounting Pronouncements In April 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The provisions of ASU No. 2011-03 modify the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale. Currently, an entity that maintains effective control over transferred financial assets must account for the transfer as a secured borrowing rather than as a sale. ASU No. 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. ASU No. 2011-03 does not change the other existing criteria used in the assessment of effective control. The Company adopted the provisions of ASU No. 2011-03 prospectively for transactions or modifications of existing transactions that occurred on or after January 1, 2012. As the Company accounted for all of its repurchase agreements as collateralized financing arrangements prior to the adoption of ASU No. 2011-03, the adoption had no impact on the Company's condensed consolidated financial Statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The provisions of ASU No. 2011-04 result in a consistent definition of fair value and common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity's net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to qualitatively describe the sensitivity of fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The Company adopted the provisions of ASU No. 2011-04 effective January 1, 2012. The fair value measurement provisions of ASU No. 2011-04 had no impact on the Company's condensed consolidated financial statements. See Note 7 to the condensed consolidated financial statements for the enhanced disclosures required by ASU No. 2011-04.

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On October 16, 2009 the Bank acquired SJB and entered into a loss sharing agreement with the FDIC that is more fully discussed in the Significant Accounting Policies (Note 3) included herein.

Loans acquired from the SJB acquisition have been performing better than originally expected. At June 30, 2012, the remaining discount associated with the SJB loans approximates \$36.5 million. Based on the current re-forecast of expected cash flows, approximately \$17 million of the discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which approximates 4.5 years and 2.0 years, respectively. Due to the decrease in estimated losses to be incurred in the remaining portfolio, the expected reimbursement from the FDIC under the loss sharing agreement decreased. The FDIC loss sharing asset of \$40.9 million at June 30, 2012 will be reduced by loss claims submitted to the FDIC with the remaining balance amortized on the same basis as the discount, not to exceed its remaining contract life of approximately 2.5 years.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are summarized 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.

	Amortized Cost	June 30, 2012		Fair Value	Total Percent
		Gross Unrealized Holding Gain	Gross Unrealized Holding Loss		
(Dollars in thousands)					
Investment Securities Available-for-Sale:					
Government agency & government-sponsored enterprises	\$ 32,172	\$ 190	\$	\$ 32,362	1.43%
Residential mortgage-backed securities	839,345	23,977		863,322	38.21%
CMO s / REMIC s Residential	709,884	9,679	(1,043)	718,520	31.80%
Municipal bonds	592,528	42,741	(418)	634,851	28.10%
Other securities	10,457	19		10,476	0.46%
Total Investment Securities	\$ 2,184,386	\$ 76,606	\$ (1,461)	\$ 2,259,531	100.00%

	Amortized Cost	December 31, 2011		Fair Value	Total Percent
		Gross Unrealized Holding Gain	Gross Unrealized Holding Loss		
(Dollars in thousands)					
Investment Securities Available-for-Sale:					
Government agency & government-sponsored enterprises	\$ 46,273	\$ 234	\$	\$ 46,507	2.11%
Residential mortgage-backed securities	869,847	18,487	(334)	888,000	40.33%
CMO s / REMIC s Residential	594,866	10,307	(665)	604,508	27.46%
Municipal bonds	608,575	43,665	(203)	652,037	29.62%
Other securities	10,468	10	(4)	10,474	0.48%
Total Investment Securities	\$ 2,130,029	\$ 72,703	\$ (1,206)	\$ 2,201,526	100.00%

Approximately 71% of the available-for-sale portfolio at June 30, 2012 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 June 30, 2012 and December 31, 2011. We have \$3.4 million in CMO/REMIC's backed by whole loans issued by private-label companies (non-government sponsored).

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There were zero realized gains or losses for the first half of 2012, compared to an impairment loss of \$119,000 for the same period in 2011.

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Description of Securities	Less than 12 months		June 30, 2012 12 months or longer		Total	
	Fair Value	Gross Holding Losses	Fair Value	Gross Holding Losses	Fair Value	Gross Holding Losses
(Dollars in thousands)						
Held-To-Maturity						
CMO	\$ 2,191	\$	\$	\$	\$ 2,191	\$
Available-for-Sale						
Government agency	\$ 2,957	\$	\$	\$	\$ 2,957	\$
Residential mortgage-backed securities	33				33	
CMO/REMICs Residential	144,220	1,043			144,220	1,043
Municipal bonds	19,047	418			19,047	418
Other Securities						
	\$ 166,257	\$ 1,461	\$	\$	\$ 166,257	\$ 1,461

Description of Securities	Less than 12 months		December 31, 2011 12 months or longer		Total	
	Fair Value	Gross Holding Losses	Fair Value	Gross Holding Losses	Fair Value	Gross Holding Losses
(Dollars in thousands)						
Held-To-Maturity						
CMO	\$ 2,383	\$	\$	\$	\$ 2,383	\$
Available-for-Sale						
Government agency	\$	\$	\$	\$	\$	\$
Residential mortgage-backed securities	75,754	334			75,754	334
CMO/REMICs Residential	133,471	665			133,471	665
Municipal bonds	22,184	203			22,184	203
Other Securities	2,500	4			2,500	4
	\$ 233,909	\$ 1,206	\$	\$	\$ 233,909	\$ 1,206

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 June 30, 2012 and December 31, 2011. The Company has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis 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 triple AAA at origination and was supported by subordinate securities. This security is classified as held-to-maturity as we have both the intent and ability to hold this debt

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security to maturity. 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 at the time the financial crisis in the markets occurred and the market for securities collateralized by Alt-A mortgages diminished.

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As of June 30, 2012, the unrealized loss on this security was zero and the fair value on the security was 58% 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 June 30, 2012. The key assumptions include default rates, severities and prepayment rates. This security was determined to be credit impaired during 2009 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. In 2009, we recognized an other-than-temporary impairment of \$2.0 million reduced by \$1.7 million for the non-credit portion which was reflected in other comprehensive income. The remaining loss of \$323,000 was recognized in earnings for the year ended December 31, 2009. This Alt-A bond, with a book value of \$2.2 million as of June 30, 2012, has had \$1.9 million in net impairment losses to date. These losses have been recorded as a reduction to noninterest income.

There were no changes in credit related other-than temporary impairment recognized in earnings for the six months ended June 30, 2012, compared to an other-than-temporary impairment loss of \$119,000 recognized during the same period in 2011.

Government Agency & Government-Sponsored Enterprise 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 June 30, 2012.

Mortgage-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 considered to be rated investment grade with an average life of approximately 3.5 years. Of the total MBS/CMO, 99.79% have the implied guarantee of U.S. government-sponsored agencies. The remaining 0.21% are issued by banks. Accordingly, it is expected the securities would not be settled at a price less than the amortized cost of the bonds. At June 30, 2012, there was no unrealized loss greater than 12 months.

Municipal Bonds The majority of our municipal bonds are insured by the largest bond insurance companies with maturities of approximately 9.8 years. There were zero securities with an unrealized loss greater than 12 months and all municipal securities were performing at June 30, 2012. 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 not more likely than not that the Company will 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 June 30, 2012.

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. We continue to monitor municipalities, which includes a review of the respective municipalities' audited financial statements to determine whether there are any audit or performance issues. We use outside brokers to assist us in these analyses. 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 that there is an OTTI for any given security.

At June 30, 2012 and December 31, 2011, investment securities having an amortized cost of approximately \$2.10 billion and \$1.85 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 June 30, 2012, by contractual maturity, are shown below. Although mortgage-backed securities and CMO/REMICs have contractual maturities through 2041, 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.

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	Amortized Cost	Available-for-sale Fair Value (Dollars in thousands)	Weighted- Average Yield
Due in one year or less	\$ 74,855	\$ 76,163	3.79%
Due after one year through five years	1,834,793	1,889,321	2.64%
Due after five years through ten years	234,495	250,032	3.52%
Due after ten years	40,243	44,015	3.98%
	\$ 2,184,386	\$ 2,259,531	2.80%

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 June 30, 2012.

6. LOAN AND LEASE FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

The following is a summary of the components of loan and lease finance receivables:

	Non-Covered Loans	As of June 30, 2012 Covered Loans (Dollars in thousands)	Total
Commercial and Industrial	\$ 523,816	\$ 22,914	\$ 546,730
Real Estate:			
Construction	68,312	6,448	74,760
Commercial Real Estate	1,965,011	201,765	2,166,776
SFR Mortgage	159,633	1,891	161,524
Consumer	48,460	7,214	55,674
Municipal lease finance receivables	109,816		109,816
Auto and equipment leases, net of unearned discount	15,137		15,137
Dairy and Livestock	281,027		281,027
Agribusiness	9,403	6,417	15,820
Gross loans	\$ 3,180,615	\$ 246,649	\$ 3,427,264
Less:			
Purchase accounting discount		(36,502)	(36,502)
Deferred loan fees, net	(5,707)		(5,707)
Gross loans, net of deferred loan fees	\$ 3,174,908	\$ 210,147	\$ 3,385,055
Less: Allowance for credit losses	(91,892)		(91,892)
Net loans and lease finance receivables	\$ 3,083,016	\$ 210,147	\$ 3,293,163

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	As of December 31, 2011		
	Non-Covered Loans	Covered Loans (Dollars in thousands)	Total
Commercial and Industrial	\$ 494,299	\$ 29,651	\$ 523,950
Real Estate:			
Construction	76,146	18,685	94,831
Commercial Real Estate	1,948,292	223,107	2,171,399
SFR Mortgage	176,442	3,289	179,731
Consumer	51,436	8,353	59,789
Municipal lease finance receivables	113,460	169	113,629
Auto and equipment leases, net of unearned discount	17,370		17,370
Dairy and Livestock	343,350	199	343,549
Agribusiness	4,327	24,196	28,523
Gross loans	\$ 3,225,122	\$ 307,649	\$ 3,532,771
Less:			
Purchase accounting discount		(50,780)	(50,780)
Deferred loan fees, net	(5,395)		(5,395)
Gross loans, net of deferred loan fees	\$ 3,219,727	\$ 256,869	\$ 3,476,596
Less: Allowance for credit losses	(93,964)		(93,964)
Net loans and lease finance receivables	\$ 3,125,763	\$ 256,869	\$ 3,382,632

As of June 30, 2012, 63.20% of the total loan portfolio consisted of commercial real estate loans and 2.20% of the total loan portfolio consisted of construction loans, respectively. Substantially all of the Company's real estate loans and construction loans are secured by real properties located in California. At June 30, 2012, the Company held approximately \$1.51 billion of fixed rate loans.

At June 30, 2012 and December 31, 2011, loans totaling \$2.33 billion and \$2.31 billion, respectively, were pledged to secure the borrowings from the FHLB and the Federal Reserve Bank.

The following is the activity of loans held-for-sale for the periods indicated:

Non-Covered Loans Held-for-Sale Activity

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
	(Dollars in thousands)			
Balance, beginning of period	\$ 630	\$ 3,505	\$ 348	\$ 2,954
Originations of mortgage loans	10,443	4,972	16,182	16,481
Sales of mortgage loans	(8,193)	(5,063)	(13,650)	(16,021)
Transfer of mortgage loans to held for investment		(417)		(417)
Sales of other loans				
Transfers of other loans to held for sale		6,000		6,000
Write-down of loans held for sale		(1,656)		(1,656)
Balance, end of period	\$ 2,880	\$ 7,341	\$ 2,880	\$ 7,341

Covered Loans Held-for-Sale Activity

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	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
	(Dollars in thousands)			
Balance, beginning of period	\$ 3,771	\$	\$ 5,664	\$
Originations of mortgage loans				
Sales of mortgage loans				
Transfer of other loans to held for investment				
Sales of other loans	(3,745)		(3,745)	
Transfers of other loans to held for sale				
Write-down of loans held for sale			(1,219)	
Payment on other loans	(26)		(700)	
Balance, end of period	\$	\$	\$	\$

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Occasionally, the Company may decide to retain and not sell certain mortgage loans originated and will transfer them to its held-for-investment loan portfolio. This is generally done for customer service purposes.

Credit Quality Indicators

Central to our credit risk management is our loan risk rating system. The originating credit officer assigns borrowers an initial risk rating, which is reviewed and possibly changed by Credit Management, which is based primarily on a thorough analysis of each borrower's financial capacity in conjunction with industry and economic trends. Approvals are made based upon the amount of inherent credit risk specific to the transaction and are reviewed for appropriateness by senior line and credit management personnel. Credits are monitored by line and credit management personnel for deterioration in a borrower's financial condition, which would impact the ability of the borrower to perform under the contract. Risk ratings are adjusted as necessary.

Loans are risk rated into the following categories (Credit Quality Indicators): Pass, Pass Watch List, Special Mention, Substandard, Doubtful and Loss. Each of these groups is assessed for the proper amount to be used in determining the adequacy of our allowance for losses. These categories can be described as follows:

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

Pass Watch List Pass Watch list loans usually require more than normal management attention. Loans which qualify for the Pass Watch List may involve borrowers with adverse financial trends, higher debt/equity ratios, or weaker liquidity positions, but not to the degree of being considered a defined weakness or problem loan where risk of loss may be apparent.

Special Mention Loans assigned to this category are currently protected but are weak. Although concerns exist, the Company is currently protected and loss is unlikely. Such loans have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the Company's credit position at some future date.

Substandard Loans classified as substandard include poor liquidity, high leverage, and erratic earnings or losses. The primary source of repayment is no longer realistic, and asset or collateral liquidation may be the only source of repayment. Loans are marginal and require continuing and close supervision by credit management. Substandard loans have the distinct possibility that the Company will sustain some loss if deficiencies are not corrected.

Doubtful Loans classified doubtful have all the weaknesses inherent in those classified substandard with the added provision that the weaknesses make collection or the liquidation, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to the advantage and strengthening of the assets, their classifications as losses are deferred until their more exact status may be determined.

Loss Loans classified as loss are considered uncollectible and of such little value that their continuance as active assets of the Company is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

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The following table summarizes our internal risk grouping by loan class as of June 30, 2012 and December 31, 2011:

Credit Quality Indicators

As of June 30, 2012 and December 31, 2011

(Dollars in thousands)

Credit Risk Profile by Internally Assigned Grade

	June 30, 2012					Total
	Pass	Watch List	Special Mention	Substandard	Doubtful & Loss	
Commercial & Industrial	\$ 327,293	\$ 118,192	\$ 52,808	\$ 24,331	\$ 1,192	\$ 523,816
Construction - Speculative	3,312		20,123	28,770		52,205
Construction - Non-Speculative	5,006	1,882		9,219		16,107
Commercial Real Estate - Owner-Occupied	415,623	141,994	82,330	69,094		709,041
Commercial Real Estate - Non-Owner-Occupied	830,722	216,097	115,042	93,305	804	1,255,970
Residential Real Estate (SFR 1-4)	134,726	9,962	2,284	12,661		159,633
Dairy & Livestock	48,853	120,143	58,209	53,641	181	281,027
Agribusiness	6,225	2,168	1,010			9,403
Municipal Lease Finance Receivables	73,312	22,302	11,893	2,309		109,816
Consumer	40,898	3,702	2,236	1,576	48	48,460
Auto & Equipment Leases	10,469	3,464	185	1,019		15,137
Total Non-covered Loans	1,896,439	639,906	346,120	295,925	2,225	3,180,615
Covered Loans	61,307	69,173	33,931	82,159	79	246,649
Total Loans excluding held-for-sale	1,957,746	709,079	380,051	378,084	2,304	3,427,264
Non-covered loans held-for-sale	2,880					2,880
Covered loans held-for-sale						
Total Gross Loans	\$ 1,960,626	\$ 709,079	\$ 380,051	\$ 378,084	\$ 2,304	\$ 3,430,144

	December 31, 2011					Total
	Pass	Watch List	Special Mention	Substandard	Doubtful & Loss	
Commercial & Industrial	\$ 323,653	\$ 94,059	\$ 55,140	\$ 21,447	\$	\$ 494,299
Construction - Speculative	2,654		25,610	35,191		63,455
Construction - Non-Speculative	1,314	137	687	10,553		12,691
Commercial Real Estate - Owner-Occupied	370,801	176,958	74,315	77,884		699,958
Commercial Real Estate - Non-Owner-Occupied	836,465	193,751	108,798	108,482	838	1,248,334
Residential Real Estate (SFR 1-4)	143,841	8,336	6,807	17,458		176,442
Dairy & Livestock	73,074	106,024	91,416	72,619	217	343,350
Agribusiness	2,800	860	667			4,327
Municipal Lease Finance Receivables	70,781	23,106	8,927	10,646		113,460
Consumer	42,295	3,474	3,906	1,740	21	51,436
Auto & Equipment Leases	11,742	39	3,506	522	1,561	17,370
Total Non-covered Loans	1,879,420	606,744	379,779	356,542	2,637	3,225,122
Covered Loans	48,440	73,718	20,728	164,198	565	307,649

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Total Loans excluding held-for-sale	1,927,860	680,462	400,507	520,740	3,202	3,532,771
Non-covered loans held-for-sale	348					348
Covered loans held-for-sale				5,664		5,664
Total Gross Loans	\$ 1,928,208	\$ 680,462	\$ 400,507	\$ 526,404	\$ 3,202	\$ 3,538,783

Allowance for Credit Losses

The Credit Management Division is responsible for regularly reviewing the allowance for credit losses (ALLL) methodology, including loss factors and economic risk factors. The Bank's Director Loan Committee provides Board oversight of the ALLL process and approves the ALLL methodology on a quarterly basis.

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers all loans. The systematic methodology consists of two major phases.

In the first phase, individual loans are reviewed to identify loans for impairment. A loan is generally considered impaired when principal and interest are deemed uncollectible in accordance with the contractual terms of the loan. A loan for which there is an insignificant delay or shortfall in the amount of payments due is not considered an impaired loan. Impairment is measured as either the expected future cash flows discounted at each loan's effective interest rate, the fair value of the loan's collateral if the loan is collateral dependent, or an observable market price of the loan (if one exists). If we determine that the value of the impaired loan is less than the recorded investment of the loan, we either recognize an impairment reserve as a Specific Allowance to be provided for in the allowance for credit losses or charge off the impaired balance if it is determined that such amount represents a confirmed loss. Loans determined to be impaired are excluded from the formula allowance so as not to double count the loss exposure.

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The second phase is conducted by evaluating or segmenting the remainder of the loan portfolio into groups or pools of loans with similar characteristics. In this second phase, groups or pools of homogeneous loans are reviewed to determine a portfolio formula allowance. In the case of the portfolio formula allowance, homogeneous portfolios, such as small business loans, consumer loans, agricultural loans, and real estate loans, are aggregated or pooled in determining the appropriate allowance. The risk assessment process in this case emphasizes trends in the different portfolios for delinquency, loss, and other behavioral characteristics of the subject portfolios.

Included in this second phase is our considerations of qualitative factors, including, all known relevant internal and external factors that may affect the collectability of a loan. This includes our estimates of the amounts necessary for concentrations, economic uncertainties, the volatility of the market value of collateral, and other relevant factors. These qualitative factors are used to adjust the historical loan loss rates for each pool of loans to determine the probable credit losses inherent in the portfolio.

The methodology is consistently applied across all the portfolio segments taking into account the applicable historical loss rates and the qualitative factors applicable to each pool of loans. Periodically, we assess various attributes utilized in adjusting our historical loss factors to reflect current economic conditions. During the first and second quarters of 2012, many of our dairy and livestock borrowers experienced an increase in feed costs, a decrease in milk prices, and tightened profit margins. As part of our qualitative analysis during the first and second quarters of 2012, we adjusted the attributes used in the allowance for credit losses to contemplate the current economic environment of the dairy and livestock industry.

Management believes that the ALLL was appropriate at June 30, 2012. No assurance can be given that economic conditions which adversely affect our service areas or other circumstances will not be reflected in increased provisions for credit losses in the future.

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The following table presents the balance and activity in the allowance for credit losses; and the recorded investment in held-for-investment loans by portfolio segment and based upon our impairment method as of June 30, 2012 and 2011:

Allowance for Credit Losses and Recorded Investment in Financing Receivables

(Dollars in thousands)

	Commercial and Industrial	Construction	Real Estate	Municipal Lease Finance Receivables	Dairy and Livestock	Consumer, Auto & Other	Covered Loans (1)	Unallocated	Total
June and Six Months Ended June 30, 2012									
Allowance for Credit Losses:									
Beginning balance, January 1, 2012	\$ 11,907	\$ 4,323	\$ 51,935	\$ 2,020	\$ 16,026	\$ 1,543	\$	\$ 4,168	\$ 91,982
Charge-offs	(123)		(1,426)			(3)	(50)		(1,602)
Reverses	526	1,025	14		2	5			1,572
Provision/Reallocation									
Provision/Reallocation	22	(2,319)	(2,165)	(364)	839	(35)	50	3,972	
Ending balance, June 30, 2012	\$ 12,332	\$ 3,029	\$ 48,358	\$ 1,656	\$ 16,867	\$ 1,510	\$	\$ 8,140	\$ 91,952
Recorded Investment in Financing Receivables:									
Beginning balance, January 1, 2012	\$ 10,654	\$ 4,947	\$ 51,873	\$ 2,403	\$ 17,230	\$ 1,638	\$	\$ 5,219	\$ 93,964
Charge-offs	(683)		(1,956)		(1,150)	(88)	(81)		(3,958)
Reverses	588	1,052	235		2	9			1,886
Provision/Reallocation									
Provision/Reallocation	1,773	(2,970)	(1,794)	(747)	785	(49)	81	2,921	
Ending balance, June 30, 2012	\$ 12,332	\$ 3,029	\$ 48,358	\$ 1,656	\$ 16,867	\$ 1,510	\$	\$ 8,140	\$ 91,952
Allowance for Credit Losses by Impairment Method:									
Individually evaluated impairment:									
Beginning balance, January 1, 2012	\$ 486	\$	\$ 668	\$	\$	\$ 100	\$	\$	\$ 1,254
Charge-offs									
Reverses									
Provision/Reallocation									
Ending balance, June 30, 2012	\$ 486	\$	\$ 668	\$	\$	\$ 100	\$	\$	\$ 1,254
Collectively evaluated impairment:									
Beginning balance, January 1, 2012	\$ 11,846	\$ 3,029	\$ 47,690	\$ 1,656	\$ 16,867	\$ 1,410	\$	\$ 8,140	\$ 90,738
Charge-offs									
Reverses									
Provision/Reallocation									
Ending balance, June 30, 2012	\$ 11,846	\$ 3,029	\$ 47,690	\$ 1,656	\$ 16,867	\$ 1,410	\$	\$ 8,140	\$ 90,738
Assets and financing receivables: (2)									
Beginning balance, January 1, 2012	\$ 523,816	\$ 68,312	\$ 2,124,644	\$ 109,816	\$ 281,027	\$ 73,000	\$ 210,147	\$	\$ 3,390,762
Charge-offs									
Reverses									
Provision/Reallocation									
Ending balance, June 30, 2012	\$ 523,816	\$ 68,312	\$ 2,124,644	\$ 109,816	\$ 281,027	\$ 73,000	\$ 210,147	\$	\$ 3,390,762
Assets and financing receivables: (2) - Individually evaluated:									
Beginning balance, January 1, 2012	\$ 7,926	\$ 37,989	\$ 49,901	\$	\$ 10,900	\$ 392	\$	\$	\$ 107,108
Charge-offs									
Reverses									
Provision/Reallocation									
Ending balance, June 30, 2012	\$ 7,926	\$ 37,989	\$ 49,901	\$	\$ 10,900	\$ 392	\$	\$	\$ 107,108

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Impairment																		
Beginning balance:																		
Individually evaluated																		
Impairment	\$	515,890	\$	30,323	\$	2,074,743	\$	109,816	\$	270,127	\$	72,608	\$		\$	3,073		
Beginning balance:																		
Covered loans with allocated credit																		
														\$	210,147	\$	210,147	
	Commercial and Industrial	Construction	Real Estate	Municipal Lease Finance Receivables	Dairy and Livestock	Consumer, Auto & Other	Covered Loans (1)	Unallocated	Total									
Five and Six Months Ended																		
Three Months Ended																		
March 30, 2011																		
Provision for Credit Losses:																		
Beginning balance, January 1, 2011																		
	\$	10,443	\$	6,378	\$	42,790	\$	2,811	\$	33,427	\$	1,673	\$		\$	3,545	\$	101,087
Charge-offs		(194)		(1,257)		(1,912)				(1,087)		(132)		(24)				(4,486)
Reverses		29		155		102				39		107		2				305
Provision/Reallocation																		
Net Change		1,008		(938)		4,285		(193)		(8,868)		(40)		22				4,724
Ending balance, March 30, 2011	\$	11,286	\$	4,338	\$	45,265	\$	2,618	\$	23,511	\$	1,608	\$		\$	8,269	\$	96,630
Beginning balance, January 1, 2011																		
	\$	11,472	\$	10,188	\$	43,529	\$	2,172	\$	36,061	\$	1,034	\$		\$	803	\$	105,059
Charge-offs		(883)		(7,417)		(4,383)				(3,291)		(252)		(418)				(16,384)
Reverses		171		403		434				39		160		5				1,112
Provision/Reallocation																		
Net Change		526		1,164		5,685		446		(9,298)		666		413				7,466
Ending balance, March 30, 2011	\$	11,286	\$	4,338	\$	45,265	\$	2,618	\$	23,511	\$	1,608	\$		\$	8,269	\$	96,630
Beginning balance:																		
Individually evaluated																		
Impairment	\$	379	\$	158	\$	646	\$		\$		\$	24	\$		\$		\$	1,167
Beginning balance:																		
Individually evaluated																		
Impairment	\$	10,907	\$	4,180	\$	44,619	\$	2,618	\$	23,511	\$	1,584	\$		\$	8,269	\$	95,688
Assets and financing																		
Assets: (2)																		
Beginning balance, March 30, 2011																		
	\$	470,746	\$	85,106	\$	2,157,969	\$	119,419	\$	296,801	\$	67,715	\$	334,225	\$		\$	3,531,981
Beginning balance:																		
Individually evaluated																		
Impairment	\$	7,218	\$	39,500	\$	52,247	\$		\$	2,672	\$	179	\$		\$		\$	101,736

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g balance:																
ctively evaluated																
mpairment	\$	463,528	\$	45,606	\$	2,105,722	\$	119,419	\$	294,129	\$	67,536	\$		\$	3,095,
g balance:																
ired loans with																
orated credit																
y												\$	334,225		\$	334,

- (1) Represents the allowance and related loan balance determined in accordance with ASC 310-30.
- (2) Net of purchase accounting discount and deferred loan fees.

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Past Due and Non-Performing Loans

We manage asset quality and control credit risk through diversification of the non-covered loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank's Credit Management Division is in charge of monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. Reviews of non-performing, past due non-covered loans and larger credits, designed to identify potential charges to the allowance for credit losses, and to determine the adequacy of the allowance, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers and any guarantors, the value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors.

Loans are reported as a troubled debt restructuring when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, deferral of principal or accrued interest, extending the payment due dates or loan maturity date(s), or providing a lower interest rate than would be normally available for new debt of similar risk. As a result of these concessions, restructured loans are classified as impaired. Impairment reserves 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. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and credit losses.

Generally, when loans are identified as impaired they are moved to our Special Assets Division. When we identify a loan as impaired, we measure the loan for potential impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals.

The accrual of interest on loans is discontinued when the loan becomes 90 days past due based on the contractual term of the loan, or when the full collection of principal and interest is in doubt. When an asset is placed on nonaccrual 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. Nonaccrual loans may be restored to accrual status when principal and interest become current and full payment of principal and interest is expected.

Speculative construction loans are generally for properties where there is no identified buyer or renter.

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The following table presents the recorded investment in non-covered past due and nonaccrual loans and loans past due by class of loans as of June 30, 2012 and December 31, 2011:

Non-Covered Past Due and Nonaccrual Loans

As of June 30, 2012 and December 31, 2011

(Dollars in Thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due and Accruing	Total Past Due and Accruing	Nonaccrual	Current	Total Loans and Financing Receivables
June 30, 2012							
Commercial & Industrial	\$ 176	\$	\$	\$ 176	\$ 4,622	\$ 519,018	523,816
Construction - Speculative					17,904	34,301	52,205
Construction - Non-Speculative						16,107	16,107
Commercial Real Estate - Owner-Occupied	129			129	6,014	702,898	709,041
Commercial Real Estate - Non-Owner-Occupied	912			912	17,070	1,237,988	1,255,970
Residential Real Estate (SFR 1-4)					12,469	147,164	159,633
Dairy & Livestock					3,394	277,633	281,027
Agribusiness						9,403	9,403
Municipal Lease Finance Receivables						109,816	109,816
Consumer	19	17		36	388	48,036	48,460
Auto & Equipment Leases					4	15,133	15,137
Total Non-covered Loans excluding held-for-sale Loans Held-for-Sale Residential Real Estate (SFR 1-4)	1,236	17		1,253	61,865	3,117,497	3,180,615
						2,880	2,880
Total	\$ 1,236	\$ 17	\$	\$ 1,253	\$ 61,865	\$ 3,120,377	\$ 3,183,495

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due and Accruing	Total Past Due and Accruing	Nonaccrual	Current	Total Loans and Financing Receivables
December 31, 2011							
Commercial & Industrial	\$ 2,872	\$ 150	\$	\$ 3,022	\$ 3,432	\$ 487,845	\$ 494,299
Construction - Speculative					13,317	42,203	55,520
Construction - Non-Speculative						20,626	20,626
Commercial Real Estate - Owner-Occupied	133	280		413	9,474	690,071	699,958
Commercial Real Estate - Non-Owner-Occupied	374			374	16,518	1,231,442	1,248,334
Residential Real Estate (SFR 1-4)	1,568			1,568	16,970	157,904	176,442
Dairy & Livestock					2,475	340,875	343,350
Agribusiness						4,327	4,327
Municipal Lease Finance Receivables						113,460	113,460
Consumer	59			59	382	50,995	51,436
Auto & Equipment Leases	14	6		20	104	17,246	17,370
Total Non-covered Loans excluding held-for-sale Loans Held-for-Sale Residential Real Estate (SFR 1-4)	5,020	436		5,456	62,672	3,156,994	3,225,122
						348	348

Total	\$	5,020	\$	436	\$	5,456	\$	62,672	\$	3,157,342	\$	3,225,470
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Non-covered Impaired Loans

At June 30, 2012, the Company had non-covered impaired loans of \$107.1million. Of this amount, \$17.9 million in nonaccrual commercial construction loans, \$12.5 million of nonaccrual single family mortgage loans, \$23.1million of nonaccrual commercial real estate loans, \$4.6 million of nonaccrual commercial and industrial loans, \$3.4 million of nonaccrual dairy and livestock loans and \$392,000 of other loans. These non-covered impaired loans included \$77.0 million of loans whose terms were modified in a troubled debt restructure, of which \$31.8 million are classified as nonaccrual. The remaining balance of \$45.2 million consists of 28 loans performing according to the restructured terms. The impaired loans had specific allowance of \$1.3 million at June 30, 2012. At December 31, 2011, the Company had classified as impaired, non-covered loans with a balance of \$101.2 million with a related allowance of \$3.0 million.

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The following table presents held-for-investment and held-for-sale loans, individually evaluated for impairment by class of loans, as of June 30, 2012 and December 31, 2011:

Non-Covered Impaired Loans

As of June 30, 2012 and December 31, 2011

(Dollars in Thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2012					
<u>With no related allowance recorded:</u>					
Commercial & Industrial	\$ 6,360	\$ 7,467	\$	\$ 6,784	\$ 62
Held for Sale Construction - Speculative					
Construction - Speculative	17,904	19,530		18,397	
Construction - Non-Speculative	20,086	20,086		20,086	563
Commercial Real Estate - Owner-Occupied	18,113	18,668		18,896	493
Commercial Real Estate - Non-Owner-Occupied	16,972	25,278		18,165	1
Residential Real Estate (SFR 1-4)	10,630	13,550		10,901	31
Dairy & Livestock	10,900	12,413		11,150	209
Municipal Lease Finance Receivables					
Consumer	146	196		148	
Auto & Equipment Leases					
	101,111	117,188		104,527	1,359
<u>With a related allowance recorded:</u>					
Commercial & Industrial	\$ 1,500	\$ 1,546	\$ 486	\$ 1,543	\$
Construction - Speculative					
Construction - Non-Speculative					
Commercial Real Estate - Owner-Occupied	636	636	356	641	
Commercial Real Estate - Non-Owner-Occupied	97	97	6	98	
Residential Real Estate (SFR 1-4)	3,517	3,837	306	3,530	
Dairy, Livestock & Agribusiness					
Municipal Lease Finance Receivables					
Consumer	243	250	99	244	
Auto & Equipment Leases	4	4	1	4	
	5,997	6,370	1,254	6,060	
Total	\$ 107,108	\$ 123,558	\$ 1,254	\$ 110,587	\$ 1,359
December 31, 2011					
<u>With no related allowance recorded:</u>					
Commercial & Industrial	\$ 3,566	\$ 4,630	\$	\$ 4,649	\$ 93
Held for Sale Construction - Speculative					
Construction - Speculative	13,317	15,718		15,434	
Construction - Non-Speculative	20,085	20,085		16,437	1,123
Commercial Real Estate - Owner-Occupied	13,567	14,013		11,941	449
Commercial Real Estate - Non-Owner-Occupied	16,435	23,656		21,096	67
Residential Real Estate (SFR 1-4)	14,069	17,411		15,120	47

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Dairy & Livestock	8,879	10,358	10,535	446
Municipal Lease Finance Receivables				
Consumer	104	150	127	
Auto & Equipment Leases				
	90,022	106,021	95,339	2,225

With a related allowance recorded:

Commercial & Industrial	\$ 1,388	\$ 1,410	\$ 165	\$ 1,554	\$
Construction - Speculative					
Construction - Non-Speculative					
Commercial Real Estate - Owner-Occupied	3,900	3,900	928	3,900	
Commercial Real Estate - Non-Owner-Occupied	83	85	5	86	
Residential Real Estate (SFR 1-4)	4,087	4,369	406	3,967	
Dairy, Livestock & Agribusiness	1,372	3,324	1,372	2,402	
Municipal Lease Finance Receivables					
Consumer	270	278	77	276	
Auto & Equipment Leases	104	110	15	141	
	11,204	13,476	2,968	12,326	

Total	\$ 101,226	\$ 119,497	\$ 2,968	\$ 107,665	\$ 2,225
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The Company recognizes the charge-off of impairment allowance on impaired loans in the period it arises for collateral dependent loans. Therefore, the majority of the nonaccrual loans as of June 30, 2012 and December 31, 2011 have already been written down to their estimated net realizable value. The impaired loans with a related allowance recorded are on nonaccrual loans where a charge-off is not yet processed, on nonaccrual SFR loans where there is a potential modification in process, or on smaller balance non-collateral dependent loans.

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Impaired construction speculative loans increased in the second quarter of 2012 due to a \$10.9 million participating interest in the Company's only Shared National Credit loan that was transferred to nonaccrual status.

The allowance for off-balance sheet credit exposure relates to commitments to extend credit, letters of credit and undisbursed funds on lines of credit. The Company evaluates credit risk associated with the off-balance sheet commitments at the same time it evaluates credit risk associated with the loan and lease portfolio. The Company recorded zero provision for unfunded commitments for the first six months ended June 30, 2012, compared to an increase of \$732,000 in the provision for the same period of 2011. As of June 30, 2012 and December 31, 2011, the balance in this reserve was \$9.6 million and was included in other liabilities.

As a result of adopting the amendments in ASU 2011-02, the Company reassessed all restructurings that occurred on or after January 1, 2011 for identification as troubled debt restructurings. Loans that are reported as TDRs are considered impaired and charged off on an individual loan basis, as deemed appropriate. The majority of restructured loans are loans for which the terms of repayment have been renegotiated, resulting in a reduction in interest rate or deferral of principal.

As of June 30, 2012, we had loans of \$77.0 million classified as a troubled debt restructured, of which \$31.8 million are non-performing and \$45.2 million are performing. TDRs on accrual status are comprised of loans that were accruing at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. TDRs on accrual status at June 30, 2012 were mainly comprised of commercial real estate loans including construction loans.

The majority of TDRs have no specific allowance allocated as any impairment amount is normally charged off at the time a probable loss is determined. We have allocated \$23,000 and \$27,000 specific allowance to TDRs as of June 30, 2012 and December 31, 2011.

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The following are the loans modified as troubled debt restructuring for the six months ended June 30, 2012:

Modifications

(Dollars in thousands)

	For the Three Months Ended June 30, 2012			Outstanding Recorded Investment at June 30, 2012
	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings				
Commercial & Industrial	7	\$ 1,677	\$ 1,677	\$ 1,350
Construction - Speculative	1	10,966	10,966	10,916
Construction - Non-Speculative				
Commercial Real Estate - Owner-Occupied	1	307	307	306
Commercial Real Estate - Non-Owner-Occupied	2	4,026	4,026	3,668
Residential Real Estate (SFR 1-4)				
Dairy & Livestock	4	3,221	3,221	3,221
Agribusiness				
Municipal Lease Finance Receivables				
Consumer				
Auto & Equipment Leases				
Total Non-Covered Loans	15	20,197	20,197	19,461
Covered Loans				
Total Gross Loans	15	\$ 20,197	\$ 20,197	\$ 19,461

	For the Six Months Ended June 30, 2012			Outstanding Recorded Investment at June 30, 2012
	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings				
Commercial & Industrial	9	\$ 4,211	\$ 4,211	\$ 3,882
Construction - Speculative	1	10,966	10,966	10,916
Construction - Non-Speculative				
Commercial Real Estate - Owner-Occupied	2	614	614	610
Commercial Real Estate - Non-Owner-Occupied	3	4,539	4,539	4,181
Residential Real Estate (SFR 1-4)				
Dairy & Livestock	4	3,221	3,221	3,221
Agribusiness				
Municipal Lease Finance Receivables				
Consumer				
Auto & Equipment Leases				
Total Non-Covered Loans	19	23,551	23,551	22,810
Covered Loans				

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Total Gross Loans	19	\$	23,551	\$	23,551	\$	22,810
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As of June 30, 2012, there was one commercial and industrial loan with an outstanding balance of \$52,000 and one construction loan with an outstanding balance of \$10.9 million that were previously modified as a troubled debt restructuring within the previous 12 months that subsequently defaulted during the six months ended June 30, 2012.

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7. FAIR VALUE INFORMATION

Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following disclosure provides the fair value information for financial assets and liabilities as of June 30, 2012. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2, and Level 3).

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flows and similar techniques.

There were no transfers in and out of Level 1 and Level 2 measurement during the six months ended June 30, 2012 and 2011.

Determination of Fair Value

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value.

Cash and cash equivalents The carrying amount of cash and cash equivalents is considered to approximate fair value due to the liquidity of these instruments.

Interest-bearing balances due from depository institutions The carrying value of due from depository institutions is considered to approximate fair value due to the short-term nature of these deposits.

FHLB stock - The carrying amount of FHLB stock approximates fair value, as the stock may be sold back to the FHLB at carrying value.

Investment securities held to maturity Investment securities held-to-maturity are valued based upon quotes obtained from an independent third-party pricing service. The Company categorized its held-to-maturity investment as a level 3 valuation.

Investment securities available-for-sale Investment securities available-for-sale are valued based upon quotes obtained from an independent third-party pricing service. This service uses evaluated pricing applications and model processes. Observable market inputs, such as, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data are considered as part of the evaluation. The inputs are related directly to the security being evaluated, or indirectly to a similarly situated security. Market assumptions and market data are utilized in the valuation models. The Company reviews the market prices provided by the third-party pricing service for reasonableness based on the Company's understanding of the market place and credit issues related to the securities. The Company has not made any adjustments to the market quotes provided by them and accordingly, the Company categorized its investment portfolio within Level 2 of the fair value hierarchy.

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Loans held for sale For loans held-for-sale, carrying value approximated fair value as the loans are recorded at the lower of cost or carrying market value (based on appraisals).

Non-covered Loans The carrying amount of loans and lease finance receivables is their contractual amounts outstanding, reduced by deferred net loan origination fees and the allocable portion of the allowance for credit losses.

The fair value of loans, other than loans on nonaccrual status, was estimated by discounting the remaining contractual cash flows using the estimated current rate at which similar loans would be made to borrowers with similar credit risk characteristics and for the same remaining maturities, reduced by deferred net loan origination fees and the allocable portion of the allowance for credit losses. Accordingly, in determining the estimated current rate for discounting purposes, no adjustment has been made for any change in borrowers' credit risks since the origination of such loans. Rather, the allocable portion of the allowance for credit losses is considered to provide for such changes in estimating fair value. As a result, this fair value is not necessarily the value which would be derived using an exit price. These loans are included within Level 3 of the fair value hierarchy.

Non-covered impaired loans and OREO are generally measured using the fair value of the underlying collateral, which is determined based on the most recent appraisal information received, less costs to sell (approximately 8%). Appraised values may be adjusted based on factors such as the changes in market conditions from the time of valuation or discounted cash flows of the property. As such, these loans and OREO fall within Level 3 of the fair value hierarchy.

The majority of our commitments to extend credit carry current market interest rates if converted to loans. Because these commitments are generally unassignable by either the borrower or us, they only have value to the borrower and us. The estimated fair value approximates the recorded deferred fee amounts and is excluded from the following table because it is not material.

Covered Loans Covered loans were measured at fair value on the date of acquisition. Thereafter, covered loans are not measured at fair value on a recurring basis. The above valuation discussion for non-covered loans is applicable to covered loans following their acquisition date.

Swaps The fair value of the interest rate swap contracts are provided by our counterparty using a system that constructs a yield curve based on cash LIBOR rates, Eurodollar futures contracts, and 3-year through 30-year swap rates. The yield curve determines the valuations of the interest rate swaps. Accordingly, the swap is categorized as a Level 2 valuation.

Deposits & Borrowings The amounts payable to depositors for demand, savings, and money market accounts, and short-term borrowings are considered to approximate fair value. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value of long-term borrowings and junior subordinated debentures is estimated using the rates currently offered for borrowings of similar remaining maturities. Deposits and borrowings are included within Level 2 of the fair value hierarchy.

Accrued Interest Receivable/Payable The amounts of accrued interest receivable on loans and lease finance receivables and investments and accrued interest payable on deposits and borrowings are considered to approximate fair value and are included within Level 2 of the fair value hierarchy.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011.

Table of Contents**Assets & Liabilities Measured at Fair Value on a Recurring Basis**

<i>(Dollars in thousands)</i>	Carrying Value at June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description of Assets				
Government agency	\$ 32,362		\$ 32,362	\$
Residential mortgage-backed securities	863,322	\$	863,322	
CMO s / REMIC s Residential	718,520		718,520	
Municipal bonds	634,851		634,851	
Other securities	10,476		10,476	
Investment Securities-AFS	2,259,531		2,259,531	
Interest Rate Swaps	24,663		24,663	
Total Assets	\$ 2,284,194	\$	\$ 2,284,194	\$
Description of Liability				
Interest Rate Swaps	\$ 24,663	\$	\$ 24,663	\$

<i>(Dollars in thousands)</i>	Carrying Value at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description of Assets				
Government agency	\$ 46,507		\$ 46,507	\$
Residential mortgage-backed securities	888,000		888,000	
CMO s / REMIC s Residential	604,508		604,508	
Municipal bonds	652,037		652,037	
Other securities	10,474		10,474	
Investment Securities-AFS	2,201,526		2,201,526	
Interest Rate Swaps	20,497		20,497	
Total Assets	\$ 2,222,023	\$	\$ 2,222,023	\$
Description of Liability				
Interest Rate Swaps	\$ 20,497	\$	\$ 20,497	\$

We may be required to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a non-recurring basis that were still held on the balance sheet at June 30, 2012 and December 31, 2011, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets for investments with losses during the period.

Assets & Liabilities Measured at Fair Value on a Non-Recurring Basis

<i>(Dollars in thousands)</i>	Carrying Value at June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	For the Six Months Ended June 30, 2012 Total Losses
Description of Assets					
Investment Security-HTM	\$	\$	\$	\$	\$
Covered loans held-for-sale					
Impaired Loans-Non-covered	7,667			7,667	(1,979)
OREO-Non-covered	203			203	(24)
OREO-Covered	497			497	(74)

Table of Contents**Assets & Liabilities Measured at Fair Value on a Non-Recurring Basis**

<i>(Dollars in thousands)</i>	Carrying Value at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	For the Year Ended December 31, 2011 Total Losses
Description of Assets					
Investment Security-HTM	\$ 2,383	\$	\$	\$ 2,383	\$ (656)
Non-covered loans held-for-sale	1,404			1,404	(250)
Impaired Loans-Non-covered	30,014			30,014	(6,707)
OREO-Non-covered	4,866			4,866	(523)
OREO-Covered	2,541			2,541	(2,192)

The following disclosure presents estimated fair value of financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could have realized in a current market exchange as of June 30, 2012 and December 31, 2011. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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	Carrying Amount	Level 1	June 30, 2012 Estimated Fair Value		Total
			Level 2	Level 3	
(Dollars in thousands)					
Assets					
Total cash and cash equivalents	\$ 476,695	\$ 476,695	\$	\$	\$ 476,695
Interest-earning balances due from depository institutions	60,000		60,000		60,000
FHLB Stock	65,814		65,814		65,814
Investment securities available-for-sale	2,259,531		2,259,531		2,259,531
Investment securities held-to-maturity	2,191			2,191	2,191
Non-covered loans held-for-sale	2,880			2,880	2,880
Covered loans held-for-sale					
Total loans, net of allowance for credit losses	3,293,163			3,450,913	3,450,913
Accrued interest receivable	22,385		22,385		22,385
Swaps	24,663		24,663		24,663
Liabilities					
Deposits:					
Noninterest-bearing	\$ 2,252,280	2,252,280			2,252,280
Interest-bearing	2,446,570		2,447,655		2,447,655
Borrowings	916,434		967,937		967,937
Junior subordinated debentures	87,631		88,203		88,203
Accrued interest payable	3,355		3,355		3,355
Swaps	24,663		24,663		24,663

	Carrying Amount	Level 1	December 31, 2011 Estimated Fair Value		Total
			Level 2	Level 3	
(Dollars in thousands)					
Assets					
Total cash and cash equivalents	\$ 345,343	\$ 345,343	\$	\$	\$ 345,343
Interest-earning balances due from depository institutions	60,000		60,000		60,000
FHLB Stock	72,689		72,689		72,689
Investment securities available-for-sale	2,201,526		2,201,526		2,201,526
Investment securities held-to-maturity	2,383			2,383	2,383
Non-covered loans held-for-sale	348			348	348
Covered loans held-for-sale	5,664			5,664	5,664
Total loans, net of allowance for credit losses	3,382,632			3,534,960	3,534,960
Accrued interest receivable	23,512		23,512		23,512
Swaps	20,497		20,497		20,497
Liabilities					
Deposits:					
Noninterest-bearing	\$ 2,027,876	2,027,876			2,027,876
Interest-bearing	2,576,672		2,577,825		2,577,825
Borrowings	958,032		1,012,211		1,012,211
Junior subordinated debentures	115,055		115,854		115,854
Accrued interest payable	3,526		3,526		3,526
Swaps	20,497		20,497		20,497

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2012 and December 31, 2011. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented above.

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The Company has identified two principal reportable segments: Business Financial and Commercial Banking Centers (Centers) and the Treasury Department. The Company's subsidiary bank has 42 Business Financial Centers and five Commercial Banking Centers organized in geographic regions, which are the focal points for customer sales and services. The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank which is the basis for determining the Bank's reportable segments. The chief operating decision maker (currently our CEO) regularly reviews the financial information of these segments in deciding how to allocate resources and assessing performance. Business Financial and Commercial Banking Centers are considered one operating segment as their products and services are similar and are sold to similar types of customers, have similar production and distribution processes, have similar economic characteristics, and have similar reporting and organizational structures. The Treasury Department's primary focus is managing the Bank's investments, liquidity, and interest rate risk. Information related to the Company's remaining operating segments, which include construction lending, dairy and livestock lending, SBA lending, leasing, and centralized functions have been aggregated and included in Other. In addition, the Company allocates internal funds transfer pricing to the segments using a methodology that charges users of funds interest expense and credits providers of funds interest income with the net effect of this allocation being recorded in administration.

The following table represents the selected financial information for these two business segments. GAAP does not have an authoritative body of knowledge regarding the management accounting used in presenting segment financial information. The accounting policies for each of the business units is the same as those policies identified for the condensed consolidated Company and identified in the summary of significant accounting policies, Note 3. The income numbers represent the actual income and expenses of each business unit. In addition, each segment has allocated income and expenses based on management's internal reporting system, which allows management to determine the performance of each of its business units. Loan fees, included in the Centers category are the actual loan fees paid to the Company by its customers. These fees are eliminated and deferred in the Other category, resulting in deferred loan fees for the condensed consolidated financial statements. All income and expense items not directly associated with the two business segments are grouped in the Other category. Future changes in the Company's management structure or reporting methodologies may result in changes in the measurement of operating segment results.

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The following tables present the operating results and other key financial measures for the individual operating segments for the periods indicated:

	Centers	For the Three Months Ended June 30, 2012			Total
		Treasury	Other	Eliminations	
		(Dollars in thousands)			
Interest income, including loan fees	\$ 37,573	\$ 14,983	\$ 17,623	\$	\$ 70,179
Credit for funds provided (1)	6,277		2,550	(8,827)	
Total interest income	43,850	14,983	20,173	(8,827)	70,179
Interest expense	1,865	4,569	785		7,219
Charge for funds used (1)	1,044	10,098	(2,315)	(8,827)	
Total interest expense	2,909	14,667	(1,530)	(8,827)	7,219
Net interest income	40,941	316	21,703		62,960
Provision for credit losses					
Net interest income after provision for credit losses	40,941	316	21,703		62,960
Noninterest income	5,807		(3,515)		2,292
Noninterest expense	11,297	186	17,466		28,949
Segment pretax profit (loss)	\$ 35,451	\$ 130	\$ 722	\$	\$ 36,303
Segment assets as of June 30, 2012	\$ 4,869,845	\$ 2,832,792	\$ 895,925	(\$2,074,599)	\$ 6,523,963

	Centers	For the Three Months Ended June 30, 2011			Total
		Treasury	Other	Eliminations	
		(Dollars in thousands)			
Interest income, including loan fees	\$ 39,723	\$ 16,510	\$ 14,949	\$	\$ 71,182
Credit for funds provided (1)	6,016		2,428	(8,444)	
Total interest income	45,739	16,510	17,377	(8,444)	71,182
Interest expense	2,628	5,311	848		8,787
Charge for funds used (1)	1,373	8,369	(1,298)	(8,444)	
Total interest expense	4,001	13,680	(450)	(8,444)	8,787
Net interest income	41,738	2,830	17,827		62,395
Provision for credit losses					
Net interest income after provision for credit losses	41,738	2,830	17,827		62,395

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Noninterest income	5,390	(119)	723		5,994
Noninterest expense	13,296	192	23,667		37,155
Segment pretax profit (loss)	\$ 33,832	\$ 2,519	(\$5,117)	\$	\$ 31,234
Segment assets as of June 30, 2011	\$ 4,877,715	\$ 2,544,731	\$ 734,823	\$ (1,697,076)	\$ 6,460,193

(1) Credit for funds provided and charge for funds used is eliminated in the consolidated presentation.

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	Centers	For the Six Months Ended June 30, 2012			Total
		Treasury	Other	Eliminations	
(Dollars in thousands)					
Interest income, including loan fees	\$ 75,244	\$ 30,346	\$ 30,654	\$	\$ 136,244
Credit for funds provided (1)	12,624		5,150	(17,774)	
Total interest income	87,868	30,346	35,804	(17,774)	136,244
Interest expense	3,916	9,117	1,649		14,682
Charge for funds used (1)	2,141	20,126	(4,493)	(17,774)	
Total interest expense	6,057	29,243	(2,844)	(17,774)	14,682
Net interest income	81,811	1,103	38,648		121,562
Provision for credit losses					
Net interest income after provision for credit losses	81,811	1,103	38,648		121,562
Noninterest income	11,790		(4,242)		7,548
Noninterest expenses	23,195	381	35,585		59,161
Segment pretax profit (loss)	\$ 70,406	\$ 722	(\$1,179)	\$	\$ 69,949
Segment assets as of June 30, 2012	\$ 4,869,845	\$ 2,832,792	\$ 895,925	(\$2,074,599)	\$ 6,523,963
	Centers	For the Six Months Ended June 30, 2011			Total
		Treasury	Other	Eliminations	
(Dollars in thousands)					
Interest income, including loan fees	\$ 79,162	\$ 31,731	\$ 26,801	\$	\$ 137,694
Credit for funds provided (1)	12,042		5,116	(17,158)	
Total interest income	91,204	31,731	31,917	(17,158)	137,694
Interest expense	5,896	10,602	1,692		18,190
Charge for funds used (1)	2,659	16,671	(2,172)	(17,158)	
Total interest expense	8,555	27,273	(480)	(17,158)	18,190
Net interest income	82,649	4,458	32,397		119,504
Provision for credit losses			7,068		7,068
Net interest income after provision for credit losses	82,649	4,458	25,329		112,436
Noninterest income	10,602	(119)	5,489		15,972
Noninterest expenses	25,927	408	47,125		73,460
Segment pretax profit (loss)	\$ 67,324	\$ 3,931	(\$16,307)	\$	\$ 54,948

Segment assets as of June 30, 2011	\$ 4,877,715	\$ 2,544,731	\$ 734,823	\$ (1,697,076)	\$ 6,460,193
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(1) Credit for funds provided and charged for funds used is eliminated in the consolidated presentation.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank is exposed to certain risks relating to its ongoing business operations and utilizes interest rate swap agreements (swaps) as part of its asset liability management strategy to help manage its interest rate risk position. As of June 30, 2012, the Bank entered into 82 interest-rate swap agreements with customers and 82 with a counterparty bank. The swaps are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and provide the customer the financial effects of a fixed-rate loan without creating volatility in the Bank s earnings.

The structure of the swaps is as follows. The Bank enters into a swap with its customers to allow them to convert variable rate loans to fixed rate loans, and at the same time, the Bank enters into a swap with the counterparty bank to allow the Bank to pass on the interest-rate risk associated with fixed rate loans. The net effect of the transaction allows the Bank to receive interest on the loan from the customer at a variable rate based on LIBOR plus a spread. The changes in the fair value of the swaps primarily offset each other and therefore do not have a significant impact on the Company s results of operations.

We believe our risk of loss associated with our counterparty borrowers related to interest rate swaps is mitigated as the loans with swaps are underwritten to take into account potential additional exposure.

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As of June 30, 2012, the total notional amount of the Company's swaps was \$226.2 million. The location of the asset and liability and the amount of gain recognized as of June 30, 2012 and December 31, 2011, and for the six months ended June 30, 2012 and 2011 are presented as follows:

Fair Value of Derivative Instruments

Derivatives Not Designated as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	<i>(Dollars in thousands)</i>			
	Balance Sheet Location June 30, 2012	Fair Value	Balance Sheet Location June 30, 2012	Fair Value
Interest rate swaps	Other Assets	\$ 24,663	Other Liabilities	\$ 24,663
Total derivatives		\$ 24,663		\$ 24,663
	December 31, 2011		December 31, 2011	
Interest rate swaps	Other Assets	\$ 20,497	Other Liabilities	\$ 20,497
Total derivatives		\$ 20,497		\$ 20,497

The Effect of Derivative Instruments on the Consolidated Statements of Earnings for the Three and Six

Months Ended June 30, 2012 and 2011

(Dollars in thousands)

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivative	For the Three Months Ended		For the Six Months Ended	
		June 30,			
		2012	2011	2012	2011
Interest rate swaps	Other income	\$ 189	\$ 47	\$ 692	\$ 148
Total		\$ 189	\$ 47	\$ 692	\$ 148

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

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of CVB Financial Corp. and its wholly owned subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011, and the condensed consolidated financial statements and accompanying notes presented elsewhere in this report.

CRITICAL ACCOUNTING POLICIES

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

The following is a summary of the more judgmental and complex accounting estimates and principles. In each area, we have identified the variables most important in the estimation process. We have used the best information available to make the necessary estimates to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables could change future valuations and impact the results of operations.

Allowance for Credit Losses

Investment Securities

Goodwill Impairment

Acquired Loans

Covered Loans

Covered Other Real Estate Owned

FDIC Loss Sharing Asset

Non-Covered Other Real Estate Owned

Fair Value of Financial Instruments

Income Taxes

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Share-based compensation

Our significant accounting policies are described in greater detail in our 2011 Annual Report on Form 10-K in the Critical Accounting Estimates section of Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 1 to the Condensed Consolidated Financial Statements, Significant Accounting Policies, which are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations.

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OVERVIEW

Our net income increased to \$23.6 million for the three months ended June 30, 2012, compared with \$21.0 million for the same period in 2011, an increase of \$2.6 million, or 12.27%. This increase was primarily the result of an \$8.2 million decrease in noninterest expense and a \$565,000 increase in net interest income, partially offset by a \$3.7 million decrease in total noninterest income. Diluted earnings per share increased to \$0.23 per share for the three months ended June 30, 2012, from \$0.20 per share for the same period in 2011.

Net interest income, before the provision for credit losses of \$63.0 million for the three months ended June 30, 2012 increased \$565,000, or 0.91%, compared to the same period in 2011. Excluding the impact of the yield adjustment on covered loans, tax exempt net interest margin was 3.77% for the three months ended June 30, 2012, compared with 3.69% for the first three months ended March 31, 2012 and down from 3.92% for the three months ended June 30, 2011. During the three months ended June 30, 2012, there were several non-performing loans that were paid in full resulting in a 10 basis point increase in the net interest margin. Excluding this impact, net interest margin was slightly down, primarily due to the refinancing or runoff of higher yielding loans.

The Company reported total assets of \$6.52 billion at June 30, 2012. This represented an increase of \$41.0 million, or 0.63%, from total assets of \$6.48 billion at December 31, 2011. Earning assets totaled \$6.15 billion at June 30, 2012. This represented an increase of \$17.8 million, or 0.29%, from total earning assets of \$6.13 billion at December 31, 2011. The increase in earning assets was due to an increase of \$58.0 million in the available-for-sale investment portfolio, partially offset by a decrease of \$91.5 million in the loan portfolio.

We continued to reinvest our cash flows into the investment portfolio. During the second quarter of 2012, we purchased \$30.9 million in MBS with an average yield of 1.60% and \$6.5 million in municipal securities with an average tax-equivalent yield of 3.17%. MBS purchased during the second quarter have an average duration of about 4.9 years. One of the primary objectives of our purchasing strategy is to minimize extension risk as interest rates rise.

Non-covered commercial real estate loans totaled \$1.97 billion at June 30, 2012, a decrease of \$22.8 million when compared with March 31, 2012. This decline was offset by an increase of \$26.2 million in commercial and industrial loans. The market remains very competitive for new loan originations for both commercial real estate and commercial and industrial loans. We continue to focus our sales effort on these two key areas but continue to remain cautious in terms of credit quality due to the low interest rate environment.

We continue to grow our non-interest bearing deposits. As of June 30, 2012, our non-interest bearing deposits grew to \$2.25 billion, an increase of \$224.4 million, or 11.07%, compared to \$2.03 billion at December 31, 2011. At June 30, 2012, non-interest bearing deposits were 47.93% of total deposits, up from 44.04% at December 31, 2011 and 42.06% at June 30, 2011. Our total cost of deposits for the three months ended June 30, 2012 were 13 basis points, compared to 20 basis points for the same period in 2011.

On June 17, 2012, we redeemed 50% or \$20 million of the Trust Preferred Securities in CVB Statutory Trust I.

Total equity increased \$33.4 million, or 4.68%, to \$748.3 million at June 30, 2012, compared with total equity of \$714.8 million at December 31, 2011.

Table of Contents**ANALYSIS OF THE RESULTS OF OPERATIONS****Financial Performance**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands, except per share amounts)			
Net earnings	\$ 23,619	\$ 21,038	\$ 45,887	\$ 37,638
Earnings per common share:				
Basic	\$ 0.23	\$ 0.20	\$ 0.44	\$ 0.35
Diluted	\$ 0.23	\$ 0.20	\$ 0.44	\$ 0.35
Return on average assets	1.46%	1.31%	1.41%	1.17%
Return on average shareholders' equity	12.73%	12.67%	12.51%	11.52%
Efficiency Ratio	44.36%	54.33%	45.82%	54.22%

Income and Expense Related to Covered Assets

The following table summarizes the components of income and expense related to covered assets excluding normal accretion of interest income on covered loans for the periods indicated:

Summary of Covered Asset Related Income (excluding normal loan accretion)**June 30, 2012 and 2011**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Covered Asset Related income/expense				
Interest Income-Accelerated accretion	\$ 7,521	\$ 5,707	\$ 12,213	\$ 7,658
Other Income-Increase (decrease) in FDIC loss share asset	(9,336)	(1,689)	(12,280)	(274)
Other Income-Gain on sale of OREO	385		521	74
Other Income-Gain on sale (loss) of loans held-for-sale	2,035		815	
Expenses-legal and professional	(254)	(835)	(772)	(1,173)
Expenses-OREO write-down	(34)	(1,324)	(193)	(2,125)
Expenses-OREO expenses	14	(126)	(97)	(358)
Expenses-other expenses (appraisals, and etc.)	(29)	(177)	(90)	(381)
Net income before income taxes related to covered assets	\$ 302	\$ 1,556	\$ 117	\$ 3,421

Income and expense related to covered loans include accretion of the difference between the carrying amount of the covered loans and their expected cash flows, increase (decrease) in the FDIC loss sharing assets as well as the other noninterest expenses related to covered loans.

The accelerated discount accretion of \$7.5 million for the three months ended June 30, 2012, recognized as part of interest income from covered loans increased \$2.8 million, compared to \$5.7 million for the same period in 2011. This increase was reduced by the changes in the FDIC loss sharing asset, of \$9.3 million net decrease for the three months ended June 30, 2012, compared to a net decrease of \$1.7 million for the same period in 2011.

Loans acquired from the SJB acquisition have been performing better than originally expected. At June 30, 2012, the remaining discount associated with the SJB loans approximates \$36.5 million. Based on the current re-forecast of expected cash flows, approximately \$17 million of the discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which

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approximates 4.5 years and 2.0 years, respectively. The FDIC loss sharing asset of \$40.9 million at June 30, 2012 will be reduced by loss claims submitted to the FDIC with the remaining balance amortized on the same basis as the discount, not to exceed its remaining contract life of approximately 2.5 years.

The Company also recognized net gain on sales of covered assets of \$2.4 million for the three months ended June 30, 2012.

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Noninterest expense related to covered assets includes OREO expense, legal and professional expenses and other covered asset expenses totaled \$304,000 and \$1.2 million for the three and six months ended June 30, 2012, respectively. This compares to \$2.5 million and \$4.0 million for the same periods in 2011. Covered loans decreased \$161.1 million to \$246.6 million at June 30, 2012 from \$407.7 million at June 30, 2011.

Net Interest Income

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). Net interest margin is the taxable-equivalent of net interest income as a percentage of average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average earning assets minus the cost of average interest-bearing liabilities. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the international, national and state economies, in general, and more specifically the local economies in which we conduct business. Our ability to manage net interest income during changing interest rate environments will have a significant impact on our overall performance. Our balance sheet is slightly liability-sensitive; meaning interest-bearing liabilities will generally reprice slightly faster than earning assets. Therefore, our net interest margin is likely to decrease in sustained periods of rising interest rates and increase in sustained periods of declining interest rates. We manage net interest income through affecting changes in the mix of earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to earning assets, and in the growth of earning assets.

Table 1 presents the interest rate spread, net interest margin and the composition of average interest-earning assets and average interest-bearing liabilities by category for the periods indicated, including the changes in average balance, composition, and average yield/rate between these respective periods:

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	For the Three Months Ended June 30,					
	Average Balance	2012 Interest	Average Yield/Rate	Average Balance	2011 Interest	Average Yield/Rate
(Dollars in thousands)						
ASSETS						
Investment Securities (1)						
Taxable	\$ 1,661,525	\$ 8,786	2.12%	\$ 1,353,784	\$ 10,152	3.03%
Tax-advantaged	643,052	5,785	4.95%	615,910	5,921	5.46%
Investment in FHLB stock	67,499	94	0.56%	81,547	66	0.32%
Federal Funds Sold & interest-earning						
Deposits with other institutions	316,610	295	0.37%	359,668	346	0.38%
Loans HFS	5,499	6	0.44%	2,639	10	1.52%
Loans (2)	3,456,794	47,692	5.55%	3,652,155	48,980	5.38%
Yield adjustment to interest income from discount accretion	(41,951)	7,521		(92,614)	5,707	
Total Earning Assets	6,109,028	70,179	4.76%	5,973,089	71,182	4.95%
Total Non-Earning Assets	404,755			459,548		
Total Assets	\$ 6,513,783			\$ 6,432,637		
LIABILITIES AND STOCKHOLDERS EQUITY						
Savings Deposits (3)	\$ 1,718,972	\$ 1,073	0.25%	\$ 1,715,947	\$ 1,408	0.33%
Time Deposits	783,600	481	0.25%	921,589	812	0.35%
Total Deposits	2,502,572	1,554	0.25%	2,637,536	2,220	0.34%
Other Borrowings	1,039,125	5,665	2.16%	1,212,471	6,567	2.14%
Interest Bearing Liabilities	3,541,697	7,219	0.81%	3,850,007	8,787	0.91%
Non-interest bearing deposits	2,163,984			1,852,954		
Other Liabilities	61,978			63,570		
Stockholders Equity	746,124			666,106		
Total Liabilities and Stockholders Equity	\$ 6,513,783			\$ 6,432,637		
Net interest income		\$ 62,960			\$ 62,395	
Net interest income excluding discount		\$ 55,439			\$ 56,688	
Net interest spread tax equivalent			3.95%			4.04%
Net interest spread tax equivalent excluding discount			3.42%			3.58%
Net interest margin			4.15%			4.20%
Net interest margin tax equivalent			4.29%			4.37%
Net interest margin tax equivalent excluding discount			3.77%			3.92%
Net interest margin excluding loan fees			4.08%			4.16%
Net interest margin excluding loan fees tax equivalent			4.22%			4.32%

(1) Non tax-equivalent (TE) rate was 2.53% for 2012, 3.29% for 2011.

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(2) Loan fees are included in total interest income as follows, (000)s omitted: 2012, \$967; 2011, \$606.

(3) Includes interest bearing demand and money market accounts.

As stated above, the net interest margin measures net interest income as a percentage of average earning assets. Our tax effected (TE) net interest margin was 4.29% for the three months ended June 30, 2012, compared to 4.37% for the same period in 2011. Our net interest income and net interest margin are driven by the combination of our loan and securities volume, yield on assets, deposit and borrowings volume, and our deposit pricing as discussed in the following paragraphs. The net interest spread is an indication of our ability to manage interest rates received on loans and investments and rates paid on deposits and borrowings in a competitive and changing interest rate environment.

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	For the Six Months Ended June 30,					
	2012			2011		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in thousands)					
ASSETS						
Investment Securities (1)						
Taxable	\$ 1,653,227	\$ 17,956	2.19%	\$ 1,302,224	\$ 18,990	2.94%
Tax-advantaged	645,868	11,581	4.94%	612,660	11,840	5.48%
Investment in FHLB stock	69,846	184	0.53%	84,055	131	0.31%
Federal Funds Sold & interest-earning						
Deposits with other institutions	300,478	580	0.39%	395,355	721	0.36%
Loans HFS	6,472	10	0.31%	3,047	29	1.92%
Loans (2)	3,466,637	93,720	5.44%	3,721,462	98,325	5.33%
Yield adjustment to interest income from discount accretion	(46,053)	12,213		(102,727)	7,658	
Total Earning Assets	6,096,475	136,244	4.64%	6,016,076	137,694	4.78%
Total Non-Earning Assets	440,103			460,776		
Total Assets	\$ 6,536,578			\$ 6,476,852		
LIABILITIES AND STOCKHOLDERS EQUITY						
Savings Deposits (3)	\$ 1,736,226	\$ 2,230	0.26%	\$ 1,730,721	\$ 3,044	0.35%
Time Deposits	798,779	977	0.25%	974,482	1,964	0.41%
Total Deposits	2,535,005	3,207	0.25%	2,705,203	5,008	0.37%
Other Borrowings	1,067,821	11,475	2.13%	1,230,919	13,182	2.13%
Interest Bearing Liabilities	3,602,826	14,682	0.81%	3,936,122	18,190	0.92%
Non-interest bearing deposits	2,121,777			1,822,068		
Other Liabilities	74,056			59,652		
Stockholders Equity	737,919			659,010		
Total Liabilities and Stockholders Equity	\$ 6,536,578			\$ 6,476,852		
Net interest income		\$ 121,562			\$ 119,504	
Net interest income excluding discount		109,349			111,846	
Net interest spread tax equivalent			3.83%			3.86%
Net interest spread tax equivalent excluding discount			3.39%			3.52%
Net interest margin			4.02%			4.01%
Net interest margin tax equivalent			4.16%			4.17%
Net interest margin tax equivalent excluding discount			3.73%			3.85%
Net interest margin excluding loan fees			3.97%			3.97%
Net interest margin excluding loan fees tax equivalent			4.12%			4.13%

(1) Non tax-equivalent (TE) rate was 2.59% for 2012, and 3.24% for 2011.

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(2) Loan fees are included in total interest income as follows, (000)s omitted: 2012, \$1,310; 2011, \$1,129.

(3) Includes interest bearing demand and money market accounts.

Table 2 above presents a comparison of interest income and interest expense resulting from changes in the volumes and rates on average earning assets and average interest-bearing liabilities for the periods indicated. Changes in interest income or expense attributable to volume changes are calculated by multiplying the change in volume by the initial average interest rate. The change in interest income or expense attributable to changes in interest rates is calculated by multiplying the change in interest rate by the initial volume. The changes attributable to interest rate and volume changes are calculated by multiplying the change in rate times the change in volume.

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	Comparison of Three Months Ended June 30,			
	2012 Compared to 2011			
	Increase (Decrease) Due to			Total
	Volume	Rate	Rate/ Volume	
(Dollars in thousands)				
Interest Income:				
Taxable investment securities	\$ 2,400	(\$ 3,050)	(\$ 716)	(\$ 1,366)
Tax-advantaged securities	366	(474)	(28)	(136)
Investment in FHLB stock	(11)	49	(10)	28
Fed funds sold & interest-earning deposits with other institutions	(41)	(9)	(1)	(51)
Loans HFS	11	(7)	(8)	(4)
Loans	(2,620)	1,548	(216)	(1,288)
Yield adjustment from discount accretion	(3,122)	10,942	(6,006)	1,814
Total interest income	(3,017)	8,999	(6,985)	(1,003)
Interest Expense:				
Savings deposits	2	(342)	5	(335)
Time deposits	(120)	(230)	19	(331)
Other borrowings	(938)	61	(25)	(902)
Total interest expense	(1,056)	(511)	(1)	(1,568)
Net Interest Income	(\$ 1,961)	\$ 9,510	(\$ 6,984)	\$ 565

	Comparison of Six Months Ended June 30,			
	2012 Compared to 2011			
	Increase (Decrease) Due to			Total
	Volume	Rate	Rate/ Volume	
(Dollars in thousands)				
Interest Income:				
Taxable investment securities	\$ 5,083	(\$ 4,849)	(\$ 1,268)	(\$ 1,034)
Tax-advantaged securities	862	(1,046)	(75)	(259)
Investment in FHLB stock	(22)	92	(17)	53
Fed funds sold & interest-earning deposits with other institutions	(171)	59	(29)	(141)
Loans HFS	33	(24)	(28)	(19)
Loans	(6,509)	2,041	(137)	(4,605)
Yield adjustment from discount accretion	(4,247)	19,618	(10,816)	4,555
Total interest income	(4,971)	15,891	(12,370)	(1,450)
Interest Expense:				
Savings deposits	10	(777)	(47)	(814)
Time deposits	(359)	(777)	149	(987)
Other borrowings	(1,756)	0	49	(1,707)
Total interest expense	(2,105)	(1,554)	151	(3,508)
Net Interest Income	(\$ 2,866)	\$ 17,445	(\$ 12,521)	\$ 2,058

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The average yield on loans was 5.55% for the three months ended June 30, 2012, compared to 5.38% for the same period in 2011. During the second quarter 2012, there were several non-performing loans that were paid in full resulting in a 17 basis point increase in the yield on loans. Excluding this impact, the loan yield was down slightly, primarily due to the refinancing or runoff of higher yielding loans. The average balance of loans decreased \$192.5 million to \$3.46 billion for the three months ended June 30, 2012, compared to \$3.65 billion for the same period in 2011. The \$1.3 million decrease in total interest on loans was partially offset by the \$1.8 million increase in the discount accretion from covered SJB loans, primarily due to improved credit loss experienced on covered loans.

Total average earning assets of \$6.11 billion increased \$135.9 million, or 2.28%, from \$5.97 billion for the three months ended June 30, 2011. This increase was principally due to a \$334.9 million increase in lower yielding investment securities to \$2.30 billion for the three months ended June 30, 2012, compared to \$1.97 billion for the same period in 2011. Excluding the accelerated discount accretion, the yield on interest-earning assets was 4.23% for the three months ended June 30, 2012, compared to 4.49% for the same period in 2011.

In general, we cease accruing interest on a loan after its principal or interest becomes 90 days or more past due. When a loan is placed on non-accrual, all interest previously accrued but not collected is charged against earnings. There was no interest income that was accrued and not reversed on non-accrual loans at June 30, 2012 and 2011. As of June 30, 2012 and 2011, we had \$61.9 million and \$75.1 million of non-covered non-accrual loans, respectively. Several of these non-performing loans were paid in full resulting in a 10 basis point increase in the net interest margin for the three months ended June 30, 2012.

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Fees collected on loans are an integral part of the loan pricing decision. Net loan fees and the direct costs associated with the origination of loans are deferred and deducted from total loans on our balance sheet. Net deferred loan fees are recognized in interest income over the term of the loan using the effective-yield method. We recognized loan fee income of \$967,000 for the three months ended June 30, 2012, compared to \$606,000 for the three months ended June 30, 2011. We continued to benefit from loan prepayment penalties, earning \$814,000 for the three months ended June 30, 2012, compared with \$431,000 for the same period in 2011.

Interest expense of \$7.2 million for the three months ended June 30, 2012 decreased \$1.6 million, or 17.85%, compared to \$8.8 million for the same period in 2011. The average rate paid on interest-bearing liabilities decreased 10 basis points, to 0.81% in the three months ended June 30, 2012 from 0.91% in 2011 as a result of the low interest rate environment that we are currently experiencing as well as the mix of interest-bearing liabilities. The decline in interest expense was driven by lower rates paid on deposits as reflected by the decrease in our average cost of interest-bearing deposits (0.25% for the three months ended June 30, 2012, compared to 0.34% for the same period in 2011). Average noninterest-bearing deposits grew to \$2.16 billion, or 46.37% of total average deposits for the three months ended June 30, 2012, compared to \$1.85 billion, or 41.26% of total average deposits for the same period in 2011. The decrease in rates paid on total deposits (0.13% for the three months ended June 30, 2012 compared to 0.20% for the same period in 2011) also contributed to our lower cost of funds.

Other borrowings typically have higher interest costs than interest-bearing deposits. The \$902,000 decrease in interest from other borrowings was primarily due to a \$100.0 million prepayment of FHLB borrowings at the end of December, 2011. On January 7, 2012, we also redeemed all outstanding debentures and trust preferred securities issued by First Coast Capital Trust II for a total consideration of approximately \$6.8 million.

Provision for Credit Losses

We maintain an allowance for credit losses that is increased by a provision for non-covered credit losses charged against operating results. The provision for credit losses is determined by management as the amount to be added to the allowance for credit losses after net charge-offs have been deducted to bring the allowance to an appropriate level which, in management's best estimate, is necessary to absorb probable credit losses within the existing loan portfolio.

Our provision for credit losses on non-covered loans was zero for the six months ended June 30, 2012, compared to \$7.1 million for the same period in 2011. The decrease in the provision for credit losses was primarily due to the continued decrease in classified assets and the overall improvement in the performance of our loan portfolio. We believe the allowance is appropriate at June 30, 2012. We continually assess the quality of our portfolio to determine whether additional provisions for credit losses are necessary. The ratio of the allowance for credit losses to total non-covered net loans as of June 30, 2012 and December 31, 2011 was 2.89% and 2.92%, respectively.

No assurance can be given that economic conditions which adversely affect the Company's service areas or other circumstances will not be reflected in increased provisions for credit losses in the future, as the nature of this process requires considerable judgment. Total net charge-offs totaled \$2.1 million during the six months ended June 30, 2012, compared to \$15.4 million for the same period in 2011. See Risk Management Credit Risk herein.

SJB loans acquired in the FDIC-assisted transaction were initially recorded at their fair value and are covered by a loss sharing agreement with the FDIC. Due to the timing of the acquisition and the October 16, 2009 fair value estimate, there was no provision for credit losses on the covered SJB loans in 2009. During the three months ended June 30, 2012 and 2011, there was \$50,000 and \$24,000, respectively, in net charge-offs for loans in excess of the amount originally expected in the fair value of the loans at acquisition. An offsetting adjustment was recorded to the FDIC loss-sharing asset based on the appropriate loss-sharing percentage.

Noninterest Income

Noninterest income includes income derived from special services offered, such as CitizensTrust, merchant card, international banking, and other business services. Also included in noninterest income are service charges and fees, primarily from deposit accounts; gains (net of losses) from the disposition of investment securities, loans, other real estate owned, and fixed assets; and other revenues not included as interest on earning assets.

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The following table sets forth the various components of noninterest income for the periods indicated.

	For the Three Months Ended			For the Six Months Ended		
	2012	June 30, 2011	Variance	2012	June 30, 2011	Variance
	(Dollars in thousands)					
Net impairment loss on investment securities recognized in earnings	\$	\$ (119)	\$ 119	\$	\$ (119)	\$ 119
Service charges on deposit accounts	4,068	4,029	39	8,192	7,752	440
Trust and investment services	2,042	2,259	(217)	4,227	4,412	(185)
Bankcard services	1,007	816	191	1,926	1,524	402
BOLI Income	740	1,149	(409)	1,490	1,856	(366)
Decrease in FDIC loss sharing asset, net	(9,336)	(1,689)	(7,647)	(12,280)	(274)	(12,006)
Other	3,771	(451)	4,222	3,993	821	3,172
Total noninterest income	\$ 2,292	\$ 5,994	\$ (3,702)	\$ 7,548	\$ 15,972	\$ (8,424)

Second Quarter of 2012 Compared to Second Quarter of 2011

Noninterest income for the three months ended June 30, 2012 was reduced by a \$9.3 million net decrease in the FDIC loss sharing asset, partially offset by a \$2.0 million net gain on sale of 11 covered loans held-for-sale. Loans acquired from the SJB acquisition have been performing better than originally expected. Based on the improved credit loss experienced in our covered loan portfolio and the re-forecast of future expected cash flows, the nonaccretable discount associated with the SJB covered loan portfolio decreased in the second quarter of 2012. As a result of lower future losses expected for the remaining portfolio, the expected reimbursements from the FDIC under our loss sharing agreement decreased. This difference between the recorded amount of the FDIC loss sharing asset and the expected reimbursements from the FDIC will be amortized on the same basis as the discount, not to exceed its remaining contractual life of approximately 2.5 years.

CitizensTrust consists of Wealth Management and Investment Services income. The Wealth Management Group provides a variety of services, which include asset management, financial planning, estate planning, retirement planning, private and corporate trustee services, and probate services. Investment Services provides self-directed brokerage, 401(k) plans, mutual funds, insurance and other non-insured investment products. At June 30, 2012, CitizensTrust had approximately \$2.13 billion in assets under management and administration, including \$1.81 billion in assets under management, as of June 30, 2012. CitizensTrust generated fees of \$2.0 million for the three months ended June 30, 2012, down 9.61% from the second quarter of 2011.

The Bank invests in Bank-Owned Life Insurance (BOLI). BOLI involves the purchasing of life insurance by the Bank on a selected group of employees. The Bank is the owner and beneficiary of these policies. BOLI is recorded as an asset at its cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties. BOLI income of \$740,000 for the quarter ended June 30, 2012 decreased \$409,000, or 35.60%, from the same period in 2011, primarily due to a \$207,000 incremental death benefit on the death of an insured individual during the three months ended June 30, 2011.

Six Months of 2012 Compared to Six Months of 2011

Noninterest income for the first six months of 2012 was reduced by a \$12.3 million net decrease in the FDIC loss sharing asset and a \$1.2 million impairment charge on a loan held-for-sale during the first quarter of 2012. This was partially offset by a \$2.0 million net gain on sale of 11 covered loans held-for-sale, compared to a \$1.6 million write-down of held-for-sale loans for the same period in 2011. This decrease in the loss sharing asset in 2012 was primarily due to improved credit loss experienced in our covered loan portfolio as previously described.

Table of Contents**Noninterest Expense**

The following table sets for the various components of noninterest expense for the periods indicated.

	For the Three Months Ended			For the Six Months Ended		
	2012	June 30, 2011	Variance	2012	June 30, 2011	Variance
(Dollars in thousands)						
Noninterest expense:						
Salaries and employee benefits	\$ 16,646	\$ 18,220	\$ (1,574)	\$ 33,367	\$ 35,880	\$ (2,513)
Occupancy and equipment	3,624	4,081	(457)	7,572	8,402	(830)
Professional services	1,702	5,028	(3,326)	3,693	8,637	(4,944)
Software licenses and maintenance	989	1,075	(86)	1,898	2,035	(137)
Promotion	1,314	1,205	109	2,565	2,530	35
Amortization of Intangibles	452	866	(414)	1,268	1,767	(499)
Provision for unfunded commitments					732	(732)
OREO expense	323	1,670	(1,347)	1,053	2,776	(1,723)
Other	3,899	5,010	(1,111)	7,745	10,701	(2,956)
Total noninterest expense	\$ 28,949	\$ 37,155	\$ (8,206)	\$ 59,161	\$ 73,460	\$ (14,299)

Second Quarter of 2012 Compared to Second Quarter of 2011

Our ability to control noninterest expenses in relation to asset growth can be measured in terms of noninterest expenses as a percentage of average assets. Noninterest expense measured as a percentage of average assets was 1.79% for the three months ended June 30, 2012, compared to 1.85% for the first quarter of 2012 and 2.32% for the three months ended June 30, 2011.

Our ability to control noninterest expenses in relation to the level of total revenue (net interest income before provision for credit losses plus noninterest income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. For the three months ended June 30, 2012, the efficiency ratio was 44.36%, compared to 47.31% for the first quarter of 2012 and 54.33% for the three months ended June 30, 2011.

The overall decrease of \$8.2 million in noninterest expense was primarily attributable to decreases of \$3.2 million in legal expenses (included in professional services), \$1.6 million in salaries and employee benefits, \$1.3 million in OREO expense, \$545,000 in regulatory assessment fees, \$457,000 in occupancy and equipment, \$414,000 in intangible amortization expense, and \$652,000 in other expenses.

Overall salaries and related expenses decreased \$1.6 million compared to the three months ended June 30, 2011. At June 30, 2012, we employed 794 associates (575 full-time and 219 part-time) compared to 809 associates (578 full-time and 231 part-time) at December 31, 2011. Salaries and related expenses as a percent of average assets decreased to 1.03% for the second quarter ended June 30, 2012, compared to 1.14% for the same period in 2011.

The \$3.3 million decrease in professional services expense was primarily due to a decrease of \$3.2 million in legal expenses associated with credit and collection issues, the Securities and Exchange Commission investigation, and other litigation issues in which the Company is involved. See Item 3 Legal Proceedings .

Six Months of 2012 Compared to Six Months of 2011

The \$14.3 million decrease in noninterest expense was mainly attributable to a decrease of \$5.0 million in legal expenses (included in professional services), \$2.5 million in salary and employee benefits, \$1.7 million in OREO expense, \$1.4 million in regulatory assessment fees, \$830,000 in occupancy and equipment, \$732,000 in provision for unfunded commitments, \$499,000 in intangible amortization expense, and \$1.6 million in other expenses.

Income Taxes

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The Company's effective tax rate for the three months ended June 30, 2012 was 34.94%, compared to 33.82% for the first quarter of 2012 and 32.64% for the second quarter of 2011. The quarterly increase was due to lower tax-advantaged income from certain investments and municipal loans/leases as a percentage of total income for each period. The majority of tax-advantaged income is derived from municipal securities.

Table of Contents**RESULTS BY BUSINESS SEGMENTS**

We have two reportable business segments: which are (i) Business Financial and Commercial Banking Centers and (ii) Treasury. The results of these two segments are included in the reconciliation between business segment totals and our consolidated total. Our business segments do not include the results of administration units that do not meet the definition of an operating segment. There are no provisions for credit losses or taxes in the segments as these are accounted for at the corporate level.

Business Financial and Commercial Banking Centers

Key measures we use to evaluate the Business Financial and Commercial Banking Centers performance are included in the following table for the three and six months ended June 30, 2012 and 2011. The table also provides additional significant segment measures useful to understanding the performance of this segment.

	For the Three Months Ended June 30,		For the Six months Ended June 30,	
	2012	2011	2012	2011
<i>(Dollars in thousands)</i>				
Key Measures:				
<i>Statement of Operations</i>				
Interest income (1)	\$ 43,850	\$ 45,739	\$ 87,868	\$ 91,204
Interest expense (1)	2,909	4,001	6,057	8,555
Net interest income	\$ 40,941	\$ 41,738	\$ 81,811	\$ 82,649
Noninterest income	5,807	5,390	11,790	10,602
Noninterest expense	11,297	13,296	23,195	25,927
Segment pretax profit	\$ 35,451	\$ 33,832	\$ 70,406	\$ 67,324
<i>Balance Sheet</i>				
Average loans	\$ 2,612,825	\$ 2,660,934	\$ 2,606,990	\$ 2,679,424
Average interest-bearing deposits and customer repurchases	\$ 2,747,128	\$ 2,940,178	\$ 2,806,358	\$ 3,024,203
Yield on loans (2)	5.78%	5.99%	5.80%	5.96%
Rate paid on interest-bearing deposits and customer repurchases	0.27%	0.36%	0.28%	0.39%

(1) Interest income and interest expense include credit for funds provided and charge for funds used, respectively. These are eliminated in the consolidated presentation.

(2) Yield on loans excludes SJB discount accretion as this is accounted for at the Corporate level.

For the second quarter ended June 30, 2012, segment pre-tax profit increased by \$1.6 million, or 4.79%, compared to the same period last year. This was primarily due to the decrease in noninterest expense of \$2.0 million, or 15.03%, compared to the second quarter of 2011. Noninterest income increased \$417,000, or 7.74% for the three months ended June 30, 2012, compared to the same period in 2011. Net interest income decreased \$797,000 or 1.91%, due to a decrease of \$1.9 million in interest income, offset by a decrease of \$1.1 million in interest expense. Average loan balances decreased \$48.1 million, or 1.81% for the three months ended June 30, 2012, from the same period last year. Rates paid on deposits and customer repurchases decreased 9 basis points, while average interest-bearing deposits and customer repurchase agreements decreased \$193.1 million, or 6.57%.

Treasury

Key measures we use to evaluate the Treasury's performance are included in the following table for the three and six months ended June 30, 2012 and 2011. The table also provides additional significant segment measures useful to understanding the performance of this segment.

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	For the Three Months Ended June 30,		For the Six months Ended June 30,	
	2012	2011	2012	2011
<i>(Dollars in thousands)</i>				
Key Measures:				
<i>Statement of Operations</i>				
Interest income (1)	\$ 14,983	\$ 16,510	\$ 30,346	\$ 31,731
Interest expense (1)	14,667	13,680	29,243	27,273
Net interest income	\$ 316	\$ 2,830	\$ 1,103	\$ 4,458
Noninterest income		(119)		(119)
Noninterest expense	186	192	381	408
Segment pretax profit	\$ 130	\$ 2,519	\$ 722	\$ 3,931
<i>Balance Sheet</i>				
Average investments	\$ 2,304,577	\$ 1,969,694	\$ 2,299,095	\$ 1,914,883
Average interest-bearing deposits	\$ 240,002	\$ 242,223	\$ 240,001	\$ 241,106
Average borrowings	\$ 448,806	\$ 552,770	\$ 448,755	\$ 552,981
Yield on investments-TE	2.91%	3.79%	2.97%	3.75%
Non-tax equivalent yield	2.53%	3.29%	2.59%	3.24%
Rate paid on borrowings	3.96%	3.74%	3.96%	3.74%

(1) Interest income and interest expense include credit for funds provided and charge for funds used, respectively. These are eliminated in the consolidated presentation.

For the second quarter ended June 30, 2012, segment pre-tax profits decreased by \$2.4 million from the same period last year. This decrease was primarily due to a decrease of \$1.5 million in interest income and an increase of \$987,000 in interest expense, which included charges for the funds provided by other segments.

Other

	For the Three Months Ended June 30,		For the Six months Ended June 30,	
	2012	2011	2012	2011
<i>(Dollars in thousands)</i>				
Key Measures:				
<i>Statement of Operations</i>				
Interest income (1)	\$ 20,173	\$ 17,377	\$ 35,804	\$ 31,917
Interest expense (1)	(1,530)	(450)	(2,844)	(480)
Net interest income	\$ 21,703	\$ 17,827	\$ 38,648	\$ 32,397
Provision for credit losses				7,068
Noninterest income	(3,515)	723	(4,242)	5,489
Noninterest expense	17,466	23,667	35,585	47,125
Pre-tax profit (loss)	\$ 722	\$ (5,117)	\$ (1,179)	\$ (16,307)
<i>Balance Sheet</i>				
Average loans	\$ 807,517	\$ 901,264	\$ 820,066	\$ 942,358
Average interest-bearing deposits and customer repurchases	\$ 1,136	\$ (5,218)	\$ 1,088	\$ (2,223)
Yield on loans excluding discount	5.04%	4.12%	4.53%	4.13%

(1) Interest income and interest expense include credit for funds provided and charge for funds used, respectively. These are eliminated in the consolidated presentation.

The Company's administration and other operating departments reported pre-tax income of \$722,000 for the three months ended June 30, 2012. This represents an increase of pre-tax profit of \$5.8 million or 114.11%, from a pre-tax loss of \$5.1 million for the same period in 2011. The increase in pre-tax profit is primarily attributed to the decrease in noninterest expense of \$6.2 million and the increase of \$3.9 million in net interest income principally due to the increase of \$1.8 million in discount accretion on covered loans and \$1.5 million in interest income resulting from several non-performing loans that were paid off in full in the second quarter of 2012. This increase was offset by a net decrease in the FDIC loss sharing asset of \$9.3 million, compared to a net decrease of \$1.7 million for the same period in 2011.

ANALYSIS OF FINANCIAL CONDITION

The Company reported total assets of \$6.52 billion at June 30, 2012. This represented an increase of \$41.0 million, or 0.63%, from total assets of \$6.48 billion at December 31, 2011. Earning assets totaled \$6.15 billion at June 30, 2012. This represented an increase of \$17.8 million, or 0.29%, from total earning assets of \$6.13 billion at December 31, 2011. The increase in earning assets was due to an increase in the investment portfolio, partially

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offset by a decrease in the loan portfolio. Total liabilities were \$5.78 billion at June 30, 2012, up \$7.6 million, or 0.13%, from total liabilities of \$5.77 billion at December 31, 2011. Total equity increased \$33.4 million, or 4.68%, to \$748.3 million at June 30, 2012, compared with total equity of \$714.8 million at December 31, 2011.

Investment Securities

The Company maintains a portfolio of investment securities to provide interest income and to serve as a source of liquidity for its ongoing operations. The tables below set forth information concerning the composition of the investment securities portfolio at June 30, 2012 and December 31, 2011.

At June 30, 2012, we reported total investment securities of \$2.26 billion. This represented an increase of \$57.8 million, or 2.62%, from total investment securities of \$2.20 billion at December 31, 2011. Investment securities comprise 36.76% of the Company's total earning assets at June 30, 2012.

At June 30, 2012, securities held as available-for-sale had a fair value of \$2.26 billion with an amortized cost of \$2.18 billion. At June 30, 2012, the net unrealized holding gain on securities was \$75.1 million and that resulted in accumulated other comprehensive income of \$43.6 million (net of \$31.6 million in deferred taxes). At December 31, 2011, the Company reported net unrealized gain on total investment securities of \$71.5 million and accumulated other comprehensive income of \$41.5 million (net of deferred taxes of \$30.0 million).

The table below sets forth investment securities available-for-sale at June 30, 2012 and December 31, 2011.

	Amortized Cost	June 30, 2012		Fair Value	Total Percent
		Gross Unrealized Holding Gain	Gross Unrealized Holding Loss		
(Dollars in thousands)					
Investment Securities Available-for-Sale:					
Government agency & government-sponsored enterprises	\$ 32,172	\$ 190	\$	\$ 32,362	1.43%
Residential mortgage-backed securities	839,345	23,977		863,322	38.21%
CMO's / REMIC's Residential	709,884	9,679	(1,043)	718,520	31.80%
Municipal bonds	592,528	42,741	(418)	634,851	28.10%
Other securities	10,457	19		10,476	0.46%
Total Investment Securities	\$ 2,184,386	\$ 76,606	\$ (1,461)	\$ 2,259,531	100.00%

	Amortized Cost	December 31, 2011		Fair Value	Total Percent
		Gross Unrealized Holding Gain	Gross Unrealized Holding Loss		
(Dollars in thousands)					
Investment Securities Available-for-Sale:					
Government agency & government-sponsored enterprises	\$ 46,273	\$ 234	\$	\$ 46,507	2.11%
Residential mortgage-backed securities	869,847	18,487	(334)	888,000	40.33%
CMO's / REMIC's Residential	594,866	10,307	(665)	604,508	27.46%
Municipal bonds	608,575	43,665	(203)	652,037	29.62%
Other securities	10,468	10	(4)	10,474	0.48%
Total Investment Securities	\$ 2,130,029	\$ 72,703	\$ (1,206)	\$ 2,201,526	100.00%

The weighted-average yield (TE) on the investment portfolio at June 30, 2012 was 2.80% with a weighted-average life of 3.8 years. This compares to a weighted-average yield of 2.99% at December 31, 2011 with a weighted-average life of 3.6 years and a yield of 3.41% at June 30, 2011 with a weighted-average life of 4.0 years. The weighted average life is the average number of years that each dollar of unpaid principal due

remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal paydowns.

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Approximately 71% of the securities in the total investment portfolio, at June 30, 2012, are issued by the U.S government or U.S. government-sponsored agencies which have the implied guarantee payment of principal and interest. As of June 30, 2012, approximately \$12.0 million in U.S. government agency bonds are callable.

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 June 30, 2012 and December 31, 2011.

Description of Securities	Less than 12 months		June 30, 2012 12 months or longer		Total	
	Fair Value	Gross Holding Losses	Fair Value	Gross Holding Losses	Fair Value	Gross Holding Losses
(Dollars in thousands)						
Held-To-Maturity						
CMO	\$ 2,191	\$	\$	\$	\$ 2,191	\$
Available-for-Sale						
Government agency	\$ 2,957	\$	\$	\$	\$ 2,957	\$
Residential mortgage-backed securities	33				33	
CMO/REMICs Residential	144,220	1,043			144,220	1,043
Municipal bonds	19,047	418			19,047	418
Other Securities						
	\$ 166,257	\$ 1,461	\$	\$	\$ 166,257	\$ 1,461

Description of Securities	Less than 12 months		December 31, 2011 12 months or longer		Total	
	Fair Value	Gross Holding Losses	Fair Value	Gross Holding Losses	Fair Value	Gross Holding Losses
(Dollars in thousands)						
Held-To-Maturity						
CMO	\$ 2,383	\$	\$	\$	\$ 2,383	\$
Available-for-Sale						
Government agency	\$	\$	\$	\$	\$	\$
Residential mortgage-backed securities	75,754	334			75,754	334
CMO/REMICs Residential	133,471	665			133,471	665
Municipal bonds	22,184	203			22,184	203
Other Securities	2,500	4			2,500	4
	\$ 233,909	\$ 1,206	\$	\$	\$ 233,909	\$ 1,206

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 June 30, 2012 and December 31, 2011. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired except for one investment security classified as held-to-maturity. A summary of our analysis of these securities and the unrealized losses is described more fully in Note 5 Investment Securities in the notes to the condensed consolidated financial statements. Economic trends may adversely affect the value of the portfolio of investment securities that we hold.

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During the first six month of 2012 and 2011, we recorded zero realized gains or losses and \$119,000 other-than-temporary impairment recognized on the held-to-maturity investment security, respectively.

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Loans

At June 30, 2012, we reported total loans and lease finance receivables, net of deferred loan fees, of \$3.39 billion. This represents a decrease of \$94.7 million, or 2.72%, from total loans, net of deferred loan fees, of \$3.48 billion at December 31, 2011. We attribute the decrease to the following:

\$62.3 million to the non-covered dairy and livestock portfolio. Historically, our dairy and livestock customers have seasonal borrowing patterns and tend to draw down on available lines of credit in the fourth quarter and repay these advances in the second quarter.

\$7.8 million decline in non-covered construction loans.

\$14.0 million decline in purchased mortgage pools.

\$52.4 million decrease in covered loans.

The non-covered construction loans and purchased mortgage pools are considered non-core lending niches. Our core lending strategy is focused on commercial & industrial business lending, dairy, livestock, and agribusiness lending and commercial real estate loans.

Total loans, net of deferred loan fees, comprise 55.07% of our total earning assets. The following tables present our loan portfolio, excluding held-for-sale loans, segregated into covered versus non-covered loans, by category as of June 30, 2012 and December 31, 2011.

	As of June 30, 2012		
	Non-Covered Loans	Covered Loans (Dollars in thousands)	Total
Commercial and Industrial	\$ 523,816	\$ 22,914	\$ 546,730
Real Estate:			
Construction	68,312	6,448	74,760
Commercial Real Estate	1,965,011	201,765	2,166,776
SFR Mortgage	159,633	1,891	161,524
Consumer	48,460	7,214	55,674
Municipal lease finance receivables	109,816		109,816
Auto and equipment leases, net of unearned discount	15,137		15,137
Dairy and Livestock	281,027		281,027
Agribusiness	9,403	6,417	15,820
Gross loans	\$ 3,180,615	\$ 246,649	\$ 3,427,264
Less:			
Purchase accounting discount		(36,502)	(36,502)
Deferred loan fees, net	(5,707)		(5,707)
Gross loans, net of deferred loan fees	\$ 3,174,908	\$ 210,147	\$ 3,385,055
Less: Allowance for credit losses	(91,892)		(91,892)
Net loans and lease finance receivables	\$ 3,083,016	\$ 210,147	\$ 3,293,163
Allowance for Credit Losses as a % of Loans, net of deferred loan fees		2.89%	

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	As of December 31, 2011		
	Non-Covered Loans	Covered Loans	Total
	(Dollars in thousands)		
Commercial and Industrial	\$ 494,299	\$ 29,651	\$ 523,950
Real Estate:			
Construction	76,146	18,685	94,831
Commercial Real Estate	1,948,292	223,107	2,171,399
SFR Mortgage	176,442	3,289	179,731
Consumer	51,436	8,353	59,789
Municipal lease finance receivables	113,460	169	113,629
Auto and equipment leases, net of unearned discount	17,370		17,370
Dairy and Livestock	343,350	199	343,549
Agribusiness	4,327	24,196	28,523
Gross loans	\$ 3,225,122	\$ 307,649	\$ 3,532,771
Less:			
Purchase accounting discount		(50,780)	(50,780)
Deferred loan fees, net	(5,395)		(5,395)
Gross loans, net of deferred loan fees	\$ 3,219,727	\$ 256,869	\$ 3,476,596
Less: Allowance for credit losses	(93,964)		(93,964)
Net loans and lease finance receivables	\$ 3,125,763	\$ 256,869	\$ 3,382,632

Allowance for Credit Losses as a % of Loans, net of deferred loan fees 2.92%

Commercial and industrial loans are loans to commercial entities to finance capital purchases or improvements, or to provide cash flow for operations. Real estate loans are loans secured by conforming first trust deeds on real property, including property under construction, land development, commercial property and single-family and multi-family residences. Consumer loans include installment loans to consumers as well as home equity loans and other loans secured by junior liens on real property. Municipal lease finance receivables are leases to municipalities. Dairy, livestock and agribusiness loans are loans to finance the operating needs of wholesale dairy farm operations, cattle feeders, livestock raisers, and farmers.

Our loan portfolio is from a variety of areas throughout our marketplace. The following is the breakdown of our total held-for-investment loans and commercial real estate loans by region as of June 30, 2012.

June 30, 2012				
Non-Covered Loans by Market Area	Total Non-Covered Loans		Commercial Real Estate Loans	
	(Dollars in thousands)			
Los Angeles County	\$ 1,152,173	36.2%	\$ 782,571	39.8%
Inland Empire	628,484	19.8%	512,869	26.1%
Central Valley	599,717	18.9%	371,659	18.9%
Orange County	468,057	14.7%	177,534	9.1%
Other Areas (1)	332,184	10.4%	120,378	6.1%
	\$ 3,180,615	100.0%	\$ 1,965,011	100.0%

June 30, 2012				
Covered Loans by Market Area	Total Covered Loans		Covered Commercial Real Estate Loans	

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(Dollars in thousands)

Los Angeles County	\$ 14,777	6.0%	\$ 16,081	8.0%
Inland Empire	2,480	1.0%	99	
Central Valley	214,156	86.8%	177,911	88.2%
Orange County	113	0.1%		
Other Areas (1)	15,123	6.1%	7,674	3.8%
	\$ 246,649	100.0%	\$ 201,765	100.0%

(1) Other areas include loans that are out-of-state or in other areas of California.

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Our real estate loans are comprised of industrial, office, retail, single-family residences, multi-family residences, and farmland. We strive to have an original loan-to-value ratio less than 75%. This table breaks down our real estate portfolio, with the exception of construction loans which are addressed in a separate table.

Non-Covered Commercial and SFR Real Estate Loans (Dollars in thousands)	June 30, 2012			
	Loan Balance	Percent	Percent Owner-Occupied (1)	Average Loan Balance
Single Family-Direct	\$ 39,612	2.0%	100.0%	\$ 211
Single Family-Mortgage Pools	120,021	5.6%	100.0%	275
Multifamily	105,573	5.0%		1,025
Industrial	609,940	28.7%	35.7%	906
Office	333,990	15.7%	31.2%	893
Retail	313,256	14.7%	11.1%	1,268
Medical	134,662	6.3%	36.7%	1,548
Secured by Farmland	146,716	6.9%	100.0%	1,905
Other	320,874	15.1%	51.2%	1,263
	\$ 2,124,644	100.0%	41.3%	1,078

(1) Represents percentage of reported owner-occupied in each real estate loan category

In the table above, Single Family-Direct represents those single-family residence loans that we have made directly to our customers. These loans totaled \$39.6 million. In addition, we have purchased pools of owner-occupied single-family loans from real estate lenders, Single Family-Mortgage Pools, totaling \$120.0 million. These loans were purchased with average FICO scores predominantly ranging from 700 to over 800 and overall original loan-to-value ratios of 60% to 80%. These pools were purchased to diversify our loan portfolio since we make few single-family loans. Due to market conditions, we have not purchased any mortgage pools since August 2007.

The table below provides a breakdown of our covered real estate loans.

Covered Commercial and SFR Real Estate Loans (Dollars in thousands)	June 30, 2012			Average Loan Balance
	Loan Balance	Percent	Percent Owner-Occupied (1)	
Single Family-Direct	\$ 1,891	0.9%	100.0%	\$ 90
Single-Family-Mortgage Pools				
Multifamily	4,865	2.4%		1,216
Industrial	42,948	21.1%	60.9%	704
Office	18,262	9.0%	43.2%	494
Retail	21,274	10.4%	33.3%	686
Medical	15,571	7.6%	82.0%	1,038
Secured by Farmland	18,845	9.3%	100.0%	471
Other	80,000	39.3%	43.7%	1,081
	\$ 203,656	100.0%	53.8%	842

(1) Represents percentage of reported owner-occupied in each real estate loan category

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As of June 30, 2012, the Company had \$68.3 million in non-covered construction loans. This represents 2.15% of total non-covered gross loans outstanding of \$3.18 billion. Of this \$68.3 million in construction loans, approximately 5.67%, or \$3.9 million, were for single-family residences, residential land loans, and multi-family land development loans. The remaining construction loans, totaling \$64.4 million, were related to commercial construction. The average balance of any single construction loan was approximately \$2.4 million. Our construction loans are located throughout our marketplace as can be seen in the table below

As of June 30, 2012, the Company had \$74.7 million in construction loans, both non-covered and covered. This represents 2.20% of gross loans outstanding of \$3.43 billion. The following table presents a break-down of our non-covered construction loans excluding held for sale loans by county and type.

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Non-Covered	June 30, 2012 SFR & Multi-family						
	Construction Loans (Dollars in thousands)	Land Development		Construction		Total	
Los Angeles County		\$ 1,139	51.2%	\$		\$ 1,139	29.4%
Inland Empire		20	0.9%			20	0.5%
Central Valley		671	30.2%			671	17.3%
Orange County				1,648	100.0%	1,648	42.6%
Other Areas (1)		394	17.7%			394	10.2%
		\$ 2,224	100.0%	\$ 1,648	100.0%	\$ 3,872	100.0%
Total Non-Performing		\$	0.0%	\$		\$	0.0%

Commercial	June 30, 2012 SFR & Multi-family						
	Construction Loans (Dollars in thousands)	Land Development		Construction		Total	
Los Angeles		\$		\$ 25,024	40.9%	\$ 25,024	38.8%
Inland Empire		1,958	59.4%	17,862	29.2%	19,820	30.8%
Central Valley		1,338	40.6%	1,065	1.8%	2,403	3.7%
Orange County							
Other Areas (1)				17,193	28.1%	17,193	26.7%
		\$ 3,296	100.0%	\$ 61,144	100.0%	\$ 64,440	100.0%
Total Non-Performing				\$ 17,904	29.3%	\$ 17,904	27.8%

(1) Other areas include loans that are out-of-state or in other areas of California.
The following table presents a break-down of our covered construction loans by county and type.

Covered	June 30, 2012 SFR & Multi-family						
	Construction Loans (Dollars in thousands)	Land Development		Construction		Total	
Central Valley		\$ 613	100.0%	\$ 2,107	100.0%	\$ 2,720	100.0%
		\$ 613	100.0%	\$ 2,107	100.0%	\$ 2,720	100.0%
Commercial	June 30, 2012 SFR & Multi-family						
	Construction Loans (Dollars in thousands)	Land Development		Construction		Total	
Central Valley		\$ 701	100.0%	\$ 3,027	100.0%	\$ 3,728	100.0%
		\$ 701	100.0%	\$ 3,027	100.0%	\$ 3,728	100.0%

Table of Contents**Non-performing Assets (Non-Covered)**

Non-covered non-performing assets were \$72.3 million at June 30, 2012. Non-performing assets represent 2.27% of total loans and OREO and 1.11% of total assets at June 30, 2012. We had non-performing assets of \$76.5 million at December 31, 2011. Non-performing assets include non-accrual loans plus other real estate owned (foreclosed property).

TABLE 6 - Non-Performing Assets, Non-Covered

	June 30, 2012	December 31, 2011
	(Dollars in thousands)	
Nonaccrual loans	\$ 30,112	\$ 38,828
Troubled debt restructured loans (non-performing)	31,753	23,844
Other real estate owned (OREO)	10,394	13,820
 Total nonperforming assets	 \$ 72,259	 \$ 76,492
 Troubled debt restructured performing loans	 \$ 45,243	 \$ 38,554
 Percentage of nonperforming assets to total net loans outstanding & OREO	 2.27%	 2.37%
 Percentage of nonperforming assets to total assets	 1.11%	 1.18%

We had loans with a gross balance of \$107.1 million classified as impaired as of June 30, 2012. This balance included the non-performing loans of \$61.9 million. Impaired loans which were restructured in a troubled debt restructuring represented \$77.0 million, of which \$31.8 million were non-performing and \$45.2 million were performing, as of June 30, 2012. Of the \$31.8 million in non-performing TDRs, \$12.5 million are not paying in accordance with the modified terms at June 30, 2012 and the remaining \$19.3 million have either not demonstrated repayment performance for a sustained period and/or we have not received all necessary documents to determine the borrower's ability to meet all future principal and interest payments under the modified terms. As of December 31, 2011, we had impaired loans with a balance of \$101.2 million. Impaired loans measured 3.37% as of June 30, 2012, compared to 3.14% of total non-covered loans as of December 31, 2011.

Of the total impaired loans, \$76.0 million were considered collateral dependent and measured using the fair value of the collateral based on current appraisals (obtained within 1 year). The amount of impaired loans, measured using the present value of expected future cash flows discounted at the loans effective rate, was \$31.1 million.

At June 30, 2012 and December 31, 2011, TDRs of \$45.2 million and \$38.6 million, respectively, were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. A performing restructured loan is reasonably assured of repayment and is performing according to the modified terms.

At June 30, 2012 and December 31, 2011, there was \$23,000 and \$27,000 of related allowance on TDRs, respectively, as any impairment amounts identified are charged off against the allowance at the time a probable loss is determined. Total charge-offs on TDRs for the six months ended June 30, 2012 and 2011 were \$46,000 and \$10.0 million, respectively.

We have not restructured loans into multiple loans in what is typically referred to as an A/B note structure, where normally the A note meets current underwriting standards and the B note is typically immediately charged off upon restructuring.

At June 30, 2012, we had \$10.4 million in non-covered OREO, a decrease of \$3.4 million from the eleven OREO properties totaling \$13.8 million at December 31, 2011. During the six months ended June 30 2012, we added three properties for a total of \$1.8 million to OREO. We sold six properties with an OREO value of \$5.1 million, realizing a net gain of \$304,000. At June 30, 2012, we had eight OREO properties, compared to eleven OREO properties at December 31, 2011. The table below provides trends in our non-covered non-performing assets and delinquencies over the past year.

Table of Contents**Non-Performing Assets & Delinquency Trends***(Non-Covered Loans)**(Dollars in thousands)*

	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Non-Performing Loans					
Residential Construction and Land	\$	\$ 920	\$ 920	\$ 989	\$ 1,080
Commercial Construction and Land	17,904	8,349	12,397	13,779	23,953
Residential Mortgage	12,469	13,129	16,970	18,792	17,786
Commercial Real Estate	23,084	27,238	25,992	25,454	24,731
Commercial and Industrial	4,622	4,082	3,432	3,277	4,649
Dairy & Livestock	3,394	1,200	2,475	2,574	2,672
Consumer	388	308	382	340	179
Auto & Equipment Leases	4	86	104	7	
Total	\$ 61,865	\$ 55,312	\$ 62,672	\$ 65,212	\$ 75,050
% of Total Loans	1.95%	1.74%	1.95%	2.06%	2.35%
Past Due 30-89 Days					
Residential Construction and Land	\$	\$	\$	\$	\$
Commercial Construction and Land					
Residential Mortgage		4,109	1,568		460
Commercial Real Estate	1,041	5,798	787		2,590
Commercial and Industrial	176	1,317	3,022	940	675
Dairy & Livestock					
Consumer	36	13	59	14	91
Auto & Equipment Leases			20	997	65
Total	\$ 1,253	\$ 11,237	\$ 5,456	\$ 1,951	\$ 3,881
% of Total Loans	0.04%	0.35%	0.17%	0.06%	0.12%
OREO					
Residential Construction and Land	\$	\$	\$	\$	\$
Commercial Construction and Land	7,117	7,117	7,117	8,580	7,117
Residential Mortgage	667				287
Commercial Real Estate	2,407	4,173	6,566	7,376	6,314
Commercial and Industrial	203	137	137		
Dairy & Livestock					
Consumer					
Auto & Equipment Leases					
Total	\$ 10,394	\$ 11,427	\$ 13,820	\$ 15,956	\$ 13,718
Total Non-Performing, Past Due & OREO	\$ 73,512	\$ 77,976	\$ 81,948	\$ 83,119	\$ 92,649
% of Total Loans	2.32%	2.45%	2.55%	2.62%	2.90%

We had \$61.9 million in non-covered non-performing loans, defined as nonaccrual loans and non-performing TDRs, at June 30, 2012, or 1.95% of total non-covered loans. This compares to \$62.7 million in non-performing loans at December 31, 2011 and \$75.1 million in non-performing loans at June 30, 2011. Six customer relationships make up \$29.4 million, or 47.52%, of our non-performing loans at June 30, 2012. Four of these customer relationships are commercial real estate developers (owner/non-owner occupied) and the primary collateral for these loans is commercial real estate properties. Two of the customer relationships are in the dairy and livestock industry; and the collateral is primarily the dairy farm property and the dairy livestock. These six customer relationships have had total charge-offs of \$6.0 million and have zero related

ALLL at June 30, 2012.

The economic downturn has had an impact on our market area and on our loan portfolio. We continually monitor these conditions in determining our estimates of needed reserves. However, we cannot predict the extent to which the deterioration in general economic conditions, real estate values, increases in general rates of interest, and changes in the financial conditions or business of a borrower may adversely affect a borrower's ability to pay. See Risk Management Credit Risk herein.

Non-Performing Assets-Covered

Loans acquired through the SJB acquisition are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing

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loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as non-performing loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of June 30, 2012, there were no covered loans considered as non-performing as described above. There were five properties in covered OREO totaling \$3.2 million as of June 30, 2012 compared to sixteen properties totaling \$9.8 million as of December 31, 2011.

Deposits

The primary source of funds to support earning assets (loans and investments) is the generation of customer deposits.

Total deposits were \$4.70 billion at June 30, 2012. This represented an increase of \$94.3 million, or 2.05%, over total deposits of \$4.60 billion at December 31, 2011. This increase was due to organic growth primarily from our Centers. The composition of deposits is as follows:

	June 30, 2012		December 31, 2011	
	(Dollars in thousands)			
Non-interest bearing deposits				
Demand deposits	\$ 2,252,280	47.9%	\$ 2,027,876	44.0%
Interest bearing deposits				
Savings Deposits	1,684,398	35.9%	1,739,522	37.8%
Time deposits	762,172	16.2%	837,150	18.2%
Total deposits	\$ 4,698,850	100.0%	\$ 4,604,548	100.0%

The amount of non-interest-bearing demand deposits in relation to total deposits is an integral element in achieving a low cost of funds. Demand deposits totaled \$2.25 billion at June 30, 2012, representing an increase of \$224.4 million, or 11.07%, from demand deposits of \$2.03 billion at December 31, 2011. Non-interest-bearing demand deposits represented 47.93% of total deposits as of June 30, 2012, compared to 44.04% of total deposits as of December 31, 2011.

Savings deposits, which include savings, interest-bearing demand, and money market accounts, totaled \$1.68 billion at June 30, 2012, representing a decrease of \$55.1 million, or 3.17%, from savings deposits of \$1.74 billion at December 31, 2011.

Time deposits totaled \$762.2 million at June 30, 2012. This represented a decrease of \$75.0 million, or 8.96%, from total time deposits of \$837.2 billion at December 31, 2011.

Other Borrowed Funds

To achieve the desired growth in earning assets and to fully utilize our capital, we first pursue non-interest-bearing deposits (the lowest cost of funds to the Company). Next, we pursue growth in interest-bearing deposits, and finally, we seek to supplement the growth in deposits with borrowed funds. Average borrowed funds, as a percent of average total funding (total deposits plus demand notes plus borrowed funds) was 17.11% for the three months ended June 30, 2012, compared to 19.77% for the same period in 2011.

At June 30, 2012, borrowed funds totaled \$916.4 million. This represented a decrease of \$41.6 million, or 4.34%, from total borrowed funds of \$958.0 billion at December 31, 2011.

In November 2006, we began a repurchase agreement sweep product with our customers. This product, known as Citizens Sweep Manager, sells our investment securities overnight to our customers under an agreement to repurchase them the next day. These repurchase agreements are with customers who have other banking relationships with us. As of June 30, 2012 and December 31, 2011, total customer repurchases were \$467.6 million and \$509.4 million, respectively, with weighted average interest rates of 0.29% and 0.35%, respectively.

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We have borrowing agreements with the FHLB. We had outstanding balances of \$448.8 million and \$448.7 million under these agreements at June 30, 2012 and December 31, 2011, respectively. The weighted average interest rate was 3.89% at June 30, 2012 and December 31, 2011, respectively. The FHLB holds certain investment securities and loans as collateral for these borrowings.

At June 30, 2012, \$2.33 billion of loans and \$2.10 billion of investment securities were pledged to secure our FHLB and the Federal Reserve Bank borrowings.

Aggregate Contractual Obligations

The following table summarizes our contractual commitments as of June 30, 2012:

	Total	Maturity by Period			
		Less Than One Year	One Year to Three Years	Four Year to Five Years	After Five Years
(Dollars in thousands)					
Deposits	\$ 4,698,850	\$ 4,683,062	\$ 11,489	\$ 849	\$ 3,450
Customer Repurchase Agreements	467,636	467,636			
FHLB borrowings	448,798		100,000	348,798	
Junior Subordinated Debentures	87,631				87,631
Deferred Compensation	8,940	841	1,699	1,253	5,147
Operating Leases	21,607	5,170	8,038	4,954	3,445
Advertising Agreements	6,175	1,552	1,692	1,777	1,154
Total	\$ 5,739,637	\$ 5,158,261	\$ 122,918	\$ 357,631	\$ 100,827

Deposits represent non-interest bearing, money market, savings, NOW, certificates of deposits, brokered and all other deposits held by the Company.

Customer repurchase agreements represent excess amounts swept from customer demand deposit accounts, which mature the following business day and are collateralized by investment securities. These amounts are due to customers.

FHLB borrowings represent the amounts that are due to the FHLB. These borrowings have fixed maturity dates.

Junior subordinated debentures represent the amounts that are due from the Company to CVB Statutory Trust I, CVB Statutory Trust II & CVB Statutory Trust III. The debentures have the same maturity as the Trust Preferred Securities. CVB Statutory Trust I, which matures in 2033, became callable in whole or in part in December 2008. CVB Statutory Trust II matures in 2034, and became callable in whole or in part in January 2009. CVB Statutory Trust III, which matures in 2036, became callable in whole or in part in March 2011.

On June 17, 2012, we redeemed 50% or \$20 million of the Trust Preferred Securities in CVB Statutory Trust I.

Deferred compensation represents the amounts that are due to former employees based on salary continuation agreements as a result of acquisitions and amounts due to current employees under our deferred compensation plans.

Operating leases represent the total minimum lease payments due under non-cancelable operating leases.

Advertising agreements represent the amounts that are due on various agreements that provide advertising benefits to the Company.

Table of Contents**Off-Balance Sheet Arrangements**

The following table summarizes the off-balance sheet arrangements at June 30, 2012:

	Total	Maturity by Period			
		Less Than One Year	One Year to Three Years	Four Year to Five Years	After Five Years
(Dollars in thousands)					
Commitments to extend credit	\$ 560,444	\$ 412,208	\$ 69,989	\$ 15,364	\$ 62,883
Obligations under letters of credit	45,034	29,294	15,740		
Total	\$ 605,478	\$ 441,502	\$ 85,729	\$ 15,364	\$ 62,883

As of June 30, 2012, we had commitments to extend credit of approximately \$560.4 million, obligations under letters of credit of \$45.0 million. In addition, we had available lines of credit totaling \$2.19 billion from correspondent banks, FHLB and the Federal Reserve Bank. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. We use the same credit underwriting policies in granting or accepting such commitments or contingent obligations as we do for on-balance sheet instruments, which consist of evaluating customers' creditworthiness individually. The Company had a reserve for undisbursed commitments of \$9.6 million as of June 30, 2012 and December 31, 2011 included in other liabilities.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the financial performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. When deemed necessary, we hold appropriate collateral supporting those commitments. We do not anticipate any material losses as a result of these transactions.

Liquidity and Cash Flow

Since the primary sources and uses of funds for the Company are loans and deposits, the relationship between gross loans and total deposits provides a useful measure of the Bank's liquidity. Typically, the closer the ratio of loans to deposits is to 100%, the more reliant we are on loan portfolio interest and principal payments to provide for short-term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loans to deposit ratio the less liquid are the Company's assets. For the first six months of 2012, the loan to deposit ratio averaged 73.45%, compared to an average ratio of 79.93% for the same period in 2011. The ratio of loans to deposits and customer repurchases averaged 66.17% for the first six months of 2012 and 71.16% for the same period in 2011.

CVB Financial Corp. (CVB) is a company separate and apart from the Bank that must provide for its own liquidity and must service its own obligations. Substantially all of CVB's revenues are obtained from dividends declared and paid by the Bank. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to CVB. In addition, our regulators could limit the ability of the Bank or the Company to pay dividends or make other distributions.

Under applicable California law, the Bank cannot make any distribution (including a cash dividend) to its shareholder in an amount which exceeds the lesser of: (i) the retained earnings of the Bank or (ii) the net income of the Bank for its last three fiscal years, less the amount of any distributions made by the Bank to its shareholder during such period. Notwithstanding the foregoing, with the prior approval of the California Commissioner of Financial Institutions, the Bank may make a distribution (including a cash dividend) to CVB in an amount not exceeding the greatest of: (i) the retained earnings of the Bank; (ii) the net income of the Bank for its last fiscal year; or (iii) the net income of the Bank for its current fiscal year.

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At June 30, 2012, approximately \$75.7 million of the Bank's equity was unrestricted and available to be paid as dividends to CVB. Management of the Company believes that such restrictions will not have any current impact on the ability of CVB to meet its ongoing cash obligations. As of June 30, 2012, neither the Bank nor CVB had any material commitments for capital expenditures.

For the Bank, sources of funds normally include principal payments on loans and investments, other borrowed funds, and growth in deposits. Uses of funds include withdrawal of deposits, interest paid on deposits, increased loan balances, purchases, and noninterest expenses.

Net cash provided by operating activities totaled \$84.5 million for the first six months of 2012, compared to \$41.6 million for the same period last year. The increase in cash provided by operating activities was primarily attributed to a decrease in income taxes, as well as interest, vendor and employee payments. This increase was partially offset by a decrease in proceeds from the FDIC loss sharing agreement and an increase in service charges and other fees received.

Net cash provided in investing activities totaled \$37.1 million for the first six months of 2012, compared to \$49.9 million for the same period in 2011. The cash provided in investing activities was primarily the result of an increase in proceeds from repayments and maturity of investment securities and an increase in sales proceeds from OREO, partially offset by a decrease in loan and lease finance receivables and purchases of investment securities during the first six months of 2012.

Net cash provided by financing activities totaled \$9.7 million for the first six months of 2012, compared to net cash used in financing activities of \$38.7 million for the same period last year. The cash provided by financing activities during the first six months of 2012 was primarily due to an increase in total deposits, partially offset by decreases in customer repurchase agreements, and redemption of junior subordinated debentures.

At June 30, 2012, cash and cash equivalents totaled \$476.7 million. This represented an increase of \$19.6 million, or 4.29%, from a total of \$457.1 million at June 30, 2011 and an increase of \$131.4 million, or 38.04%, from a total of \$345.3 million at December 31, 2011.

Capital Resources

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources, needs and uses of capital in conjunction with projected increases in assets and the level of risk. As part of this ongoing assessment, the Board of Directors reviews the various components of capital. Based on the Board of Directors analysis of our capital needs (including any capital needs arising out of our financial condition and results of operations or from any acquisitions we may make) and the input of our regulators, we could determine or, our regulators could require us, to raise additional capital.

The Company's equity capital was \$748.3 million at June 30, 2012. This represented an increase of \$33.4 million, or 4.68%, from equity capital of \$714.8 million at December 31, 2011. The increase during the first half of 2012 was attributable to \$45.9 million in net earnings, an increase in net unrealized gain on investment securities of \$2.1 million and \$3.2 million for various stock-based compensation items, offset by \$17.8 million in common stock dividends paid.

The Company's 2011 Annual Report on Form 10-K (Management's Discussion and Analysis and Note 19 of the accompanying financial statements) describes the regulatory capital requirements of the Company and the Bank.

The Bank and the Company are required to meet risk-based capital standards set by their respective regulatory authorities. The risk-based capital standards require the achievement of a minimum ratio of total capital to risk-weighted assets of 8.0% (of which at least 4.0% must be Tier 1 capital). In addition, the regulatory authorities require the highest rated institutions to maintain a minimum leverage ratio of 4.0%. To be considered well-capitalized for bank regulatory purposes, the Bank and the Company are required to have a Tier 1 risk-based capital ratio equal to or greater than 6%, a total risk-based capital ratio equal to or greater than 10% and a Tier 1 leverage ratio equal to or greater than 5%. At June 30, 2012, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios required to be considered well-capitalized for regulatory purposes.

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During the first six months of 2012, the Board of Directors of the Company declared quarterly common stock cash dividends that totaled \$0.17 per share. Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. CVB's ability to pay cash dividends to its shareholders is subject to restrictions under federal and California law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to including covenants set forth in our junior subordinated debentures.

In July 2008, our Board of Directors authorized the repurchase of up to 10,000,000 shares of our common stock. During the first half of 2012, we repurchased zero of our common stock outstanding. As of June 30, 2012, we have 7,765,171 shares of our common stock remaining that are eligible for repurchase.

The table below presents the Company's and the Bank's risk-based and leverage capital ratios as of June 30, 2012, and December 31, 2011.

Capital Ratios	Adequately	Well	June 30, 2012		December 31, 2011	
	Capitalized Ratios	Capitalized Ratios	CVB Financial Corp. Consolidated	Citizens Business Bank	CVB Financial Corp. Consolidated	Citizens Business Bank
Tier 1 leverage capital ratio	4.00%	5.00%	11.37%	11.23%	11.19%	10.92%
Tier 1 risk-based capital ratio	4.00%	6.00%	18.51%	18.28%	17.79%	17.36%
Total risk-based capital ratio	8.00%	10.00%	19.77%	19.55%	19.05%	18.63%

RISK MANAGEMENT

We have adopted a Risk Management Plan to ensure the proper control and management of all risk factors inherent in the operation of the Company and the Bank. Specifically, credit risk, interest rate risk, liquidity risk, counterparty risk, transaction risk, compliance risk, strategic risk, reputation risk, cyber-security risk, price risk and foreign exchange risk, can all affect the market risk exposure of the Company. These specific risk factors are not mutually exclusive. It is recognized that any product or service offered by us may expose the Bank to one or more of these risks. Our Risk Management Committee and Risk Management Division monitor these risks to minimize exposure to the Company.

Credit Risk

Credit risk is defined as the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on a counter party, issuer, or borrower performance. Credit risk arises through the extension of loans and leases, certain securities, and letters of credit.

Credit risk in the investment portfolio and correspondent bank accounts is addressed through defined limits in the Company's policy statements. In addition, certain securities carry insurance to enhance the credit quality of the bond. Limitations on industry concentration, aggregate customer borrowings, geographic boundaries and standards on loan quality also are designed to reduce loan credit risk. Senior Management, Directors' Committees, and the Board of Directors are provided with information to appropriately identify, measure, control and monitor the credit risk of the Company.

The general loan policy is updated annually and approved by the Board of Directors. It prescribes underwriting guidelines and procedures for all loan categories in which the Bank participates to establish risk tolerance and parameters that are communicated throughout the Bank to ensure consistent and uniform lending practices. The underwriting guidelines include, among other things, approval limitation and hierarchy, documentation standards, loan-to-value limits, debt coverage ratio, overall credit-worthiness of the borrower, guarantor support, etc. All loan requests considered by the Bank should be for a clearly defined legitimate purpose with a determinable primary source, as well as alternate sources of repayment. All loans must be supported by appropriate documentation including, current financial statements, credit reports, collateral information, guarantor asset verification, tax returns, title reports, appraisals (where appropriate), and other documents of quality that will support the credit.

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The major lending categories are commercial and industrial loans, owner-occupied and non owner-occupied commercial real estate loans, construction loans, dairy and livestock loans, agricultural loans, residential real estate loans, and various consumer loan products. Loans underwritten to borrowers within these diverse categories require underwriting and documentation suited to the unique characteristics and inherent risks involved.

Commercial and industrial loans require credit structures that are tailored to the specific purpose of the business loan, involving a thorough analysis of the borrower's business, cash flow, collateral, industry risks, economic risks, credit, character, and guarantor support. Owner-occupied real estate loans are primarily based upon the capacity and stability of the cash flow generated by the occupying business and the market value of the collateral, among other things. Non owner-occupied real estate is typically underwritten to the income produced by the subject property and many considerations unique to the various types of property (i.e. office, retail, warehouse, shopping center, medical, etc.), as well as, the financial support provided by sponsors in recourse transactions. Construction loans will often depend on the specific characteristics of the project, the market for the specific development, real estate values, and the equity and financial strength of the sponsors. Dairy and livestock loans and agricultural loans are largely predicated on the revenue cycles and demand for milk and crops, commodity prices, collateral values of herd, feed, and income-producing dairies or croplands, and the financial support of the guarantors. Underwriting of residential real estate and consumer loans are generally driven by personal income and debt service capacity, credit history and scores, and collateral values.

Implicit in lending activities is the risk that losses will occur and that the amount of such losses will vary over time. Consequently, we maintain an allowance for credit losses by charging a provision for credit losses to earnings. Loans, including impaired loans, determined to be losses are charged against the allowance for credit losses. Our allowance for credit losses is maintained at a level considered by us to be appropriate to provide for estimated probable losses inherent in the existing portfolio. In this regard, it is important to note that the Bank's practice with regard to impaired loans, including modified loans or troubled debt restructurings that are classified as impaired, is to generally charge off any impairment amount against the ALLL upon evaluating the loan using one of the three methods described in ASC 310-10-35 at the time a probable loss becomes recognized. As such, the Bank's specific allowance for impaired loans, including troubled debt restructurings, are relatively low since any known impairment amount will generally have been charged off.

The allowance for credit losses is based upon estimates of probable losses inherent in the loan and lease portfolio. The nature of the process by which we determine the appropriate allowance for credit losses requires the exercise of considerable judgment. The amount actually observed in respect of these losses can vary significantly from the estimated amounts. We employ a systematic methodology that is intended to reduce the differences between estimated and actual losses.

Central to our credit risk management is its loan risk rating system. The originating credit officer assigns borrowers an initial risk rating, which is reviewed and possibly changed by Credit Management. The risk rating is based primarily on a thorough analysis of each borrower's financial capacity in conjunction with industry and economic trends. Credit approvals are made based upon the amount of inherent credit risk specific to the transaction and are reviewed for appropriateness by senior line and Credit Management personnel. Credits are monitored by line and Credit Management personnel for deterioration in a borrower's financial condition, which would impact the ability of the borrower to perform under the contract. Risk ratings are adjusted as necessary.

Loans are risk rated into the following categories: Pass, Pass Watch List, Special Mention, Substandard, Doubtful, and Loss. Each of these groups is assessed and appropriate amounts used in determining the adequacy of our allowance for losses. The Impaired and Doubtful loans are analyzed on an individual basis for allowance amounts. The other categories have formulae used to determine the needed allowance amount.

The Company obtains a quarterly independent credit review by engaging an outside party to review a sample of our loans and leases. The primary purpose of this review is to evaluate our existing loan ratings and provide an assessment as to the effectiveness of our allowance process.

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers all loans. The systematic methodology consists of two major phases.

In the first phase, individual loans are reviewed to identify loans for impairment. A loan is generally considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan. A loan for which there is an insignificant delay in the amount of payments is not considered an impaired loan. Utilizing one of the three methods described in ASC 310-10-35-22, impairment is measured based on either the

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expected future cash flows discounted at each loan's effective interest rate, the fair value of the loan's collateral if the loan is collateral dependent, or an observable market price of the loan (if one exists). Upon measuring the loan's impairment, we then take appropriate steps to ensure an appropriate level of allowance is present or established, including possible charge-off.

The Bank evaluates a loan's collectability from information developed through our loan risk rating system and process, and other sources of information that asset management in monitoring loan performance (e.g. past due loan reports). The Bank then identifies loans for evaluation of impairment and establishes specific allowances in cases where we have identified significant conditions or circumstances related to a credit that we believe indicates the probability that a loss has been incurred. We perform a detailed analysis of these loans, including, but not limited to, cash flows, appraisals of the collateral, conditions of the marketplace for liquidating the collateral and assessment of the guarantors. We then determine the impairment under ASC 310-10, which requires judgment and estimates, and allocate a portion of the allowance for losses as a specific allowance for each of these loans, or charge off the impairment amount as described above. The eventual outcomes may differ from the estimates used to determine the impairment amount.

The second phase is conducted by evaluating or segmenting the remainder of the loan portfolio into groups or pools of loans with similar characteristics in accordance with ASC No. 450-10, Contingencies. In this second phase, groups or pools of homogeneous loans are reviewed to determine a portfolio formula allowance. In the case of the portfolio formula allowance, homogeneous portfolios, such as small business loans, consumer loans, agricultural loans, and real estate loans, are aggregated or pooled in determining the appropriate allowance. The risk assessment process in this case emphasizes trends in the different portfolios for delinquency, loss, and other behavioral characteristics of the subject portfolios.

Included in this second phase is our consideration of all known relevant internal and external factors that may affect a loan's collectability. This includes our estimates of the amounts necessary for concentrations, economic uncertainties, the volatility of the market value of collateral, and other relevant factors. We perform an evaluation of various conditions, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. The conditions evaluated include, but are not limited to the following conditions that existed as of the balance sheet date:

then-existing general economic and business conditions affecting the key lending areas of the Company,

then-existing economic and business conditions of areas outside the lending areas, such as other sections of the United States,

credit quality trends (including trends in past due loans, adversely graded loans, and non-performing loans expected to result from existing conditions),

collateral values, including changes in the value of underlying collateral for collateral-dependent loans.

the existence and effect of any concentrations of credit, and changes in the level of such concentrations,

changes in loan volumes,

specific industry conditions within portfolio segments,

recent loss experience in particular segments of the portfolio,

duration of the current business cycle,

the effect of external factors such as legal and regulatory requirements, including bank regulatory examination results and findings of the Company's external credit examiners.

We review these conditions in discussion with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, our estimate of the effect of such condition may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, our evaluation of the inherent loss related to such condition is reflected in the second phase of the allowance. Although we have allocated a portion of the allowance to specific loan categories, the appropriateness of the allowance must be considered in its entirety.

Table of Contents***Allowance for Credit Losses***

The allowance for credit losses is established as management's estimate of probable losses inherent in the loan and lease receivables portfolio. The allowance is increased by the provision for losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. 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.

The allowance for credit losses was \$91.9 million as of June 30, 2012. This represents a decrease of \$2.1 million, or 2.20%, compared to the allowance for credit losses of \$94.0 million as of December 31, 2011. Activity in the allowance for credit losses was as follows for the six months ended June 30, 2012 and for the year ended December 31, 2011.

	June 30, 2012	December 31, 2011
	(Dollars in thousands)	
Balance, beginning of year	\$ 93,964	\$ 105,259
Provision charged to operations		7,068
Loans charged off	(3,958)	(20,521)
Recoveries on loans previously charged off	1,886	2,158
Balance, end of period	\$ 91,892	\$ 93,964

The table below presents a comparison of net credit losses, the provision for credit losses, and the resulting allowance for credit losses for the six months ended June 30, 2012 and 2011.

Table of Contents**Summary of Credit Loss Experience****(Non-Covered Loans)**

	As of and For the Six Months Ended June 30,	
	2012	2011
	(Dollars in thousands)	
Amount of Total Loans at End of Period (1)	\$ 3,174,908	\$ 3,192,371
Average Total Loans Outstanding (1)	\$ 3,184,264	\$ 3,266,403
Allowance for Credit Losses at Beginning of Period	\$ 93,964	\$ 105,259
Charge-Offs:		
Construction	\$	\$ 7,417
Real Estate	1,956	4,383
Commercial and Industrial	683	883
Dairy & Livestock	1,150	3,291
Consumer, Auto and Other Loans	88	252
Total Charge-Offs	3,877	16,226
Recoveries:		
Construction	1,052	403
Real Estate Loans	235	434
Commercial and Industrial	588	171
Dairy & Livestock	2	39
Consumer, Auto and Other Loans	9	160
Total Loans Recovered	1,886	1,207
Charge-Offs, net of recoveries	1,991	15,019
Other reallocation	(81)	(413)
Provision Charged to Operating Expense		7,068
Allowance for Credit Losses at End of period	\$ 91,892	\$ 96,895
Net Charge-Offs to Average Total Loans	0.06%	0.46%
Net Charge-Offs to Total Loans at End of Period	0.06%	0.47%
Allowance for Credit Losses to Average Total Loans	2.89%	2.97%
Allowance for Credit Losses to Total Loans at End of Period	2.89%	3.04%
Net Charge-Offs to Allowance for Credit Losses	2.17%	15.50%
Net Charge-Offs to Provision for Credit Losses		212.49%

(1) Net of deferred loan origination fees.

While we believe that the allowance at June 30, 2012, was appropriate to absorb losses from any known or inherent risks in the portfolio, no assurance can be given that economic conditions, conditions of our borrowers, or natural disasters which adversely affect the Company's service areas or other circumstances or conditions, including those identified above, will not be reflected in increased provisions or credit losses in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

In the normal course of its business activities, we are exposed to market risks, including price and liquidity risk. Market risk is the potential for loss from adverse changes in market rates and prices, such as interest rates (interest rate risk). Liquidity risk arises from the possibility that we may not be able to satisfy current or future commitments or that we may be more reliant on alternative funding sources such as long-term debt. Financial products that expose us to market risk include securities, loans, deposits, debt, and derivative financial instruments.

Counterparty Risk

Recent developments in the financial markets have placed an increased awareness of Counterparty Risks. These risks occur when a financial institution has an indebtedness or potential for indebtedness to another financial institution. We have assessed our Counterparty Risk with the following results:

We do not have any investments in the preferred stock of any other company.

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We have two issuances of trust preferred securities totaling \$10.5 million with two large financial institutions.

Most of our investment securities are either municipal securities or securities backed by mortgages, Fannie Mae, Freddie Mac or FHLB.

All of our commercial line insurance policies are with companies with the highest AM Best ratings of AXV or above, except for our travel/accident carrier who is rated AIX.

We have no significant exposure to our Cash Surrender Value of Life Insurance since 97.4% of the Cash Surrender Value balance is with insurance companies that carry an AM Best rating of A- or greater and only one company has a B+ rating.

We have no significant Counterparty exposure related to derivatives such as interest rate swaps with a major financial institution as our agreement requires Counterparty to post cash collateral for mark-to-market balances due to us.

We believe our risk of loss associated with our counterparty borrowers related to interest rate swaps is generally mitigated as the loans with swaps are underwritten to take into account potential additional exposure.

We have \$421.0 million in Fed Funds lines of credit with other banks. All of these banks are major U.S. banks, each with over \$20.0 billion in assets. We rely on these funds for overnight borrowings. We currently have no outstanding Fed Funds balance.

Interest Rate Risk

During periods of changing interest rates, the ability to re-price interest-earning assets and interest-bearing liabilities can influence net interest income, the net interest margin, and consequently, our earnings. Interest rate risk is managed by attempting to control the spread between rates earned on interest-earning assets and the rates paid on interest-bearing liabilities within the constraints imposed by market competition in our service area. Short-term re-pricing risk is minimized by controlling the level of floating rate loans and maintaining a downward sloping ladder of bond payments and maturities. Basic risk is managed by the timing and magnitude of changes to interest-bearing deposit rates. Yield curve risk is reduced by keeping the duration of the loan and bond portfolios relatively short. Options risk in the bond portfolio is monitored monthly and actions are recommended when appropriate.

We monitor the interest rate sensitivity risk to earnings from potential changes in interest rates using various methods, including a maturity/re-pricing gap analysis. This analysis measures, at specific time intervals, the differences between earning assets and interest-bearing liabilities for which re-pricing opportunities will occur. A positive difference, or gap, indicates that earning assets will re-price faster than interest-bearing liabilities. This will generally produce a greater net interest margin during periods of rising interest rates, and a lower net interest margin during periods of declining interest rates. Conversely, a negative gap will generally produce a lower net interest margin during periods of rising interest rates and a greater net interest margin during periods of decreasing interest rates. In managing risks associated with rising interest rates, we utilize interest rate derivative contracts on certain loans and borrowed funds.

The interest rates paid on deposit accounts do not always move in unison with the rates charged on loans. In addition, the magnitude of changes in the rates charged on loans is not always proportionate to the magnitude of changes in the rate paid on deposits. Consequently, changes in interest rates do not necessarily result in an increase or decrease in the net interest margin solely as a result of the differences between re-pricing opportunities of earning assets or interest-bearing liabilities. In general, whether we report a positive gap in the short-term period or negative gap in the long-term period does not necessarily indicate that, if interest rates decreased, net interest income would increase, or if interest rates increased, net interest income would decrease.

Approximately \$1.58 billion, or 70%, of the total investment portfolio at June 30, 2012 consisted of securities backed by mortgages. The final maturity of these securities can be affected by the speed at which the underlying mortgages repay. Mortgages tend to repay faster as interest rates fall, and slower as interest rates rise. As a result, we may be subject to a prepayment risk resulting from greater funds available for reinvestment at a time when available yields are lower. Conversely, we may be subject to extension risk resulting, as lesser amounts would be available for reinvestment at a time when available yields are higher. Prepayment risk includes the risk associated with the payment of an investment's

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principal faster than originally intended. Extension risk is the risk associated with the payment of an investment's principal over a longer time period than originally anticipated. In addition, there can be greater risk of price volatility for mortgage-backed securities as a result of anticipated prepayment or extension risk.

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We also utilize the results of a simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. The sensitivity of our net interest income is measured over rolling two-year horizons.

The simulation model estimates the impact of changing interest rates on interest income from all interest-earning assets and interest expense paid on all interest-bearing liabilities reflected on our balance sheet. This sensitivity analysis is compared to policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon assuming no balance sheet growth, given a 200 basis point upward and a 100 basis point downward shift in interest rates. A parallel and pro rata shift in rates over a 12-month period is assumed.

The following depicts the Company's net interest income sensitivity analysis as of June 30, 2012:

Simulated	Estimated Net
Rate Changes	Interest Income
	Sensitivity (1)
+ 200 basis points	(0.16%)
- 100 basis points	(0.00%)

(1) Changes from the base case for a 12-month period.

Based on our current models, we believe that the interest rate risk profile of the balance sheet remains well matched in the near term before turning slightly asset sensitive beyond year one. The estimated sensitivity does not necessarily represent a forecast and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions including how customer preferences or competitor influences might change.

Liquidity Risk

Liquidity risk is the risk to earnings or capital resulting from our inability to meet obligations when they come due without incurring unacceptable losses. It includes the ability to manage unplanned decreases or changes in funding sources and to recognize or address changes in market conditions that affect our ability to liquidate assets quickly and with minimum loss of value. Factors considered in liquidity risk management are stability of the deposit base; marketability, maturity, and pledging of investments; and the demand for credit.

In general, liquidity risk is managed daily by controlling the level of fed funds and the use of funds provided by the cash flow from the investment portfolio, loan demand and deposit fluctuations. To meet unexpected demands, lines of credit are maintained with correspondent banks, the Federal Home Loan Bank and the FRB. The sale of bonds maturing in the near future can also serve as a contingent source of funds. Increases in deposit rates are considered a last resort as a means of raising funds to increase liquidity.

Management has a Liquidity Committee that meets quarterly. The Committee analyzes the cashflows from loans, investments, deposits and borrowings. In addition, the Company has a Balance Sheet Management Committee of the Board of Directors that meets monthly to review the Company's balance sheet position and liquidity which includes, but is not limited to a: (i) Liquidity Report; (ii) Capital Volatility Report; (iii) Investment Portfolio Activities Report; and (iv) Balance Sheet Management Policy Report. On a periodic basis, projected cash flows are analyzed and stressed to determine potential liquidity issues. A contingency plan contains the steps the Company would take to mitigate a liquidity crisis. Results of the cash flows are reported to the Balance Sheet Management Committee on a periodic basis.

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Transaction Risk

Transaction risk is the risk to earnings or capital arising from problems in service or product delivery. This risk is significant within any bank and is interconnected with other risk categories in most activities throughout the Company. Transaction risk is a function of internal controls, information systems, associate integrity, and operating processes. It arises daily throughout the Company as transactions are processed. It pervades all divisions, departments and centers and is inherent in all products and services we offer.

In general, transaction risk is defined as high, medium or low by the internal audit process. The audit plan ensures that high risk areas are reviewed annually. We utilize internal auditors and independent professional service firms to test key controls of operational processes and to audit information systems, compliance management program, loan review and trust services.

The key to monitoring transaction risk is in the design, documentation and implementation of well defined procedures. All transaction related procedures include steps to report events that might increase transaction risk. Dual controls are also a form of monitoring.

Compliance Risk

Compliance risk is the risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain products or activities of the Bank's customers may be ambiguous or untested. Compliance risk exposes us to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can also lead to a diminished reputation, reduced business value, limited business opportunities, lessened expansion potential, and lack of contract enforceability.

There is no single or primary source of compliance risk. It is inherent in every activity. Frequently, it blends into operational risk and transaction risk. A portion of this risk is sometimes referred to as legal risk. This is not limited solely to risk from failure to comply with consumer protection laws; it encompasses all laws, as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of banking, traditional and non-traditional.

Our Risk Management Policy and Program and the Code of Ethical Conduct are the cornerstones for controlling compliance risk. An integral part of controlling this risk is the proper training of associates. The Chief Risk Officer is responsible for developing and executing a comprehensive compliance training program. The Chief Risk Officer will ensure that each associate is provided with adequate training relevant to their job function to ensure compliance with banking laws and regulations.

Our Risk Management Policy and Program includes an audit program aimed at identifying problems and ensuring that problems are corrected. The audit program includes two levels of review. One is in-depth audits performed by our internal audit department under the direction of the Chief Risk Officer and supplemented by independent external firms, and the other is periodic monitoring performed by the Risk Management Division. Each year, an Audit Plan for the Company is developed and approved by the Audit Committee of the Board.

The Company utilizes independent external firms to conduct compliance audits as a means of identifying weaknesses in the compliance program itself. The annual Audit Plan includes a review of selected centers and departments.

The center or department that is the subject of an audit is required to respond to the audit and correct any exceptions noted. The Chief Risk Officer will review audit findings and the response provided by the center or department to identify areas which pose a significant compliance risk.

The Risk Management Division conducts periodic monitoring of our compliance efforts with a special focus on those areas that expose us to compliance risk. The purpose of the periodic monitoring is to ensure that our associates are adhering to established policies and procedures. The Chief Risk Officer will notify the appropriate department head and the Management Compliance Committee, the Audit Committee and the Risk Management Committee of any material exceptions noted.

We recognize that customer complaints can often identify weaknesses in our compliance program which could expose us to risk. Therefore, we try to ensure that all complaints are given prompt attention. Our Risk Management Policy and Program include provisions on how customer complaints are to be addressed. The Chief Risk Officer reviews all formal complaints to determine if a significant compliance risk exists and communicates those findings to the Risk Management Committee.

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Strategic Risk

Strategic risk is the risk to earnings or capital arising from adverse decisions or improper implementation of strategic decisions. This risk is a function of the compatibility between an organization's goals, the resources deployed against those goals and the quality of implementation.

Strategic risks are identified as part of the strategic planning process. Offsite strategic planning sessions, including members of the Board of Directors and Senior Leadership, are held annually. The strategic review consists of an economic assessment, competitive analysis, industry outlook and legislative and regulatory review.

A primary measurement of strategic risk is peer group analysis. Key performance ratios are compared to three separate peer groups to identify any sign of weakness and potential opportunities. The peer group consists of:

1. Banks of comparable size
2. High performing banks
3. A list of specific banks

Another measure is the comparison of the actual results of previous strategic initiatives against the expected results established prior to implementation of each strategy.

The corporate strategic plan is formally presented to all center managers and department managers at an annual leadership conference.

Reputation Risk

Reputation risk is the risk to capital and earnings arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or continue servicing existing relationships. It can expose the Bank to litigation and, in some instances, financial loss.

Cyber-security Risk

Cyber-security risk refers to the risk of failures, interruptions of services, or breaches of security with respect to the Company's or the Bank's communication, information, operations, financial control or customer internet banking or data processing systems or applications. In addition, the Company and the Bank rely primarily on third party providers to develop, manage, maintain and protect these systems and applications. Any such failures, interruptions or security breaches, depending on the scope, duration, affected system(s) or customer(s), could expose the Company and/or the Bank to financial loss, reputation damage, litigation, or regulatory action.

Price and Foreign Exchange Risk

Price risk arises from changes in market factors that affect the value of traded instruments. Foreign exchange risk is the risk to earnings or capital arising from movements in foreign exchange rates.

Our current exposure to price risk is nominal. We do not have trading accounts. Consequently, the level of price risk within the investment portfolio is limited to the need to sell securities for reasons other than trading. The section of this policy pertaining to liquidity risk addresses this risk.

We maintain deposit accounts with various foreign banks. Our Interbank Liability Policy limits the balance in any of these accounts to an amount that does not present a significant risk to our earnings from changes in the value of foreign currencies.

Our asset liability model calculates the market value of the Bank's equity. In addition, management prepares, on a monthly basis, a capital volatility report that compares changes in the market value of the investment portfolio. We have as our target to always be well-capitalized by regulatory standards.

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The Balance Sheet Management Policy requires the submission of a Fair Value Matrix Report to the Balance Sheet Management Committee on a quarterly basis. The report calculates the economic value of equity under different interest rate scenarios, revealing the level or price risk of the Bank's interest sensitive asset and liability portfolios.

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ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer, the Chief Financial Officer and other senior management of the Company. Based on the foregoing, the Company's Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with FASB guidance over contingencies (ASC 450). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations. As of June 30, 2012, the Company does not have any significant litigation reserves.

In addition, the Company is involved in the following significant legal actions and complaints.

On July 26, 2010, we received a subpoena from the Los Angeles office of the SEC regarding the Company's allowance for credit loss methodology, loan underwriting guidelines, methodology for grading loans, and the process for making provisions for loan losses. In addition, the subpoena requested information regarding certain presentations Company officers have given or conferences Company officers have attended with analysts, brokers, investors or prospective investors. We are fully cooperating with the SEC in its investigation, including its follow-up requests. We cannot predict the timing or outcome of the investigation.

In the wake of the Company's disclosure of the SEC investigation, on August 23, 2010, a purported shareholder class action complaint was filed against the Company in an action captioned *Lloyd v. CVB Financial Corp., et al.*, Case No. CV 10-06256-MMM, in the United States District Court for the Central District of California. Along with the Company, Christopher D. Myers (President and Chief Executive Officer) and Edward J. Biebrich, Jr. (our former Chief Financial Officer) were also named as defendants. On September 14, 2010, a second purported shareholder class action complaint was filed against the Company in an action originally captioned *Englund v. CVB Financial Corp., et al.*, Case No. CV 10-06815-RGK, in the United States District Court for the Central District of California. The *Englund* complaint named the same defendants as the *Lloyd* complaint and made allegations substantially similar to those included in the *Lloyd* complaint. On January 21, 2011, the Court consolidated the two actions for all purposes under the *Lloyd* action now captioned as Case No. CV 10-06256-MMM (PJWx). That same day, the Court also appointed the Jacksonville Police and Fire Pension Fund (the "Jacksonville Fund") as lead plaintiff in the consolidated action and approved the Jacksonville Fund's selection of lead counsel for the plaintiffs in the consolidated action. On March 7, 2011, the Jacksonville Fund filed a consolidated complaint naming the same defendants and alleging violations by all defendants of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and violations by the individual defendants of Section 20(a) of the Exchange Act. Specifically, the complaint alleges that defendants misrepresented and failed to disclose conditions adversely affecting the Company throughout the purported class period, which is alleged to be between October 21, 2009 and August 9, 2010. The complaint seeks compensatory damages and other relief in favor of the purported class. On May 13, 2011, defendants filed a motion to dismiss the consolidated complaint. Following the filing by each side of supplemental motions and memoranda, the District Court conducted a hearing on August 29, 2011. The District Court issued a ruling on January 12, 2012, granting defendants' motion to dismiss the consolidated complaint, but provided the plaintiffs with leave to file an amended complaint within 45 days of the date of the order. On February 27, 2012, the plaintiffs filed an amended complaint against the same defendants, and the Company filed its motion to dismiss the Plaintiff's amended complaint on March 26, 2012. The District Court conducted a hearing on June 4, 2012 on the Company's motion to dismiss the amended complaint, and the parties are awaiting the issuance of the Court's order with respect to the Company's motion. The Company intends to continue to vigorously contest the plaintiff's allegations in this case.

On February 28, 2011, a purported and related shareholder derivative complaint was filed in an action captioned *Sanderson v. Borba, et al.*, Case No. CIVRS1102119, in California State Superior Court in San Bernardino County. The complaint names as defendants the members of our board of directors and also refers to unnamed defendants allegedly responsible for the conduct alleged. The Company is included as a nominal defendant. The complaint alleges breaches of fiduciary duties, abuse of control, gross mismanagement and corporate waste. Specifically, the complaint alleges, among other things, that defendants engaged in accounting manipulations in order to falsely portray the Company's financial results in connection with its commercial real estate portfolio. Plaintiff seeks compensatory and exemplary damages to be paid by the defendants and awarded to the Company, as well as other relief. On June 20, 2011, defendants filed a demurrer requesting dismissal of the derivative complaint. Following the filing by each side of additional motions, the parties filed a notice on September 30, 2011 to postpone the Court's hearing on the defendants' demurrer until January 12, 2012, and this postponement was subsequently extended to September 6, 2012.

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Because the outcome of these proceedings is uncertain, we cannot predict any range of loss or even if any loss is probable related to the actions described above.

ITEM 1A. RISK FACTORS

Except for the following two paragraphs, there were no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. The materiality of any risks and uncertainties identified in our Forward Looking Statements contained in this report together with those previously disclosed in the Form 10-K and any subsequent Form 10-Q or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations – General in this Quarterly Report on Form 10-Q.

From time to time, global or national financial events or developments could result in economic uncertainty, cause volatility in global stock markets, and/or have a significant impact on economic conditions, including the credit risk and interest rate risk environments, which in turn could have a material adverse effect on our business, financial condition, liquidity, results of operations and ability to make distributions to our shareholders.

Examples of recent global and national events and developments that could have one or more of the impacts or effects described above may include Standard & Poor's decision in 2011 to downgrade the U.S. Government's credit rating (and the possibility of similar actions by other statistical rating agencies), and uncertainty and possible economic turmoil resulting from concerns about government debt levels, currency values and the risk of economic contraction in Europe and Asia. These events could create global or national financial dislocation, and cause the interest rates on our borrowings and our cost of capital to fluctuate significantly. These adverse consequences could extend to the borrowers of the loans that we own and originate and, as a result, could materially and adversely affect returns on our investments, the ability of our borrowers to continue to pay their debt service or refinance and repay their loans and other obligations as they become due and our ability to continue to originate assets on favorable terms. Any such adverse consequences could also result in significant volatility in global stock markets, which could cause the market price of our common stock to decrease. In addition, there may be other events and developments, similar in consequence or concern, that we cannot currently predict and whose current or future impact or effect on the Company and the Bank cannot be precisely quantified.

We and our customers are exposed to cyber-security risks and the Bank may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents. While the Bank seeks to implement cyber-security measures that we believe are commercially reasonable, it is possible that, regardless of the Bank's responsibility for a security breach or loss, the Bank could be held liable for any such breach or loss. We have security measures and processes in place in an effort to protect against these cyber-security risks but these cyber-attacks are rapidly evolving and we may not be able to anticipate or prevent all such attacks. Any compromise of our security could result in a violation of privacy or other laws, significant legal and financial exposure, loss of Bank or customer funds, damage to our reputation, and a loss of confidence in our security measures, which could harm our business or financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On July 16, 2008, our Board of Directors approved a program to repurchase up to 10,000,000 shares of our common stock. As of June 30, 2012, we have the authority to repurchase up to 7,765,171 shares of our common stock (such number will not be adjusted for stock splits, stock dividends, and the like) in the open market or in privately negotiated transactions, at times and at prices considered appropriate by us, depending upon prevailing market conditions and other corporate and legal considerations. During 2011 and 2010, we repurchased 1,594,488 and 640,341 shares of common stock at the average price of \$7.86 and \$8.07, respectively. The shares are canceled and retired upon repurchase. There is no expiration date for our current stock repurchase program. During the first half of 2012, there were no purchases of our common stock outstanding.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

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ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibits
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Schema Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

** Furnished, not filed to the extent set forth in Regulation S-T.

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(1) SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CVB FINANCIAL CORP.

(Registrant)

Date: August 9, 2012

Richard C. Thomas
Duly Authorized Officer and
Chief Financial Officer