CVB FINANCIAL CORP
Form 10-Q
May 10, 2011

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FORM 10-Q
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission File Number: 0-10140
CVB FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

California	95-3629339
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

701 North Haven Ave, Suite 350, Ontario, California	91764
(Address of Principal Executive Offices)	(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 þ No o

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

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

Number of shares of common stock of the registrant: 106,080,055 outstanding as of April 29, 2011.

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2011 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 , plans , projects , seeks , should , will and variations of these words and similar expressions are intended to identify forward looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, local, regional, national and international economic conditions and events and the impact they may have on us and our customers; ability to attract deposits and other sources of liquidity; oversupply of inventory and continued deterioration in values of California real estate, both residential and commercial; a prolonged slowdown in construction activity; changes in the financial performance and/or condition of our borrowers; changes in the level of non-performing assets and charge-offs; the effect of acquisitions we may make; the effect of changes in laws and regulations (including laws and regulations concerning financial reform, taxes, banking, securities, executive compensation and insurance) with which we and our subsidiaries must comply; changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; inflation, interest rate, securities market and monetary fluctuations; political instability; acts of war or terrorism, or natural disasters, such as earthquakes, or the effects of pandemic flu; the timely development and acceptance of new banking products and services and perceived overall value of these products and services by users; changes in consumer spending, borrowing and savings habits; technological changes; the ability to increase market share and control expenses; changes in the competitive environment among financial and bank holding companies and other financial service providers; continued volatility in the credit and equity markets and its effect on the general economy; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; changes in our organization, management, compensation and benefit plans; the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries, including, but not limited to, the current investigation by the Securities and Exchange Commission and the related class-action lawsuits filed against us, and the results of regulatory examinations or reviews. The Company cautions that the foregoing factors are not exclusive. For additional information concerning these factors and other factors which may cause actual results to differ from the results discussed in our forward-looking statements, see the periodic filings the Company makes with the Securities and Exchange Commission, and, in particular, the information set forth in Item 1A herein and in Item 1A. Risk Factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I FINANCIAL INFORMATION (UNAUDITED)
ITEM 1. FINANCIAL STATEMENTS
CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)
Dollar amounts in thousands, except share data

	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 348,773	$ 354,048
Interest-bearing balances due from depository institutions	50,287	50,227
Total cash and cash equivalents	399,060	404,275
Interest-bearing balances due from depository institutions	50,190	50,190
Investment securities available-for-sale	2,017,528	1,791,558
Investment securities held-to-maturity	3,039	3,143
Investment in stock of Federal Home Loan Bank (FHLB)	83,310	86,744
Loans held-for-sale	3,505	2,954
Loans and lease finance receivables	3,598,447	3,747,740
Allowance for credit losses	(101,067)	(105,259)
Net Loans and lease finance receivables	3,497,380	3,642,481
Premises and equipment, net	39,431	40,921
Bank owned life insurance	113,605	112,901
Accrued interest receivable	23,263	23,647
Intangibles	8,128	9,029
Goodwill	55,097	55,097
FDIC loss sharing asset	81,133	101,461
Deferred tax asset	60,998	52,559
Other assets	62,685	59,731
TOTAL ASSETS	$ 6,498,352	$ 6,436,691
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,817,951	$ 1,701,523
Interest-bearing	2,667,738	2,817,305
Total deposits	4,485,689	4,518,828
Demand Note to U.S. Treasury	2,966	1,917
Customer repurchase agreements	578,009	542,188

Borrowings	553,458	553,390
Accrued interest payable	4,626	4,985
Deferred compensation	9,212	9,221
Junior subordinated debentures	115,055	115,055
Other liabilities	94,733	47,252
TOTAL LIABILITIES	5,843,748	5,792,836
COMMITMENTS AND CONTINGENCIES		
Stockholders Equity:		
Preferred stock, authorized, 20,000,000 shares without par; none issued or outstanding		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 106,078,253 (2011) and 106,075,576 (2010)	490,837	490,226
Retained earnings	155,027	147,444
Accumulated other comprehensive income, net of tax	8,740	6,185
Total stockholders equity	654,604	643,855
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,498,352	$ 6,436,691

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(unaudited)
Dollar amounts in thousands, except per share

	For the Three Months Ended March 31,	
	2011	2010
Interest income:		
Loans, including fees	$ 51,315	$ 67,768
Investment securities:		
Taxable	8,839	16,084
Tax-preferred	5,919	6,532
Total investment income	14,758	22,616
Dividends from FHLB stock	65	66
Federal funds sold and Interest bearing deposits with other institutions	374	102
Total interest income	66,512	90,552
Interest expense:		
Deposits	2,788	5,288
Borrowings	5,796	11,120
Junior subordinated debentures	819	805
Total interest expense	9,403	17,213
Net interest income before provision for credit losses	57,109	73,339
Provision for credit losses	7,068	12,200
Net interest income after provision for credit losses	50,041	61,139
Other operating income:		
Impairment loss on investment securities		(98)
Plus: Reclassification of credit-related impairment loss from other comprehensive income		(587)
Net impairment loss on investment securities recognized in earnings		(685)
Service charges on deposit accounts	3,723	4,264
Trust and Investment Services	2,152	2,118
Bankcard services	708	640
BOLI income	707	845
Increase (reduction) in FDIC loss sharing asset	1,415	(10,583)
Other	1,273	1,190
Total other operating income (expense)	9,978	(2,211)
Other operating expenses:		
Salaries and employee benefits	17,660	18,073
Occupancy and Equipment	4,321	5,052

Professional services		3,610		2,807
Amortization of intangibles		901		950
Other		9,813		9,040
Total other operating expenses		36,305		35,922
Earnings before income taxes		23,714		23,006
Income taxes		7,114		6,887
Net earnings	$	16,600	$	16,119
Earnings allocated to restricted stock		66		54
Net earnings allocated to common shareholders	$	16,534	$	16,065
Comprehensive income	$	19,155	$	22,853
Basic earnings per common share	$	0.16	$	0.15
Diluted earnings per common share	$	0.16	$	0.15
Cash dividends per common share	$	0.085	$	0.085

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME
(Unaudited)
Amounts and shares in thousands

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income	Total
Balance January 1, 2011	106,076	$ 490,226	$ 147,444	$ 6,185		$ 643,855
Proceeds from exercise of stock options	2	19				19
Tax benefit from exercise of stock options		2				2
Stock-based Compensation Expense		590				590
Cash dividends declared						
Common ($0.085 per share)			(9,017)			(9,017)
Comprehensive income:						
Net earnings			16,600		$ 16,600	16,600
Other comprehensive gain:						
Unrealized gain on securities available-for-sale, net				2,555	2,555	2,555
Comprehensive income					$ 19,155	
Balance March 31, 2011	106,078	$ 490,837	$ 155,027	$ 8,740		$ 654,604
Balance January 1, 2010	106,263	$ 491,226	$ 120,612	$ 26,390		$ 638,228
Proceeds from exercise of stock options	30	152				152
Tax benefit from exercise of stock options		35				35
Stock-based Compensation Expense		532				532
Cash dividends declared						
Common ($0.085 per share)			(9,035)			(9,035)
Comprehensive income:						
Net earnings			16,119		$ 16,119	16,119
Other comprehensive gain:						
Unrealized gain on securities available-for-sale, net				6,394	6,394	6,394
Portion of impairment loss on investment securities reclassified in the current year, net				340	340	340
Comprehensive income					$ 22,853	

Balance March 31, 2010	106,293	$ 491,945	$ 127,696	$ 33,124	$ 652,765

	At March 31,	
	2011	**2010**
Disclosure of reclassification amount		
Unrealized gain on securities arising during the period	$ 4,291	$ 11,610
Tax benefit	(1,736)	(4,876)
Net unrealized gain on securities	$ 2,555	$ 6,734

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
Dollar amounts in thousands

	For the Three Months Ended March 31,	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and dividends received	$ 67,948	$ 78,809
Service charges and other fees received	8,446	8,177
Interest paid	(9,695)	(17,736)
Cash paid to vendors and employees	(33,942)	(27,384)
Income taxes paid	(27,000)	
Net cash provided by operating activities	5,757	41,866
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from repayment of investment securities	86,684	72,514
Proceeds from redemption of FHLB stock	3,434	
Proceeds from maturity of investment securities	25,055	30,845
Purchases of investment securities	(280,623)	(57,854)
Net decrease in loans and lease finance receivables	136,380	116,375
Proceeds from sales of premises and equipment	147	12
Proceeds from sales of other real estate owned	1,789	1,874
Proceeds from FDIC shared-loss agreements	21,734	
Purchase of premises and equipment	(309)	(1,734)
Other, net	(1)	(10)
Net cash (used in) provided by investing activities	(5,710)	162,022
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in transaction deposits	95,328	50,129
Net (decrease)/increase in time deposits	(128,464)	29,930
Repayment of advances from Federal Home Loan Bank		(100,000)
Net increase in other borrowings	1,049	1,807
Net increase in customer repurchase agreements	35,821	50,082
Cash dividends on common stock	(9,017)	(9,035)
Proceeds from exercise of stock options	19	152
Tax benefit related to exercise of stock options	2	35
Net cash (used in) provided by financing activities	(5,262)	23,100
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,215)	226,988
CASH AND CASH EQUIVALENTS, beginning of period	404,275	104,480
CASH AND CASH EQUIVALENTS, end of period	$ 399,060	$ 331,468

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(unaudited)
Dollar amounts in thousands

	For the Three Months Ended March 31,	
	2011	**2010**
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net earnings	$ 16,600	$ 16,119
Adjustments to reconcile net earnings to net cash provided by operating activities:		
(Gain) loss on sales of premises and equipment	(7)	9
(Gain) on sale of other real estate owned	(74)	(185)
Increase from bank owned life insurance	(707)	(845)
Net amortization of premiums on investment securities	3,212	998
Accretion of SJB Discount	(1,951)	(13,378)
Provisions for credit losses	7,068	12,200
Provisions for revaluation of other real estate owned	820	
(Increase)/decrease in FDIC Loss Sharing Asset	(1,415)	10,583
Stock-based compensation	590	532
Depreciation and amortization	2,560	2,588
Change in accrued interest receivable	384	1,250
Change in accrued interest payable	(359)	(475)
Change in other assets and liabilities	(20,964)	12,470
Total adjustments	(10,843)	25,747
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,757	$ 41,866
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Securities purchased and not settled	$ 55,791	$
Transfer from loans to other real estate owned	$ 3,669	$ 17,397

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
For the three months ended March 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation The consolidated financial statements include the accounts of CVB Financial Corp. (the Company) and its wholly owned subsidiary: Citizens Business Bank (the Bank) after elimination of all intercompany transactions and balances. The Company also has three inactive subsidiaries: CVB Ventures, Inc.; Chino Valley Bancorp; and ONB Bancorp. The Company is also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II, CVB Statutory Trust III and FCB Trust II. CVB Statutory Trusts I and II were created in December 2003 and CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. The Company acquired FCB Trust II through the acquisition of First Coastal Bancshares (FCB). These trusts do not meet the criteria for consolidation.

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

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

The internal reporting of the Company considers all business units. Funds are allocated to each business unit based on its need to fund assets (use of funds) or its need to invest funds (source of funds). Net income is determined based on the actual net income of the business unit plus the allocated income or expense based on the sources and uses of funds for each business unit. Non-interest income and non-interest expense are those items directly attributable to a business unit.

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

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

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

Loans and Lease Finance Receivables - Loans and lease finance receivables are reported at the principal amount outstanding, less deferred net loan origination fees. Interest on loans and lease finance receivables is credited to income based on the principal amount outstanding. Interest income is not recognized on loans and lease finance receivables when collection of interest is deemed by management to be doubtful. In the ordinary course of business, the Company enters into commitments to extend credit to its customers. These commitments are not reflected in the accompanying consolidated financial statements. As of March 31, 2011, the Company had entered into commitments with certain customers amounting to $595.8 million compared to $570.1 million at December 31, 2010. Letters of Credit at March 31, 2011 and December 31, 2010, were $68.3 million and $70.4 million, respectively.

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

Nonrefundable fees and direct costs associated with the origination or purchase of 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.

Acquired loans for which there is deterioration in credit quality between origination and acquisition of the loans and the bank does not expect to collect all amounts due according to the loan s contractual terms are accounted for individually or in pools of loans based on common risk characteristics. These loans are within the scope of accounting guidance for loans acquired with deteriorated credit quality. 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). The Bank has also elected to account for acquired loans not within the scope of accounting guidance using this same methodology.

Throughout this document, we have separated the discussion of asset quality into two sections: non-covered loans and covered loans. The non-covered loans represent the legacy Citizens Business Bank loans and exclude all loans acquired in the San Joaquin Bank (SJB) acquisition. The SJB loans are covered loans as defined in the loss sharing agreement with the FDIC.

Provision and Allowance for Credit Losses - The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management s judgment, is adequate 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 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. The provision for credit losses is charged to expense. During the first three months of 2011, we recorded a provision for credit losses of $7.1 million. The allowance for credit losses was $101.1 million as of March 31, 2011, or 3.11% of total non-covered loans and leases.

In addition to the allowance for credit losses, the Company also has a reserve for undisbursed commitments for loans and letters of credit. This reserve is carried in the liabilities section of the balance sheet in other liabilities. Provisions to this reserve are included in other expense. For the first three months of 2011, the Company recorded an increase of $732,000 in the reserve for undisbursed commitments. As of March 31, 2011, the balance in this reserve was $11.2 million.

A loan for which collection of principal and interest according to its original terms is not probable is considered to be impaired. The Company s policy is to record a specific valuation allowance, which is included in the allowance for credit losses, or charge off that portion of an impaired loan that exceeds its fair value less selling costs. Fair value is usually based on the value of underlying collateral.

At March 31, 2011, the Company had non-covered impaired loans of $120.1 million. Of this amount, $4.0 million consisted of non-accrual residential construction and land loans, $40.0 million in non-accrual commercial construction loans, $18.4 million of non-accrual single family mortgage loans, $35.0 million of non-accrual commercial real estate loans, $7.5 million of non-accrual commercial and industrial loans, $3.0 million in dairy and livestock loans, and $260,000 of non-accrual consumer loans. Non-covered impaired loans also include $38.4 million of loans whose terms were modified in a troubled debt restructure, of which $26.5 million are classified as non-accrual. The remaining balance of $11.9 million consists of nine loans performing according to the restructured terms. These loans had specific reserves of $1.3 million at March 31, 2011. At December 31, 2010, the Bank had classified as impaired, non-covered loans with a balance of $170.3 million.

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

FDIC Loss Sharing Asset The FDIC loss sharing asset 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.

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

Business Combinations and Intangible Assets The Company has engaged in the acquisition of financial institutions and the assumption of deposits and purchase of assets from other financial institutions in its market area. The Company has paid premiums on certain transactions, and such premiums are recorded as intangible assets, in the form of goodwill or other intangible assets. Goodwill is not being amortized whereas identifiable intangible assets with finite lives are amortized over their useful lives. On an annual basis, the Company tests goodwill and intangible assets for impairment.

At March 31, 2011 goodwill was $55.1 million. As of March 31, 2011, intangible assets that continue to be subject to amortization include core deposit premiums of $8.1 million (net of $23.9 million of accumulated amortization). Amortization expense for such intangible assets was $901,000 for the three months ended March 31, 2011. Estimated amortization expense, for the remainder of 2011 is expected to be $2.6 million. Estimated amortization expense, for the succeeding years is $2.2 million for 2012, $1.1 million for 2013, $475,000 for 2014, $437,000 for 2015 and $1.3 million thereafter. The weighted average remaining life of intangible assets is approximately 2.2 years.

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

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

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

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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 March 31, 2011 was 106,078,253. The tables below presents the reconciliation of earnings per share for the periods indicated.

Earnings Per Share Reconciliation

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

	For the three months ended March 31,	
	2011	**2010**
Earnings per common share		
Net earnings	$ 16,600	$ 16,119
Less: Dividends on preferred stock and discount amortization		
Net earnings available to common shareholders	$ 16,600	$ 16,119
Less: Net earnings allocated to restricted stock	66	54
Net earnings allocated to common shareholders (numerator)	$ 16,534	$ 16,065
Weighted Average Shares Outstanding (denominator)	105,651	105,929
Earnings per common share	$ 0.16	$ 0.15
Diluted earnings per common share		
Net income allocated to common shareholders (numerator)	$ 16,534	$ 16,065
Weighted Average Shares Outstanding	105,651	105,929
Incremental shares from assumed exercise of outstanding options	53	192
Diluted Weighted Average Shares Outstanding (denominator)	105,704	106,121
Diluted earnings per common share	$ 0.16	$ 0.15

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

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

Statement of Cash Flows Cash and cash equivalents as reported in the statements of cash flows include cash and due from banks. Cash flows from loans and deposits are reported net.

CitizensTrust This division provides trust, investment and brokerage related services, as well as financial, estate and business succession planning services. CitizensTrust services its clients through three offices in Southern California: Pasadena, Ontario, and Irvine. CitizensTrust has approximately $2.2 billion in assets under administration, including $1.2 billion in assets under management. The amount of these funds and the related liability have not been recorded in the accompanying consolidated balance sheets because they are not assets or liabilities of the Bank or Company, with the exception of any funds held on deposit with the Bank.

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for credit losses. Other significant estimates which may be subject to change include fair value determininations and disclosures, impairment of investments, goodwill, loans, determining the amount and the 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 for estimates of the probable outcome of all cases brought against them. Except as discussed in Part II Other Information Item 1, Legal Proceedings, at March 31, 2011 the Company does not have any litigation reserves and is not aware of any material pending legal action or complaints asserted against the Company.

Recent Accounting Pronouncements In April, 2011 the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* The update provides additional guidance for creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The provisions of this standard are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to restructurings occurring on or after January 1, 2011. The Company is currently assessing the impact of this guidance on its financial statements.

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2. INVESTMENT SECURITIES

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

	March 31, 2011				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Amounts in thousands)				
Investment Securities Available-for-Sale:					
Government agency & government-sponsored enterprises	$ 86,297	$ 77	$ (404)	$ 85,970	4.26%
Mortgage-backed securities	887,201	12,140	(6,846)	892,495	44.24%
CMO s / REMIC s	415,831	4,458	(1,402)	418,887	20.76%
Municipal bonds	612,843	13,309	(5,976)	620,176	30.74%
Total Investment Securities	$ 2,002,172	$ 29,984	$ (14,628)	$ 2,017,528	100.00%

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

Approximately 69% of the available-for-sale portfolio, at March 31, 2011, represents securities issued by the U.S government or U.S. government-sponsored enterprises, which guarantee 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 March 31, 2011 and December 31, 2010.

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Composition of the Fair Value and Gross Unrealized of Securities:

	March 31, 2011					
	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(amounts in thousands)					
Held-To-Maturity						
CMO	$	$	$ 3,039	$ 288	$ 3,039	$ 288
Available-for-Sale						
Government agency	$ 79,440	$ 404	$	$	$ 79,440	$ 404
Mortgage-backed securities	453,643	6,846			453,643	6,846
CMO/REMICs	162,094	1,402			162,094	1,402
Municipal bonds	168,299	5,088	5,599	888	173,898	5,976
	$ 863,476	$ 13,740	$ 5,599	$ 888	$ 869,075	$ 14,628

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

(1) For 2010, the Company recorded a $587,000 charge, on a pre-tax basis, of the non-credit portion of OTTI for this security in other comprehensive income, which is included as gross unrealized losses.

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 March 31, 2011 and December 31, 2010. The Company has reviewed individual securities to determine whether a decline in fair

value below the amortized cost is other-than-temporary.

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

CMO Held-to-Maturity We have one investment security classified as held-to-maturity. This security was issued by Countrywide Financial and is collateralized by Alt-A mortgages. The mortgages are primarily fixed-rate, 30-year loans, originated in early 2006 with average FICO scores of 715 and an average LTV of 71% at origination. The security was a senior security in the securitization, was rated AAA at origination and was supported by subordinate securities. This security is classified as held-to-maturity as we have both the intent and ability to hold this debt security to maturity as the amount of the security, $3.0 million, is not significant to our liquidity needs. We acquired this security in February 2008 at a price of 98.25%. The significant decline in the fair value of the security first appeared in August 2008 as the current financial crisis in the markets occurred and the market for securities collateralized by Alt-A mortgages diminished.

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As of March 31, 2011, the unrealized loss on this security was $288,000 and the fair value on the security was 66% 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 March 31, 2011. We assess for credit impairment using a cash flow model. The key assumptions include default rates, severities and prepayment rates. This security was determined to have additional credit impairment during the first quarter 2010 due to continued degradation in expected cash flows primarily due to higher loss forecasts. We determined the amount of the credit impairment by discounting the expected future cash flows of the underlying collateral. We recognized no other-than-temporary impairment loss in the first quarter of 2011 and $685,000 in the first quarter of 2010.

The following table provides a roll-forward of credit-related other-than-temporary impairment recognized in earnings for the three months ended March 31, 2011.

	For the three months ended March 31, 2011 (in thousands)
Balance, beginning of the period	$ 1,227
Addition of OTTI that was not previously recognized	
Reduction for securities sold during the period	
Reduction for securities with OTTI recognized in earnings because the security might be sold before recovery of its amortized cost basis	
Addition of OTTI that was previously recognized because the security might not be sold before recovery of its amortized cost basis	
Reduction for increases in cash flows expected to be collected that are recognized over the remaining life of the security	
Balance, end of the period	$ 1,227

Government Agency The government agency bonds are backed by the full faith and credit of Agencies of the U.S. Government. These securities are bullet securities, that is, they have a defined maturity date on which the principal is paid. The contractual term of these investments provides that the Bank 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 March 31, 2011.

Mortgaged-Backed Securities and CMO/REMICs Almost all of the available-for-sale 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 available-for-sale mortgage-backed securities are rated investment grade with a weighted average life of approximately 3.5 years. The contractual cash flows of 99.33% of these investments are guaranteed by U.S. government-sponsored agencies. The remaining 0.67% 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. There was no loss greater than 12 months on these securities at March 31, 2011.

Municipal Bonds Ninety-eight percent of our $620.2 million municipal bond portfolio contains securities which have an underlying rating of investment grade. The majority of our municipal bonds are insured by the largest bond insurance companies with an average remaining maturity of approximately 10.12 years. The unrealized loss greater than 12 months on these securities at March 31, 2011 was $888,000. The Bank diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Bank 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 Bank does not intend to sell the investments and it is more likely than not that the Bank will not be required to sell the investments before recovery of their amortized costs, which may be at maturity, management does not consider these investments to be other-than-temporarily impaired at March 31, 2011.

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

At March 31, 2011 and December 31, 2010, investment securities having an amortized cost of approximately $1.88 billion and $1.74 billion respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at March 31, 2011, by contractual maturity, are shown below. Although mortgage-backed securities and CMO/REMICs have contractual maturities through 2029, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed securities and CMO/REMICs are included in maturity categories based upon estimated prepayment speeds.

	Available-for-sale		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(amounts in thousands)		
Due in one year or less	$ 107,396	$ 109,487	3.60%
Due after one year through five years	1,450,540	1,461,952	3.01%
Due after five years through ten years	270,816	277,399	4.05%
Due after ten years	173,420	168,690	3.88%
	$ 2,002,172	$ 2,017,528	3.25%

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 March 31, 2011.

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3. LOAN AND LEASE FINANCE RECEIVABLES

The following is a summary of the components of loan and lease finance receivables (dollars in thousands):

	March 31, 2011		
	Non-Covered Loans	Covered Loans	Total
Commercial and Industrial	$ 456,040	$ 34,276	$ 490,316
Real Estate:			
Construction	109,540	60,022	169,562
Commercial Real Estate	1,966,589	288,658	2,255,247
SFR Mortgage	205,583	4,862	210,445
Consumer	51,818	9,804	61,622
Municipal lease finance receivables	122,422	475	122,897
Auto and equipment leases, net of unearned discount	17,399		17,399
Dairy and Livestock	325,052		325,052
Agribusiness	885	48,779	49,664
Gross Loans	$ 3,255,328	$ 446,876	$ 3,702,204
Less: Purchase Accounting Discount		(98,117)	(98,117)
Less: Deferred net loan fees	(5,640)		(5,640)
Gross loans, net of deferred loan fees	$ 3,249,688	$ 348,759	$ 3,598,447
Less: Allowance for credit losses	(101,067)		(101,067)
Net Loans	$ 3,148,621	$ 348,759	$ 3,497,380

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

Less: Allowance for credit losses	(105,259)		(105,259)
Net Loans	$ 3,268,469	$ 374,012	$ 3,642,481

At March 31, 2011, the Company held approximately $1.35 billion of fixed rate loans. As of March 31, 2011, 60.9% of the loan portfolio consisted of commercial real estate loans, 4.6% of the loan portfolio consisted of construction loans and 5.7% of the loan portfolio consisted of SFR mortgages. Substantially all of the Company s real estate loans and construction loans are secured by real properties located in California.

4. ALLOWANCE FOR CREDIT LOSSES AND OTHER REAL ESTATE OWNED (NON-COVERED LOANS)

The Bank s 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 elements.

The first major element includes a detailed analysis of the loan portfolio in two phases. In the first phase, individual loans are reviewed to identify loans for impairment. A loan is impaired when principal and interest are deemed uncollectible in accordance with the original contractual terms of the 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 determined that such amount represents a confirmed loss. Loans determined to be impaired are excluded from the formulae allowance so as not to double-count the loss exposure.

Central to the first phase and 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: Loss, Doubtful, Substandard, Special Mention and Pass. Each of these groups is assessed for the proper amount to be 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 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.

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The second major element in our methodology for assessing the appropriateness of the allowance consists of 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. The relationship of the two major elements of the allowance to the total allowance may fluctuate from period to period. 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 Bank s methodology is consistently applied across all the portfolio segments taken into account the applicable historical loss rates and the qualitative factors applicable to each pool of loans. There have been no significant changes to the methodology or policies in the periods presented.

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 Bank evaluates credit risk associated with the loan and lease portfolio at the same time it evaluates credit risk associated with the off-balance sheet commitments. The Bank recorded an increase of $732,000 and $1.3 million in the reserve for undisbursed commitments for the first quarters of 2011 and 2010, respectively. As of March 31, 2011, the balance in this reserve was $11.2 million compared to a balance of $10.5 million as of December 31, 2010.

Management believes that the ALLL was adequate at March 31, 2011. No assurance can be given that economic conditions which adversely affect the Bank s 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 loan losses, and the recorded investment in held-for-investment loans by portfolio segment and its evaluation based on impairment method as of March 31, 2011, December 31, 2010 and March 31, 2010:

Allowance for Credit Losses and Recorded Investment in Financing Receivables

(Dollars in thousands)

	Commercial and Industrial	Construction	Real Estate	Municipal Lease Finance Receivables	Dairy & Livestock	Consumer, Auto & Other	Covered Loans (1)	Unallocated	Total
Three Months Ended March 31, 2011									
Allowance for Credit Losses:									
Beginning balance	$ 11,472	$ 10,188	$ 43,529	$ 2,172	$ 36,061	$ 1,034	$ 0	$ 803	$ 105,259
Charge-offs	(689)	(6,160)	(2,471)		(2,204)	(120)	(394)		(12,038)
Recoveries	142		581			52	3		778
Provision	(482)	2,350	1,151	639	(430)	707	391	2,742	7,068
Ending balance	$ 10,443	$ 6,378	$ 42,790	$ 2,811	$ 33,427	$ 1,673	$	$ 3,545	$ 101,067
Ending balance: Individually evaluated for impairment	$ 364	$	$ 885	$	$	$ 37	$	$	$ 1,286
Ending balance: Collectively evaluated for impairment	$ 10,079	$ 6,378	$ 41,905	$ 2,811	$ 33,427	$ 1,636	$	$ 3,545	$ 99,781
Financing receivables:									
Ending balance	$ 456,925	$ 109,540	$ 2,172,172	$ 122,422	$ 325,052	$ 69,217	$ 348,759	$	$ 3,604,087
Ending balance: Individually evaluated for	$ 10,136	$ 42,320	$ 62,707	$	$ 2,996	$ 260	$ 14,965	$	$ 133,384

impairment									
Ending balance: Collectively evaluated for impairment	$ 446,789	$ 67,220	$ 2,109,465	$ 122,422	$ 322,056	$ 68,957	$ 333,794	$	$ 3,470,703
Twelve Months Ended December 31, 2010 Allowance for Credit Losses:									
Beginning balance	$ 7,530	$ 21,222	$ 42,215	$ 1,724	$ 31,051	$ 1,004	$	$ 4,178	$ 108,924
Charge-offs	(6,290)	(15,648)	(41,356)	(13)	(1,205)	(627)	(385)		(65,524)
Recoveries	242	291	35			76	15		659
Provision	9,990	4,323	42,635	461	6,215	581	370	(3,375)	61,200
Ending balance	$ 11,472	$ 10,188	$ 43,529	$ 2,172	$ 36,061	$ 1,034	$	$ 803	$ 105,259
Ending balance: Individually evaluated for impairment	$ 50	$ 3,300	$ 681	$	$	$ 28	$	$	$ 4,059
Ending balance: Collectively evaluated for impairment	$ 11,422	$ 6,888	$ 42,848	$ 2,172	$ 36,061	$ 1,006	$	$ 803	$ 101,200
Financing receivables: Ending balance	$ 462,085	$ 138,980	$ 2,198,723	$ 128,552	$ 376,143	$ 74,729	$ 374,012	$	$ 3,753,224
Ending balance: Individually evaluated for impairment	$ 9,404	$ 63,025	$ 90,416	$	$ 5,207	$ 586	$ 15,879	$	$ 184,517
	$ 452,681	$ 75,955	$ 2,108,307	$ 128,552	$ 370,936	$ 74,143	$ 358,133	$	$ 3,568,707

Ending balance: Collectively evaluated for impairment									
Three Months Ended March 31, 2010 Allowance for Credit Losses:									
Beginning balance	$ 7,530	$ 21,222	$ 42,215	$ 1,724	$ 31,051	$ 1,004	$	$ 4,178	$ 108,924
Charge-offs	(2,569)	(4,685)	(1,580)			(97)			(8,931)
Recoveries	119		1			8			128
Provision	2,865	2,532	3,140	347	1,533	862		921	12,200
Ending balance	$ 7,945	$ 19,069	$ 43,776	$ 2,071	$ 32,584	$ 1,777	$	$ 5,099	$ 112,321
Ending balance: Individually evaluated for impairment	$ 225	$ 7	$ 1,359	$	$	$ 73	$	$	$ 1,664
Ending balance: Collectively evaluated for impairment	$ 7,720	$ 19,062	$ 42,417	$ 2,071	$ 32,584	$ 1,704	$	$ 5,099	$ 110,657
Financing receivables:									
Ending balance	$ 408,554	$ 221,130	$ 2,247,732	$ 155,511	$ 391,668	$ 90,025	$ 438,539	$	$ 3,953,159
Ending balance: Individually evaluated for impairment	$ 6,393	$ 41,028	$ 35,767	$	$	$ 609	$ 24,071	$	$ 107,868
Ending balance: Collectively evaluated for	$ 402,161	$ 180,102	$ 2,211,965	$ 155,511	$ 391,668	$ 89,416	$ 414,468	$	$ 3,845,291

impairment

(1) Net of purchase accounting discount

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Asset Quality 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 charged with 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 loan and lease 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, the value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors.

A loan is considered impaired when based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when loans are identified as impaired they are moved to our Special Assets Department. 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.

Loans are reported as restructured when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. 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 lease losses.

The accrual of interest on loans is discontinued when the loan becomes 90 days past due, or when the full collection of principal and interest is no longer probable. When an asset is placed on non-accrual status, previously accrued but unpaid interest is reversed against income. Subsequent collections of cash are applied as reductions to the principal balance unless the loan is returned to accrual status. Non-accrual loans may be restored to accrual status when principal and interest become current and full payment of principal and interest is expected. Had non-accrual loans for which interest was no longer accruing complied with the original terms and conditions of their notes, interest income would have been $831,000 and $1.0 million greater for the first quarters of 2011 and 2010, respectively.

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The following table presents the recorded investment in held-for-investment and held-for-sale, non-covered, non-accrual loans and loans past due by class of loans as of March 31, 2011, December 31, 2010 and March 31, 2010:
(Dollars in Thousands)

March 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due and Accruing	Total Past Due	Nonaccrual	Current	Total Financing Receivables
Commercial & Industrial	$ 72	$	$	$ 72	$ 7,542	$ 449,311	$ 456,925
Construction Speculative					34,656	58,393	93,049
Construction Non-Speculative	1,492			1,492	9,320	7,335	18,147
Commercial Real Estate Owner-Occupied	366			366	1,511	698,980	700,857
Commercial Real Estate Non-Owner-Occupied		532		532	33,440	1,231,760	1,265,732
Residential Real Estate (SFR 1-4)	993			993	18,425	188,014	207,432
Dairy & Livestock					2,996	322,056	325,052
Municipal Lease Finance Receivables						122,422	122,422
Consumer	9			9	259	51,550	51,818
Auto & Equipment Leases	139	28		167	1	17,231	17,399
Total	$ 3,071	$ 560	$	$ 3,631	$ 108,150	$ 3,147,052	$ 3,258,833

December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due and Accruing	Total Past Due	Nonaccrual	Current	Total Financing Receivables
Commercial & Industrial	$ 2,177	$ 1,036	$	3,213	$ 3,887	$ 454,985	$ 462,085
Construction Speculative					55,208	66,343	121,551
Construction Non-Speculative					9,473	9,612	19,085
Commercial Real Estate Owner-Occupied	62			62	5,457	545,073	550,592
Commercial Real Estate Non-Owner-Occupied	3,132			3,132	59,402	1,367,130	1,429,664
Residential Real Estate (SFR 1-4)	1,473	1,124		2,597	17,800	199,368	219,765
Dairy & Livestock					5,207	370,936	376,143
						128,552	128,552

Municipal Lease Finance Receivables							
Consumer		29		29	537	56,181	56,747
Auto & Equipment Leases	93	14		107	49	17,826	17,982
Total	$ 6,937	$ 2,203	$	$ 9,140	$ 157,020	$ 3,216,006	$ 3,382,166

March 31, 2010	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due and Accruing	Total Past Due	Nonaccrual	Current	Total Financing Receivables
Commercial & Industrial	$ 679	$ 1,670	$	$ 2,349	$ 6,393	$ 399,812	$ 408,554
Construction Speculative	8,143			8,143	24,142	165,671	197,956
Construction Non-Speculative					9,929	15,765	25,694
Commercial Real Estate Owner-Occupied	130			130	1,906	738,847	740,883
Commercial Real Estate Non-Owner-Occupied	3,156			3,156	20,135	1,230,248	1,253,539
Residential Real Estate (SFR 1-4)	3,199	547		3,746	13,726	238,459	255,931
Dairy & Livestock						391,668	391,668
Municipal Lease Finance Receivables						155,511	155,511
Consumer		28		28	123	62,328	62,479
Auto & Equipment Leases	276	89		365	486	26,695	27,546
Total	$ 15,583	$ 2,334	$	$ 17,917	$ 76,840	$ 3,425,004	$ 3,519,761

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Credit Quality Indicators

The Company s risk rating methodology assigns risk ratings generally described by the following groupings:

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

Watch List Watch list loans usually require more than normal management attention. Loans which qualify for the 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 bank is currently protected and loss is unlikely. They have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the Bank 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 Bank 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 Bank 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.

Impaired Loans are classified as Impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This generally includes all loans classified as non-accrual and troubled debt restructurings.

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The following table summarizes our internal risk grouping by loan class as of March 31, 2011, December 31, 2010 and March 31, 2010 for non-covered, held-for-investment loans:

Credit Quality Indicators

As of March 31, 2011, December 31, 2010 and March 31, 2010

(Amounts in Thousands)

Credit Risk Profile by Internally Assigned Grade

	March 31, 2011					
	Pass	Watch List	Special Mention	Sub-Standard	Doubtful & Loss	Total
Commercial & Industrial	$ 310,233	$ 76,268	$ 37,395	$ 32,996	$ 33	$ 456,925
Construction Speculative	796	8,251	24,522	57,824		91,393
Construction Non-Speculative	606	3,784	2,005	11,752		18,147
Commercial Real Estate Owner-Occupied	367,139	105,493	93,386	134,839		700,857
Commercial Real Estate Non-Owner-Occupied	862,262	208,533	74,732	120,205		1,265,732
Residential Real Estate (SFR 1-4)	175,636	11,926	701	17,320		205,583
Dairy & Livestock	911	2,164	123,034	198,943		325,052
Municipal Lease Finance Receivables	85,275	13,515	13,559	10,073		122,422
Consumer	42,841	3,854	2,707	2,332	84	51,818
Auto & Equipment Leases	10,818	3,426	893	2,262		17,399
Total Non-covered Loans	1,856,517	437,214	372,934	588,546	117	3,255,328
Covered Loans	130,726	47,967	29,108	238,367	708	446,876
Total Gross Loans	$ 1,987,243	$ 485,181	$ 402,042	$ 826,913	$ 825	$ 3,702,204

	December 31, 2010					
	Pass	Watch List	Special Mention	Sub-Standard	Doubtful & Loss	Total
Commercial & Industrial	$ 311,303	$ 80,306	$ 35,670	$ 34,741	$ 65	$ 462,085
Construction Speculative	428	16,022	24,773	78,672		119,895
Construction Non-Speculative	3,168	3,422	2,346	10,149		19,085
Commercial Real Estate Owner-Occupied	369,974	98,295	32,647	49,676		550,592
Commercial Real Estate Non-Owner-Occupied	853,581	209,185	123,912	242,986		1,429,664

Residential Real Estate (SFR 1-4)	190,022	11,002	801	16,642		218,467
Dairy & Livestock	4,373	4,917	152,891	213,962		376,143
Municipal Lease Finance Receivables	92,064	11,540	21,746	3,202		128,552
Consumer	47,927	4,885	2,367	1,484	84	56,747
Auto & Equipment Leases	10,925	3,450	1,122	2,483	2	17,982
Total Non-covered Loans	1,883,765	443,024	398,275	653,997	151	3,379,212
Covered Loans	139,038	59,996	42,147	247,407	187	488,775
Total Gross Loans	$ 2,022,803	$ 503,020	$ 440,422	$ 901,404	$ 338	$ 3,867,987

	March 31, 2010					
	Pass	Watch List	Special Mention	Sub-Standard	Doubtful	Total
Commercial & Industrial	$ 271,512	$ 81,143	$ 26,942	$ 28,957	$	$ 408,554
Construction Non-Speculative	8,115	7,175		10,405		25,695
Construction Speculative	1,473	36,038	33,372	124,342	210	195,435
Commercial Real Estate Owner-Occupied	423,664	122,620	59,070	135,529		740,883
Commercial Real Estate Non-Owner-Occupied	872,029	174,892	53,297	153,321		1,253,539
Residential Real Estate (SFR 1-4)	227,821	9,343	734	15,412		253,310
Dairy & Livestock	13,414	79,745	121,602	176,907		391,668
Municipal Lease Finance Receivables	127,955	11,662	12,949	2,945		155,511
Consumer	52,491	5,162	3,223	1,603		62,479
Auto & Equipment Leases	16,736	3,933	3,198	3,679		27,546
Total Non-covered Loans	2,015,210	531,713	314,387	653,100	210	3,514,620
Covered Loans	215,101	47,780	41,291	298,209		602,381
Total Gross Loans	$ 2,230,311	$ 579,493	$ 355,678	$ 951,309	$ 210	$ 4,117,001

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Non-covered Impaired Loans

The following table presents held-for-investment and held-for-sale loans, individually evaluated for impairment by class of loans, as of March 31, 2011, December 31, 2010 and March 31, 2010:

Non-Covered Impaired Loans

As of March 31, 2011, December 31, 2010 and March 31, 2010

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2011					
With no related allowance recorded:					
Commercial & Industrial	$ 7,574	$ 8,691	$	$ 8,657	$ 52
Construction Speculative	34,656	56,431		39,521	
Construction Non-Speculative	9,320	10,149		9,396	
Commercial Real Estate Owner-Occupied	1,511	1,721		1,648	
Commercial Real Estate Non-Owner-Occupied	39,880	48,014		40,138	131
Residential Real Estate (SFR 1-4)	17,327	20,370		17,816	8
Dairy & Livestock	2,996	5,777		4,654	
Municipal Lease Finance Receivables					
Consumer					
Auto & Equipment Leases					
	113,264	151,153		121,830	191
With a related allowance recorded:					
Commercial & Industrial	$ 2,562	$ 2,601	$ 364	$ 2,853	$
Construction Speculative					
Construction Non-Speculative					
Commercial Real Estate Owner-Occupied					
Commercial Real Estate Non-Owner-Occupied	1,647	1,655	717	1,661	
Residential Real Estate (SFR 1-4)	2,342	2,446	168	2,351	
Dairy & Livestock					
Municipal Lease Finance Receivables					
Consumer	259	265	37	260	
Auto & Equipment Leases	1	1		2	
	6,811	6,968	1,286	7,127	
Total	$ 120,075	$ 158,121	$ 1,286	$ 128,957	$ 191
December 31, 2010					
With no related allowance recorded:					
Commercial & Industrial	$ 9,060	$ 9,600	$	$ 9,972	$ 339
Construction Speculative	47,328	65,121		56,610	
Construction Non-Speculative	9,473	10,149		9,777	
Commercial Real Estate Owner-Occupied	4,528	4,528		4,541	

Commercial Real Estate					
Non-Owner-Occupied	66,856	103,010		93,807	498
Residential Real Estate (SFR 1-4)	13,766	16,285		14,556	
Dairy & Livestock	5,207	5,780		6,334	
Municipal Lease Finance Receivables					
Consumer	334	334		336	
Auto & Equipment Leases					
	156,552	214,807		195,933	837
With a related allowance recorded:					
Commercial & Industrial	$ 344	$ 352	$ 50	$ 371	$
Construction Speculative	7,880	12,588	3,300	8,966	
Construction Non-Speculative					
Commercial Real Estate Owner-Occupied	929	929	136	934	
Commercial Real Estate					
Non-Owner-Occupied	303	311	25	308	
Residential Real Estate (SFR 1-4)	4,034	4,086	520	4,067	
Dairy & Livestock					
Municipal Lease Finance Receivables					
Consumer	203	205	21	207	
Auto & Equipment Leases	49	49	7	77	
	13,742	18,520	4,059	14,930	
Total	$ 170,294	$ 233,327	$ 4,059	$ 210,863	$ 837
March 31, 2010					
With no related allowance recorded:					
Commercial & Industrial	$ 4,370	$ 6,890	$	$ 6,451	$
Construction Speculative	33,494	46,074		37,034	125
Construction Non-Speculative	9,929	10,149		10,005	
Commercial Real Estate Owner-Occupied	500	500		500	
Commercial Real Estate					
Non-Owner-Occupied	19,817	21,135		20,654	
Residential Real Estate (SFR 1-4)	9,967	10,897		10,343	
Dairy & Livestock					
Municipal Lease Finance Receivables					
Consumer	40	100		85	
Auto & Equipment Leases					
	78,117	95,745		85,072	125
With a related allowance recorded:					
Commercial & Industrial	$ 2,023	$ 2,031	$ 225	$ 2,028	$
Construction Speculative	125	127	7	125	
Construction Non-Speculative					
Commercial Real Estate Owner-Occupied	1,406	1,404	582	1,408	
	318	323	36	320	

Commercial Real Estate					
Non-Owner-Occupied					
Residential Real Estate (SFR 1-4)	3,759	3,794	741	3,786	
Dairy & Livestock					
Municipal Lease Finance Receivables					
Consumer	83	83	12	83	
Auto & Equipment Leases	486	486	61	497	
	8,200	8,248	1,664	8,247	
Total	$ 86,317	$ 103,993	$ 1,664	$ 93,319	$ 125

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Loans with no related allowance reported generally represent non-accrual loans. The Bank recognizes the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the majority of the non-accrual loans as of March 31, 2011 have already been written-down to their estimated net realizable value. The impaired loans with a related allowance recorded are on non-accrual loans where a charge-off is not yet processed, on non-accrual SFR loans where there is a potential modification in process, on smaller balance non-collateral dependent loans and impairment reserves on performing restructured loans.

At March 31, 2011 and December 31, 2010, impaired loans of $11.9 million and $13.3 million 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, is performing according to the modified terms and the restructured loan is well secured.

5. FAIR VALUE INFORMATION

The following disclosure provides fair value information for financial assets and liabilities as of March 31, 2011 and December 31, 2010. 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.

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 The carrying amount of cash and cash equivalents is considered to be a reasonable estimate of fair value.

Investment securities available-for-sale Investment securities available-for-sale are valued based upon quotes obtained from reputable third-party pricing services. These services use evaluated pricing applications and model processes. 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. Accordingly, the Company categorized its investment portfolio as a Level 2 valuation.

Investment security held-to-maturity Investment security held-to-maturity is carried at amortized cost-basis on the balance sheet. The fair value is determined using the same process described above for available-for-sale securities.

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 non-accrual 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.

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. 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 fall within Level 3 of the fair value hierarchy.

The fair value of commitments to extend credit and standby letters of credit were not significant at either March 31, 2011 or December 31, 2010, as these instruments predominantly have adjustable terms and are of a short-term nature.

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 the demand note to the U.S. Treasury, and short-term borrowings are considered to be stated at 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.

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 be stated at fair value.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010.

Assets & Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)	Carrying Value at March 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				
Mortgage-backed securities	$ 892,495	$	$ 892,495	$
CMO s / REMIC s	418,887		418,887	
Government agency	85,970		85,970	
Municipal bonds	620,176		620,176	
Investment Securities-AFS	2,017,528		2,017,528	
Interest Rate Swaps	5,847		5,847	
Total Assets	$ 2,023,375	$	$ 2,023,375	$
Description of Liability				
Interest Rate Swaps	$ 5,847	$	$ 5,847	$

Assets & Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)	Carrying Value at December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description of Assets				
Mortgage-backed securities	$ 808,409	$	$ 808,409	$
CMO s / REMIC s	270,477		270,477	
Government agency	106,273		106,273	
Municipal bonds	606,399		606,399	
Investment Securities-AFS	1,791,558		1,791,558	
Interest Rate Swaps	9,127		9,127	
Total Assets	$ 1,800,685	$	$ 1,800,685	$

Description of Liability				
Interest Rate Swaps	$ 9,127	$	$ 9,127	$

We may be required to measure certain assets at fair value on a nonrecurring 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 nonrecurring basis that were still held in the balance sheet at March 31, 2011 and December 31, 2010, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets.

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

(in thousands)	Carrying Value at March 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 three months ended March 31, 2011 Total Losses	
Description of Assets								
Investment Security-HTM	$	3,039	$	$	$	3,039	$	
Impaired Loans-Noncovered	$	120,075	$	$	$	120,075	$	(11,644)
OREO-Noncovered	$	6,240	$	$	$	6,240	$	(18)
OREO-Covered	$	11,490	$	$	$	11,490	$	(802)

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

(in thousands)	Carrying Value at December 31, 2010		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, 2010 Total Losses	
Description of Assets								
Investment Security-HTM	$	3,143	$	$	$	3,143	$	(904)
Impaired Loans-Noncovered	$	170,294	$	$	$	170,294	$	(65,524)
OREO-Noncovered	$	5,290	$	$	$	5,290	$	(4,578)
OREO-Covered	$	11,305	$	$	$	11,305	$	(2,912)

The following table presents estimated fair value of financial instruments. The estimated fair value amounts have been determined by the Bank 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 Bank could have realized in a current market exchange as of March 31, 2011 and December 31, 2010. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(amounts in thousands)			
Assets				
Total cash and cash equivalents	$ 399,060	$ 399,060	$ 404,275	$ 404,275
Interest-bearing balances due from depository institutions	50,190	50,190	50,190	50,190
FHLB Stock	83,310	83,310	86,744	86,744
Investment securities available-for-sale	2,017,528	2,017,528	1,791,558	1,791,558

Investment securities held-to-maturity	3,039	3,039	3,143	3,143
Loans held-for-sale	3,505	3,505	2,954	2,954
Total Loans, net of allowance for credit losses	3,497,380	3,559,924	3,642,481	3,729,296
Accrued interest receivable	23,263	23,263	23,647	23,647
Swaps	5,847	5,847	9,127	9,127
Liabilities				
Deposits:				
Noninterest-bearing	$ 1,817,951	$ 1,817,951	$ 1,701,523	$ 1,701,523
Interest-bearing	2,667,738	2,668,688	2,817,305	2,818,390
Demand note to U.S. Treasury	2,966	2,966	1,917	1,917
Borrowings	1,131,467	1,161,575	1,095,578	1,128,562
Junior subordinated debentures	115,055	115,803	115,055	115,823
Accrued interest payable	4,626	4,626	4,985	4,985
Swaps	5,847	5,847	9,127	9,127

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2011 and December 31, 2010. 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.

6. BUSINESS SEGMENTS

The Company has identified two principal reportable segments: Business Financial and Commercial Banking Centers and the Treasury Department. The Company s subsidiary bank has 43 Business Financial Centers and 5 Commercial Banking Centers (branches), organized in 5 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. The Bank s 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. Accounting principles generally accepted in the United States of America do 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 consolidated Company and identified in the footnote on the summary of significant accounting policies. 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 Business Financial and Commercial Banking Centers category are the actual loan fees paid to the Bank by its customers. These fees are eliminated and deferred in the Other category, resulting in deferred loan fees for the 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 reportable segments for the three months ended March 31, 2011 and 2010 (dollar amounts in thousands):

	Three Months Ended March 31, 2011				
	Business Financial Centers	**Treasury**	**Other**	**Eliminations**	**Total**
Interest income, including loan fees	$ 39,439	$ 15,221	$ 11,852	$	**$ 66,512**
Credit for funds provided (1)	6,026		2,688	(8,714)	
Total interest income	45,465	15,221	14,540	(8,714)	**66,512**
Interest expense	3,268	5,291	844		**9,403**
Charge for funds used (1)	1,286	8,302	(874)	(8,714)	
Total interest expense	4,554	13,593	(30)	(8,714)	**9,403**
Net interest income	40,911	1,628	14,570		**57,109**
Provision for credit losses			7,068		**7,068**
Net interest income after provision for credit losses	$ 40,911	$ 1,628	$ 7,502	$	**$ 50,041**
Non-interest income	5,212		4,766		**9,978**
Non-interest expense	12,631	216	23,458		**36,305**
Segment pretax profit (loss)	$ 33,492	$ 1,412	$ (11,190)	$	**$ 23,714**
Segment assets as of March 31, 2011	$ 4,903,546	$ 2,540,188	$ 724,182	$ (1,669,564)	**$ 6,498,352**

	Three Months Ended March 31, 2010				
	Business Financial Centers	**Treasury**	**Other**	**Eliminations**	**Total**
Interest income, including loan fees	$ 42,752	$ 22,804	$ 24,996	$	**$ 90,552**
Credit for funds provided (1)	16,823		7,016	(23,839)	

Total interest income	59,575	22,804	32,012	(23,839)	**90,552**
Interest expense	6,636	9,907	670		**17,213**
Charge for funds used (1)	3,521	8,856	11,462	(23,839)	
Total interest expense	10,157	18,763	12,132	(23,839)	**17,213**
Net interest income	49,418	4,041	19,880		**73,339**
Provision for credit losses			12,200		**12,200**
Net interest income after provision for credit losses	$ 49,418	$ 4,041	$ 7,680	$	**$ 61,139**
Non-interest income	5,604	(685)	(7,130)		**(2,211)**
Non-interest expense	13,132	380	22,410		**35,922**
Segment pretax profit (loss)	$ 41,890	$ 2,976	$ (21,860)	$	**$ 23,006**
Segment assets as of March 31, 2010	$ 4,825,482	$ 2,476,423	$ 769,487	$ (1,282,740)	**$ 6,788,652**

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

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are market risk and interest rate risk. As of March 31, 2011, the Bank entered into 57 interest-rate swap agreements with customers and 57 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 market value of the swaps primarily offset each other and therefore do not have a significant impact on the Company s results of operations.

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As of March 31, 2011, the total notional amount of the Bank s swaps was $173.6 million. The following tables present the location of the asset and liability and the amount of gain recognized as of and for the three months ended March 31, 2011.

Fair Value of Derivative Instruments

	Asset Derivatives March 31, 2011		**Liability Derivatives** March 31, 2011	
	(amounts in thousands)			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments				
Interest Rate Swaps	Other Assets	$ 5,847	Other Liabilities	$ 5,847
Total Derivatives		$ 5,847		$ 5,847

The Effect of Derivative Instruments on the Consolidated Statement of Earnings for three months ended March 31, 2011

(amounts in thousands)

Derivatives Not Designated as Hedging Instruments	**Location of Gain Recognized in Income on Derivative**	**Amount of Gain Recognized in Income on Derivative March 31, 2011**
Interest Rate Swaps	Other Income	$ 101
Total		$ 101

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

OVERVIEW

We are a bank holding company with one bank subsidiary, Citizens Business Bank. We have three other inactive subsidiaries: CVB Ventures, Inc.; Chino Valley Bancorp and ONB Bancorp. We are also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II and CVB Statutory Trust III, statutory trusts which were formed to issue trust preferred securities in order to increase the capital of the Company. Through our acquisition of FCB in June 2007, we acquired FCB Capital Trust II, another statutory trust. We are headquartered in Ontario, California in what is known as the Inland Empire of California. Our geographical market area encompasses the City of Stockton in the center of California to the City of Laguna Beach (in Orange County) in the southern portion of California. Our mission is to offer the finest financial products and services to professionals and businesses in our market area while maintaining a strong capital base and prudent loan loss reserves. We intend to grow our business through targeted efforts at our existing customers and by attracting new associates who bring customer relationships with them and acquisitions.

Our primary source of income is from the interest earned on our loans and investments and our primary area of expense is the interest paid on deposits, borrowings, and salaries and benefits. As such our net income is subject to fluctuations in interest rates and their impact on our income statement. We are also subject to competition from other financial institutions, which may affect our pricing of products and services, and the fees and interest rates we can charge on them.

Economic conditions in our California service area impact our business. We have seen a significant decline in the housing market resulting in slower growth in construction loans. Unemployment is high in our market areas and areas of our marketplace have been significantly impacted by adverse economic conditions, both nationally and in California. Approximately 17.6% of our total loan portfolio of $3.60 billion is located in the Inland Empire region of California. The balance of the portfolio is from outside of this region. We continue to see the impact of deteriorating economic conditions on our loan portfolio. Continued weaknesses in the local and state economy could adversely affect us through diminished loan demand, credit quality deterioration, and increases in provisions for credit losses, loan delinquencies and defaults.

Over the past few years, we have been active in acquisitions and we will continue to consider acquisition targets, including FDIC-assisted acquisitions, which will enable us to meet our business objectives and enhance shareholder value, along with organic growth. Since 2000, we have acquired five banks and a leasing company, and we have opened four de novo branches: Bakersfield, Fresno, Madera and Stockton, California. We also opened five Commercial Banking Centers since 2008.

Our net income increased to $16.6 million for the first three months of 2011 compared with $16.1 million for the first three months of 2010, an increase of $481,000 million, or 2.98%. Diluted earnings per share increased to $0.16 per share for 2011, from $0.15 per share for 2010. Operating results for the first three months of 2011 include a $7.1 million provision for credit losses, $2.0 million in interest income from accelerated accretion on loans from our FDIC assisted acquisition of San Joaquin Bank (SJB), and $1.4 million in income from the increase in the FDIC loss sharing asset.

During the first quarter of 2011, the Bank sold six of seven notes previously held in connection with its former largest borrowing relationship. The six notes, with a bank carrying value of $42.9 million (and a legal principal balance of $78.1 million), were sold for $41.0 million, resulting in a $1.9 million charge-off.

The operating results for the first quarter 2011 were impacted by the accounting treatment of credit-related transactions from the SJB loan portfolio. For further discussion, see Analysis of the Results of Operations section of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that our most critical accounting estimates upon which our financial condition depends, and which involve the most complex or subjective decisions or assessments are as follows:

Allowance for Credit Losses: Arriving at an appropriate level of allowance for credit losses involves a high degree of judgment. Our allowance for credit losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio. 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 our judgment, is adequate 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 as deserve current recognition in estimating inherent credit losses. The provision for credit losses is charged to expense. For a full discussion of our methodology of assessing the adequacy of the allowance for credit losses, see the Risk Management section of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Investment Portfolio: The investment portfolio is an integral part of our financial performance. We invest primarily in fixed income securities. Accounting estimates are used in the presentation of the investment portfolio and these estimates do impact the presentation of our financial condition and results of operations. We classify securities as held-to-maturity those debt securities that we have 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 holding gains and losses being included in current earnings. Securities available-for-sale 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. At each reporting date, securities are assessed to determine whether there is an other-than-temporary impairment. Such impairment, if any, is required to be recognized in current earnings rather than as a separate component of stockholders equity. Realized gains and losses on sales of securities are recognized in earnings at the time of sale and are determined on a specific-identification basis. Purchase premiums and discounts are recognized in interest income using the effective-yield method over the terms of the securities. Our investment in Federal Home Loan Bank (FHLB) stock is carried at cost.

Income Taxes: We account for income taxes using the asset and liability method by deferring income taxes based on estimated future tax effects of differences between the tax and book basis of assets and liabilities considering the provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included in our balance sheets. We must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and establish a valuation allowance for those assets determined to not likely be recoverable. Our judgment is required in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. Although we have determined a valuation allowance is not required for any of our deferred tax assets, there is no guarantee that these assets are recoverable.

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

FDIC Loss Sharing Asset: In conjunction with the FDIC-assisted acquisition of San Joaquin Bank, the Company entered into a shared-loss agreement with the FDIC for amounts receivable under the shared-loss agreement. At the date of the acquisition the Company elected to account for amounts receivable under the shared-loss agreement as a loss sharing asset in accordance with ASC 805. Subsequent to the acquisition the loss sharing asset is adjusted for payments received and changes in estimates of expected losses and is not being accounted for under fair value. The loss estimates used in calculating the FDIC loss sharing asset are determined on the same basis as the related covered loans and is the present value of the cash flows the Company expects to collect from the FDIC under the shared-loss agreement. The difference between the present value and the undiscounted cash flow the Company expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset is adjusted for any changes in expected cash flows based on the loan performance. Any increases in cash flow of the loans over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the loans over those expected will increase the FDIC indemnification asset. Increase and decreases to the FDIC indemnification asset are recorded as adjustments to other operating income.

Other Real Estate Owned: Other real estate owned (OREO) represents properties acquired through foreclosure or through full or partial satisfaction of loans, is considered held for sale, and is recorded at the lower of cost or estimated fair value at the time of foreclosure. Loan balances in excess of fair value of the real estate acquired at the date of foreclosure are charged against the allowance for credit losses. After foreclosure, valuations are periodically performed as deemed necessary by management and the real estate is carried at the lower of carrying value or fair value less costs to sell. Subsequent declines in the fair value of the OREO below the carrying value are recorded through the use of a valuation allowance by charges to other operating expense. Any subsequent operating expenses or income of such properties are charged to other operating expense or income, respectively. Any declines in value after foreclosure are recorded as OREO expense. Revenue recognition upon disposition of a property is dependent on the sale having met certain criteria relating to the buyer s initial investment in the property sold.

The Bank is able and willing to provide financing for entities purchasing loans or OREO assets from the Bank. Our general guideline is to seek an adequate down payment (as a percentage of the purchase price) from the buyer. We will consider lower down payments when this is not possible; however, accounting rules require certain minimum down payments in order to record the profit on sale, if any. The minimum down payment varies by the type of underlying real estate collateral.

Goodwill and Intangible Assets: We have acquired entire banks and branches of banks. Those acquisitions accounted for under the purchase method of accounting have given rise to goodwill and intangible assets. We record the assets acquired and liabilities assumed at their fair value. These fair values are arrived at by use of internal and external valuation techniques. The excess purchase price is allocated to assets and liabilities respectively, resulting in identified intangibles. Any excess purchase price after this allocation results in goodwill. Goodwill is not being amortized whereas identifiable intangible assets with finite lives are amortized over their useful lives. On an annual basis, the Company tests goodwill and intangible assets for impairment.

Acquired Loans: Loans acquired from SJB were recorded at fair value as of the acquisition date. In estimating the fair value, the portfolio was segregated into two groups: credit-impaired covered loans and other covered loans. Credit-impaired loans are those loans showing evidence of credit deterioration since origination and it is probable, at the date of acquisition, that the Company will not collect all contractually required principal and interest payments. For the credit-impaired loans, the fair value was estimated by using observable market data for similar types of loans. For the other covered loans, the fair value was estimated by calculating the undiscounted expected cash flows based on estimated levels of prepayments, default factors, and loss severities and discounting the expected cash flows at a market rate. Significant estimates are used in calculating the fair value of acquired loans; as a result, actual results may be different than estimates.

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 write-downs of individual assets. Further, we include in the Notes to 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.

ANALYSIS OF THE RESULTS OF OPERATIONS

Earnings

For the quarter ended March 31, 2011, our net earnings were $16.6 million. This represents an increase of $481,000, or 2.98%, from net earnings of $16.1 million for the first quarter of 2010. Basic and diluted earnings per common share increased to $0.16 per share for the first quarter of 2011 compared to $0.15 per share for the first quarter of 2010. The annualized return on average assets was 1.03% and 0.96% for the first quarter of 2011 and 2010, respectively. The annualized return on average equity was 10.33% and 10.07% for the first quarter of 2011 and 2010, respectively.

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 economy, in general, and the local economies in which we conduct business. Our ability to manage the net interest income during changing interest rate environments will have a significant impact on our overall performance. We manage net interest income by 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.

For the first quarter ended March 31, 2011, our net interest income, before provision for credit losses, totaled $57.1 million. This represented a decrease of $16.2 million, or 22.13%, over net interest income of $73.3 million for the same period in 2010. The decrease in net interest income was due to a decrease in interest expense of $7.8 million offset by a decrease in interest income of $24.0 million.

Interest income totaled $66.5 million for the first quarter of 2011. This represented a decrease of $24.0 million, or 26.55%, compared to total interest income of $90.6 million for the same period last year. Interest income on loans decreased by $16.5 million for the first quarter of 2011 compared to the same period last year. Included in first quarter of 2011 interest income is $1.9 million discount accretion on covered loans acquired from SJB, compared to $13.4 million for the first quarter of 2010. Interest income on investment securities also decreased by $7.9 million for the first quarter of 2011 compared to the same period last year.

Interest expense totaled $9.4 million for the first quarter of 2011. This represented a decrease of $7.8 million or 45.37%, from total interest expense of $17.2 million for the same period last year. The decrease in interest expense was due to the decrease in average borrowings of $406.0 million, or 26.35%. The average rate paid on interest-bearing liabilities decreased to 0.94% for the first quarter ending March 31, 2011 from 1.52% for the same period in 2010 or 58 basis points. The average cost of deposits decreased to 0.25% for the first quarter ending March 31, 2011 from 0.48% for the same period in 2010, or 23 basis points.

Table 1 shows the average balances of assets, liabilities, and stockholders equity and the related interest income, expense, and yields/rates for the three-month periods ended March 31, 2011 and 2010. Yields for tax-preferenced investments are shown on a taxable equivalent basis using a 35% tax rate.

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TABLE 1 Distribution of Average Assets, Liabilities, and Stockholders Equity; Interest Rates and Interest Differentials

	Three-month period ended March 31, 2011			2010		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(dollar amounts in thousands)					
ASSETS						
Investment Securities						
Taxable	$ 1,249,471	$ 8,839	2.84%	$ 1,428,338	$ 16,084	4.50%
Tax preferenced (1)	609,993	5,919	5.50%	659,980	6,532	5.59%
Investment in FHLB stock	86,591	65	0.30%	97,582	66	0.27%
Federal Funds Sold & Interest Bearing Deposits with other institutions (5)	431,439	374	0.35%	181,421	102	0.22%
Loans HFS	3,460	20	2.34%	2,143	18	3.41%
Loans (2) (3)	3,791,540	49,344	5.28%	4,200,708	54,372	5.25%
Yield adjustment to interest income from discount accretion	(112,953)	1,951		(188,812)	13,378	
Total Earning Assets (5)	6,059,541	66,512	4.60%	6,381,360	90,552	5.90%
Total Non Earning Assets	462,025			456,367		
Total Assets	$ 6,521,566			$ 6,837,727		
LIABILITIES AND STOCKHOLDERS EQUITY						
Savings Deposits (4)	$ 1,745,660	$ 1,636	0.38%	$ 1,664,774	$ 2,730	0.67%
Time Deposits	1,027,962	1,152	0.45%	1,240,528	2,558	0.84%
Total Deposits	2,773,622	2,788	0.41%	2,905,302	5,288	0.74%
Other Borrowings	1,249,571	6,615	2.12%	1,655,551	11,925	2.88%
Interest Bearing Liabilities	4,023,193	9,403	0.94%	4,560,853	17,213	1.52%
Non-interest bearing deposits	1,790,839			1,574,633		
Other Liabilities	55,690			53,150		
Stockholders Equity	651,844			649,091		
Total Liabilities and Stockholders Equity	$ 6,521,566			$ 6,837,727		
Net interest income		$ 57,109			$ 73,339	
Net interest income excluding discount		55,158			59,961	

Net interest spread tax equivalent	3.66%	4.38%
Net interest spread tax equivalent excluding discount	3.45%	3.39%
Net interest margin	3.82%	4.65%
Net interest margin tax equivalent	3.98%	4.82%
Net interest margin tax equivalent excluding discount	3.78%	3.86%
Net interest margin excluding loan fees	3.78%	4.60%
Net interest margin excluding loan fees tax equivalent	3.94%	4.77%

(1) Non tax-equivalent rate was 3.17% for 2011, 4.33% for 2010

(2) Loan fees are included in total interest income as follows, (000)s omitted: 2011, $524; 2010, $752

(3) Non-performing, non-covered loans are included in net loans as follows: 2011, $108.2 million; 2010, $76.8 million (4) Includes interest bearing demand and money market accounts

(5) For the three month periods ended March 31, 2011 through September 30, 2009, Federal Funds Sold and Interest Bearing Deposits with Other Institutions as well as Total Earning Assets were revised to include the average amount of the interest bearing balances due from the Federal Reserve. As a result, all previously reported net interest spread and net interest margin ratios were revised as follows:

	Net Interest Spread (TE)		Net Interest Margin (TE)		Net Interest Margin (TE) excluding discount	
	Prior	Revised	Prior	Revised	Prior	Revised
Three months ended 03/31/11	3.66%	3.66%	3.98%	3.98%	3.78%	3.78%
Three months ended 12/31/10	3.92%	3.68%	4.24%	4.03%	3.84%	3.66%
Three months ended 09/30/10	3.98%	3.72%	4.32%	4.11%	3.92%	3.73%
Three months ended 06/30/10	4.03%	3.76%	4.39%	4.18%	3.99%	3.80%
Three months ended 03/31/10	4.54%	4.38%	4.95%	4.82%	3.96%	3.86%
Three months ended 12/31/09	3.28%	3.18%	3.80%	3.73%	3.80%	3.73%
Three months ended 09/30/09	3.22%	3.17%	3.75%	3.72%	3.75%	3.72%

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 for the first quarter of 2011 was 3.98%, compared to 4.82% for the first quarter of 2010. The decrease in the net interest margin over the same period last year is primarily the result of changes in the mix of assets and liabilities as discussed in the following paragraphs plus $11.4 million decrease in discount accretion on covered SJB loans which impacted interest income on loans. Generally, our net interest margin improves in a decreasing interest rate environment as our deposits and borrowings reprice much faster than our loans and securities.

The net interest spread is the difference between the yield on average earning assets and the cost of average interest-bearing liabilities. The net interest spread is an indication of our ability to manage rates received on loans and investments and rates paid on deposits and borrowings in a competitive and changing interest rate environment. For the first quarter of 2011, the Company s net interest spread (TE) was 3.66% as compared to 4.38% for the same period last year. The decrease in net interest spread for the first quarter ended March 31, 2011 resulted from a 130 basis point decrease in yield on earning assets and a 58 basis point decrease in the cost of interest-bearing liabilities, thus generating a 72 basis point decrease in the net interest spread from the same period last year.

The net interest spread was negatively impacted by the $11.4 million decrease in discount accretion on covered SJB loans recognized as a yield adjustment to interest income.

For the first quarter of 2011, the yield (TE) on earning assets decreased to 4.60%, from 5.90% for the same period last year. The cost of average interest-bearing liabilities decreased to 0.94% for the first quarter of 2011 as compared to 1.52% for the same period in 2010. The changes reflect the decreasing interest rate environment and change in mix of earning assets and interest-bearing liabilities, reflecting similar trends as described above.

Table 2 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 both interest rate and volume changes are calculated by multiplying the change in rate times the change in volume.

TABLE 2 Rate and Volume Analysis for Changes in Interest Income, Interest Expense and Net Interest Income

	Comparison of three months ended March 31, 2011 Compared to 2010 Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total
	(amounts in thousands)			
Interest Income:				
Taxable investment securities	$ (2,070)	$ (5,928)	$ 753	$ (7,245)
Tax-advantaged securities	(699)	66	20	(613)
Fed funds sold & interest-bearing deposits with other institutions	138	59	75	272
Investment in FHLB stock	(7)	7	(1)	(1)
Loans HFS	11	(6)	(3)	2
Loans	(5,297)	311	(42)	(5,028)
Yield adjustment to interest income from discount accretion	(5,376)	(10,117)	4,066	(11,427)
Total interest on earning assets	(13,300)	(15,608)	4,868	(24,040)
Interest Expense:				
Savings deposits	134	(1,190)	(38)	(1,094)
Time deposits	(440)	(1,193)	227	(1,406)
Other borrowings	(2,923)	(3,146)	759	(5,310)
Total interest on interest-bearing liabilities	(3,229)	(5,529)	948	(7,810)

Net Interest Income	$	(10,071)	$	(10,079)	$	3,920	$	(16,230)

Interest and Fees on Loans

Our major source of revenue and primary component of interest income is interest and fees on loans. Interest and fees on loans totaled $51.3 million for the first three months of 2011. This represented a decrease of $16.5 million, or 24.28%, from interest and fees on loans of $67.8 million for the same period in 2010. The decrease in interest on loans was primarily due to a decrease in the average loans outstanding, and a decrease in accelerated discount accretion on covered loans acquired from SJB. Average loans decreased $333.3 million, or 8.31%, from $4.01 billion for the first three months of 2010 to $3.68 billion for the first three months of 2011. In addition, the discount accretion on covered loans acquired from SJB was $2.0 million in the first quarter of 2011 compared to $13.4 million for the same period in 2010. This amount represents the discount recognized from accelerated principal payments on SJB loans. It is recorded as a yield adjustment to interest income. As a result, the yield on loans decreased to 5.65% for the first three months of 2011, compared to 6.85% for the same period in 2010.

In general, we stop accruing interest on a loan after its principal or interest becomes 90 days or more past due. When a loan is placed on nonaccrual, all interest previously accrued but not collected is charged against earnings. There was no interest income that was accrued and not reversed on non-performing non-covered loans at March 31, 2011 and 2010.

Fees collected on loans are an integral part of the loan pricing decision. Loan fees and the direct costs associated with the origination of loans are deferred and deducted from the loan balance. Deferred net loan fees are recognized in interest income over the term of the loan using the effective-yield method. We recognized loan fee income of $524,000 for the first three months of 2011, as compared to $752,000 for the same period in 2010, a decrease of $228,000 or 30.40%.

Interest on Investments

The second most important component of interest income is interest on investments, which totaled $14.8 million for the first three months of 2011. This represented a decrease of $7.9 million, or 34.74%, from interest on investments of $22.6 million for the same period in 2010. The decrease in interest on investments for the three months of 2011 from the same period last year was the result of a decrease in yield on investments and a decrease in average investments. The interest rate environment and the investment strategies we employ directly affect the yield on the investment portfolio. We continually adjust our investment strategies in response to the changing interest rate environment in order to maximize the rate of total return consistent within prudent risk parameters, and to minimize the overall interest rate risk of the Company. The total yield (TE) on investments decreased to 3.72% for the first three months of 2011 compared to 4.85% for the first three months of 2010. Average investment balances for the first three months for 2011 decreased $228.9 million, or 10.96% from the same period last year.

Interest on Deposits

For the first quarter of 2011, interest on deposits totaled $2.8 million. This represented a decrease of $2.5 million, or 47.28%, from interest on deposits of $5.3 million for the same period in 2010. The decrease is due to the decrease in interest rates on deposits plus a decrease in average interest-bearing deposits of $131.7 million, or 4.53%, from the same period last year. The cost of interest-bearing deposits decreased to 0.41% for the first quarter of 2011 from 0.74% for the first quarter of 2010. The cost of total deposits decreased to 0.25% for the first quarter of 2011 from 0.48% for the first quarter of 2010.

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Interest on Borrowings

For the first quarter of 2011, interest on borrowings totaled $6.6 million. This represented a decrease of $5.3 million, or 44.53%, from interest on borrowings of $11.9 million for the same period of 2010. The decrease is due to the decrease in interest rates paid on borrowings and a decrease in average borrowings. Interest rates on borrowings decreased 76 basis points, from 2.88% for the first quarter of 2010 to 2.12% for the first quarter of 2011. Average borrowings decreased $406.0 million, or 24.52%.

Provision for Credit Losses

We maintain an allowance for inherent credit losses that is increased by a provision for 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 probable credit losses after net charge-offs have been deducted to bring the allowance to an adequate level which, in management s best estimate, is necessary to absorb probable credit losses within the existing loan portfolio.

We made a provision for credit losses of $7.1 million during the first three months of 2011 and $12.2 million during the same period in 2010. We continue to make provisions for credit losses based on historical losses and current economic indicators. We believe the allowance is appropriate as of the end of the period covered by this report. We continually assess the quality of our portfolio to determine whether additional provision for credit losses is necessary. We anticipate future provisions will be required to account for probable credit losses. The ratio of the allowance for credit losses to total non-covered loans as of March 31, 2011 and 2010 was 3.11% and 3.20%, respectively.

No assurance can be given that economic conditions which adversely affect the Company s service areas, past credit loss experience, the characteristics of our loan portfolio or other circumstances will not be reflected in increased provisions for credit losses in the future. The nature of this process requires considerable judgment. Net charge-offs totaled $11.3 million for the first three months of 2011 and $8.8 million during the same period of 2010. See Risk Management Credit Risk herein.

Other Operating Income

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

We reported other operating income of $10.0 million for the first three months of 2011, compared to other operating income of $(2.2) million during the same period of 2010. This represents an increase of $12.2 million, primarily due to a $10.6 million reduction in the FDIC loss sharing asset during the first three months of 2010.

During the first three months of 2011, we reported increases in trust and investment services income and bankcard services income compared to the same period last year. Service charge fee income of $3.7 million for the three months ended March 31, 2011 decreased $541,000, or 12.69%, from service charge fee income of $4.3 million for the same period last year. Trust and investment services income of $2.2 million during the first three months of 2011 increased $34,000, or 1.61%, over trust and investment service income of $2.1 million during the first three months of 2010, and a $1.4 million increase in the FDIC loss sharing asset.

Other Operating Expenses

Other operating expenses for the Company include expenses for salaries and benefits, occupancy, equipment, stationary and supplies, professional services, amortization of intangibles, and other expenses. Other operating expenses totaled $36.3 million for the first three months of 2011. This represents an increase of $383,000 million, or 1.07% over other operating expenses of $35.9 million for the same period in 2010. We also had a decrease in salaries and employee expenses of $413,000, or 2.29%. In addition, professional services expenses were up $803,000, or 28.61%, compared to the same period last year, primarily due to legal expenses related to the management and collection of credit-impaired loans acquired from the acquisition of SJB, the management and collection of CBB legacy non-accrual loans, and legal expenses related to the SEC investigation.

At March 31, 2011, we employed 763 full-time equivalent employees, compared to 740 full-time equivalent employees at March 31, 2010.

For the most part, other operating expenses reflect the direct expenses and related administrative expenses associated with staffing, maintaining, promoting, and operating branch facilities. Our ability to control other operating expenses in relation to asset growth can be measured in terms of other operating expenses as a percentage of average assets. Operating expenses measured as a percentage of average assets was 2.26% and 2.13% for the first three months of 2011 and 2010, respectively.

Our ability to control other operating expenses in relation to the level of net revenue (net interest income after provision for credit losses plus other operating income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. For the first three months of 2011, the efficiency ratio was 60.49%, compared to a ratio of 60.96% for the same period in 2010. The efficiency ratio, before the provision for credit losses, was 54.12% for the first three months of 2011 and 50.50% for the first three months of 2010. The increase in the efficiency ratio was primarily due higher other operating income partially offset by lower net interest income (after provision).

Income Taxes

The Company s effective tax rate for the three months of 2011 was 30.00%, compared to 29.94% for the same period in 2010. The effective tax rates are below the nominal combined Federal and State tax rates as a result of the tax-preferenced income from certain investments and municipal loans/leases as a percentage of total income for each period. The majority of tax preferenced income is derived from municipal securities.

RESULTS BY BUSINESS SEGMENTS

We have two reportable business segments: Business Financial and Commercial Banking Centers, and 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.

Business Financial and Commercial Banking Centers

Key measures we use to evaluate the Business Financial and Commercial Banking Center s performance are included in the following table for the three months ended March 31, 2011 and 2010. The table also provides additional significant segment measures useful to understanding the performance of this segment.

	Three months ended March 31,	
	2011	2010
	(amounts in thousands)	
Key Measures:		
Statement of Operations		
Interest income	$ 45,465	$ 59,575
Interest expense	4,554	10,157
Net Interest Income	$ 40,911	$ 49,418
Non-interest income	5,212	5,604
Non-interest expense	12,631	13,132
Segment pretax profit	$ 33,492	$ 41,890
Balance Sheet		
Average loans	$ 2,698,124	$ 2,857,110
Average interest-bearing deposits and customer repos	$ 3,109,420	$ 3,172,430
Yield on loans	5.93%	6.01%
Rate paid on interest-bearing deposits and customer repos	0.43%	0.85%

(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 three months ended March 31, 2011, segment profit decreased by $8.4 million, or 20.05%, compared to the same period last year. This was primarily due to the decrease in net interest income of $8.5 million, or 17.21%, due to decreases in loan balances. Average loan balances decreased $159.0 million or 5.56%, from the same period last year. This decrease also included a decrease in loan yield of 8 basis points. Rates paid on deposits decreased 42 basis points, while average interest-bearing deposits and customer repos decreased $63.0 million, or 1.99%. Non-interest income decreased by $392,000, or 7.00%, compared to the first three months of 2010. Non-interest expense decreased $501,000, or 3.82%, compared to the same period last year. Certain average loans and deposits in the quarter ended March 31, 2010 were reclassified between segments to be consistent with the quarter ended March 31, 2011 presentation.

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Treasury

Key measures we use to evaluate the Treasury s performance are included in the following table for the three months ended March 31, 2011 and 2010. The table also provides additional significant segment measures useful to understanding the performance of this segment.

	Three months ended March 31,	
	2011	**2010**
	(amounts in thousands)	
Key Measures:		
Statement of Operations		
Interest income	$ 15,221	$ 22,804
Interest expense	13,593	18,763
Net Interest Income	$ 1,628	$ 4,041
Non-interest income (expense)		(685)
Non-interest expense	216	380
Segment pretax profit	$ 1,412	$ 2,976
Balance Sheet		
Average investments	$ 2,377,494	$ 2,367,321
Average interest-bearing deposits	$ 240,001	$ 238,612
Average borrowings	$ 1,134,516	$ 1,540,496
Yield on investments-TE	3.72%	4.85%
Non-tax equivalent yield	3.17%	4.33%
Rate paid on borrowings	2.04%	2.89%

For the quarter ended March 31, 2011, segment profit decreased by $1.6 million over the same period last year. This was primarily due to a decrease in net interest income of $2.4 million, or 59.71%, from $4.0 million as of March 31, 2010. Certain average loans and deposits in the quarter ended March 31, 2010 were reclassified between segments to be consistent with the quarter ended March 31, 2011 presentation.

There are no provisions for credit losses or taxes in the segments as these are accounted for at the corporate level.

Other

	Three months ended March 31,	
	2011	**2010**
	(amounts in thousands)	
Key Measures:		
Statement of Operations		
Interest income	$ 14,540	$ 32,012
Interest (income) expense	(30)	12,132
Net interest income	$ 14,570	$ 19,880
Provision for Credit Losses	7,068	12,200
Non-interest income (expense)	4,766	(7,130)
Non-interest expense	23,458	22,410

Pre-tax loss	$ (11,190)	$ (21,860)
Balance Sheet		
Average loans	$ 983,923	$ 1,156,929
Average interest-bearing deposits and customer repos	$ 522	$ 63,401
Yield on loans	4.89%	8.92%

The Company s administration and other operating departments reported pre-tax loss of $11.2 million for the first three months of 2011. This represents a decrease of pre-tax loss of $10.7 million or 48.81%, from a pre-tax loss of $21.9 million for the same period in 2010. The decrease in pre-tax loss is primarily attributed to a decrease in net interest income of $5.3 million which is primarily due to the $11.4 million decrease in discount accretion on SJB loans plus non-interest expense also increased $1.0 million primarily due to higher legal expenses as discussed above. This was partially offset by increase in non-interest income of $11.9 million which is primarily due to the increase in the FDIC loss sharing asset of $12.0 million. Certain average loans and deposits in the quarter ended March 31, 2010 were reclassified between segments to be consistent with the quarter ended March 31, 2011 presentation.

ANALYSIS OF FINANCIAL CONDITION

The Company reported total assets of $6.50 billion at March 31, 2011. This represented an increase of $61.7 million, or 0.96%, from total assets of $6.44 billion at December 31, 2010. This increase was primarily due to a an increase in investment securities of $225.9 million, partially offset by a decrease in loans of $149.3 million and a $20.3 million decrease in the FDIC loss sharing asset. Earning assets totaled $5.76 billion at March 31, 2011. This represented an increase of $73.7 million, or 1.30%, from total earning assets of $5.68 billion at December 31, 2010, due to an increase in investments partially offset by a decrease in loans. Total liabilities were $5.84 billion at March 31, 2011, an increase of $50.9 million, or 0.88%, over total liabilities of $5.79 billion at December 31, 2010. Total equity increased $10.7 million, or 1.67%, to $654.6 million at March 31, 2011, compared with total equity of $643.9 million at December 31, 2010.

Investment Securities

The Company reported total investment securities of $2.02 billion at March 31, 2011. This represented an increase of $225.9 million, or 12.59%, from total investment securities of $1.79 billion at December 31, 2010. Investment securities comprise 35.10% of the Company s total earning assets at March 31, 2011.

Securities held as available-for-sale are reported at fair value for financial reporting purposes. The related unrealized gains or losses, net of income taxes, are recorded in stockholders equity. At March 31, 2011, securities held as available-for-sale had a fair value of $2.02 billion, representing 99.85% of total investment securities, with an amortized cost of $2.00 billion. At March 31, 2011, the net unrealized holding gain on securities available-for-sale was $15.4 million and that resulted in accumulated other comprehensive income of $8.7 million (net of $6.7 million in deferred taxes). At December 31, 2010, the Company reported net unrealized gain on investment securities available-for-sale of $11.1 million and accumulated other comprehensive income of $6.2 million (net of deferred taxes of $4.9 million).

Table 3 sets forth investment securities available-for-sale at March 31, 2011 and December 31, 2010.

Table 3 Composition of Investment Securities
(amounts in thousands)

	March 31, 2011		December 31, 2010	
	Fair Value	Total Percent	Fair Value	Total Percent
Investment Securities Available-for-Sale:				
Mortgage-backed securities	$ 892,495	44.24%	$ 808,409	45.12%
CMO s / REMIC s	418,887	20.76%	270,477	15.10%
Government agency	85,970	4.26%	106,273	5.93%
Municipal bonds	620,176	30.74%	606,399	33.85%
Total Investment Securities	$ 2,017,528	100.00%	$ 1,791,558	100.00%

The weighted-average yield (TE) on the investment portfolio at March 31, 2011 was 3.72% with a weighted-average life of 4.3 years. This compares to a yield of 3.62% at December 31, 2010 with a weighted-average life of 4.6 years and a yield of 4.85% at March 31, 2010 with a weighted-average life of 4.7 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.

Approximately 69% of the available-for-sale portfolio represents securities issued by the U.S government or U.S. government-sponsored enterprises, which guarantee 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 March 31, 2011 and December 31, 2010.

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

	March 31, 2011					
	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(amounts in thousands)					
Held-To-Maturity						
CMO	$	$	$ 3,039	$ 288	$ 3,039	$ 288
Available-for-Sale						
Government agency	$ 79,440	$ 404	$	$	$ 79,440	$ 404
Mortgage-backed securities	453,643					