

CVB FINANCIAL CORP  
Form 10-Q  
November 09, 2010

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**FORM 10-Q**  
**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D. C. 20549**

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

**For the quarterly period ended September 30, 2010**

or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-10140**

**CVB FINANCIAL CORP.**

(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of incorporation  
or organization)

95-3629339  
(I.R.S. Employer Identification No.)

701 North Haven Ave, Suite 350, Ontario, California  
(Address of Principal Executive Offices)

91764  
(Zip Code)

(Registrant's telephone number, including area code) (909) 980-4030

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares of common stock of the registrant: 105,918,076 outstanding as of November 3, 2010.



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2010 QUARTERLY REPORT ON FORM 10-Q  
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Exhibit 32.1

Exhibit 32.2

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**PART I FINANCIAL INFORMATION (UNAUDITED)**  
**ITEM 1. FINANCIAL STATEMENTS**

|  | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|-------------------------------|------------------------------|
| <b>ASSETS</b>  |                               |                              |
| Cash and due from banks                                    | \$ 195,920                    | \$ 103,254                   |
| Interest-bearing balances due from depository institutions | 100,350                       | 1,226                        |
| Total cash and cash equivalents                            | 296,270                       | 104,480                      |
| Investment in stock of Federal Home Loan Bank (FHLB)       | 90,350                        | 97,582                       |
| Investment securities available-for-sale                   | 1,912,268                     | 2,108,463                    |
| Investment securities held-to-maturity                     | 3,161                         | 3,838                        |
| Loans held-for-sale  | 3,154                         | 1,439                        |
| Loans and lease finance receivables                        | 3,822,802                     | 4,079,013                    |
| Allowance for credit losses                                | (105,289)                     | (108,924)                    |
| Net Loans and lease finance receivables                    | 3,717,513                     | 3,970,089                    |
| Premises and equipment, net                                | 41,936                        | 41,444                       |
| Bank owned life insurance                                  | 112,173                       | 109,480                      |
| Accrued interest receivable                                | 25,530                        | 28,672                       |
| Intangibles  | 9,937                         | 12,761                       |
| Goodwill   | 55,097                        | 55,097                       |
| FDIC loss sharing asset                                    | 108,305                       | 133,258                      |
| Other assets   | 108,177                       | 73,166                       |
| <b>TOTAL ASSETS</b>  | <b>\$ 6,483,871</b>           | <b>\$ 6,739,769</b>          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                 |                               |                              |
| Liabilities:   |                               |                              |
| Deposits:  |                               |                              |
| Noninterest-bearing  | \$ 1,699,096                  | \$ 1,561,981                 |
| Interest-bearing   | 2,823,368                     | 2,876,673                    |
| Total deposits   | 4,522,464                     | 4,438,654                    |
| Demand Note to U.S. Treasury                               | 3,752                         | 2,425                        |
| Customer repurchase agreements                             | 557,573                       | 485,132                      |
| Repurchase agreements                                      |                               | 250,000                      |
| Borrowings   | 553,322                       | 753,118                      |
| Accrued interest payable                                   | 5,104                         | 6,481                        |
| Deferred compensation                                      | 9,140                         | 9,166                        |
| Junior subordinated debentures                             | 115,055                       | 115,055                      |
| Other liabilities  | 52,703                        | 41,510                       |

|  |              |              |
|--|--------------|--------------|
| TOTAL LIABILITIES  | 5,819,113    | 6,101,541    |
| 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 105,918,376 (2010) and 106,263,511 (2009) | 489,739      | 491,226      |
| Retained earnings  | 146,586      | 120,612      |
| Accumulated other comprehensive income, net of tax   | 28,433       | 26,390       |
| Total stockholders' equity   | 664,758      | 638,228      |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | \$ 6,483,871 | \$ 6,739,769 |

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**

|   | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2010</b>   | <b>2009</b> | <b>2010</b>  | <b>2009</b> |
| Interest income:  |   |             |  |             |
| Loans, including fees   | \$ 58,165   | \$ 50,561   | \$ 185,105   | \$ 149,858  |
| Investment securities:  |   |             |  |             |
| Taxable   | 11,461  | 18,278      | 41,938   | 59,848      |
| Tax-preferred   | 6,324   | 6,749       | 19,265   | 20,560      |
| Total investment income   | 17,785  | 25,027      | 61,203   | 80,408      |
| Dividends from FHLB stock   | 105   | 195         | 233  | 195         |
| Federal funds sold and Interest bearing deposits<br>with other institutions       | 418   | 136         | 757  | 195         |
| Total interest income   | 76,473  | 75,919      | 247,298  | 230,656     |
| Interest expense:   |   |             |  |             |
| Deposits  | 4,310   | 5,934       | 14,439   | 18,963      |
| Borrowings  | 8,652   | 14,265      | 30,162   | 44,367      |
| Junior subordinated debentures  | 896   | 914         | 2,529  | 3,133       |
| Total interest expense  | 13,858  | 21,113      | 47,130   | 66,463      |
| Net interest income before provision for credit<br>losses                         | 62,615  | 54,806      | 200,168  | 164,193     |
| Provision for credit losses   | 25,300  | 13,000      | 48,500   | 55,000      |
| Net interest income after provision for credit losses                             | 37,315  | 41,806      | 151,668  | 109,193     |
| Other operating income:   |   |             |  |             |
| Impairment loss on investment securities  |   | (1,850)     | (98)   | (1,850)     |
| Less: Noncredit-related impairment loss recorded<br>in other comprehensive income | (127)   | 1,618       | (714)  | 1,618       |
| Net impairment loss on investment securities<br>recognized in earnings            | (127)   | (232)       | (812)  | (232)       |
| Service charges on deposit accounts   | 4,225   | 3,720       | 12,686   | 11,080      |
| Trust and Investment Services   | 1,928   | 1,682       | 6,255  | 4,948       |
| Bankcard services   | 760   | 605         | 2,110  | 1,725       |
| BOLI income   | 813   | 685         | 2,394  | 2,081       |
| Reduction in FDIC loss sharing asset  | (2,630)   |             | (14,800)   |             |
| Other   | 1,631   | 1,744       | 3,193  | 3,120       |
| Gain on sale of securities  | 30,119  | 6,898       | 38,900   | 28,446      |
| Total other operating income  | 36,719  | 15,102      | 49,926   | 51,168      |



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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Other operating expenses:                     |           |           |           |           |
| Salaries and employee benefits                | 17,311    | 15,618    | 52,863    | 46,814    |
| Occupancy and Equipment                       | 4,807     | 4,330     | 14,641    | 13,199    |
| Professional services                         | 4,135     | 1,646     | 9,823     | 4,998     |
| Amortization of intangibles                   | 934       | 734       | 2,824     | 2,257     |
| Other   | 22,131    | 7,517     | 46,536    | 26,953    |
| <br>  |           |           |           |           |
| Total other operating expenses                | 49,318    | 29,845    | 126,687   | 94,221    |
| <br>  |           |           |           |           |
| Earnings before income taxes                  | 24,716    | 27,063    | 74,907    | 66,140    |
| Income taxes                                  | 6,789     | 7,741     | 21,846    | 17,789    |
| <br>  |           |           |           |           |
| Net earnings                                  | \$ 17,927 | \$ 19,322 | \$ 53,061 | \$ 48,351 |
| Preferred stock dividend and other reductions | 58        | 8,838     | 181       | 12,879    |
| <br>  |           |           |           |           |
| Net earnings allocated to common shareholders | \$ 17,869 | \$ 10,484 | \$ 52,880 | \$ 35,472 |
| <br>  |           |           |           |           |
| Comprehensive income                          | \$ 3,439  | \$ 41,749 | \$ 55,104 | \$ 66,520 |
| <br>  |           |           |           |           |
| Basic earnings per common share               | \$ 0.17   | \$ 0.10   | \$ 0.50   | \$ 0.40   |
| Diluted earnings per common share             | \$ 0.17   | \$ 0.10   | \$ 0.50   | \$ 0.40   |
| <br>  |           |           |           |           |
| Cash dividends per common share               | \$ 0.085  | \$ 0.085  | \$ 0.255  | \$ 0.255  |

See accompanying notes to the consolidated financial statements.

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**AND COMPREHENSIVE INCOME**

(Unaudited)

Amounts and shares in thousands

|   | Common<br>Shares<br>Outstanding | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Comprehensive<br>Income | Total      |
|---|---------------------------------|-----------------|----------------------|---|-------------------------|------------|
| <b>Balance January 1, 2010</b>  | 106,263                         | \$ 491,226      | \$ 120,612           | \$ 26,390                                       |                         | \$ 638,228 |
| Repurchase of common stock  | (600)                           | (4,768)         |                      |   |                         | (4,768)    |
| Proceeds from exercise of stock options   | 255                             | 1,146           |                      |   |                         | 1,146      |
| Tax benefit from exercise of stock options  |                                 | 459             |                      |   |                         | 459        |
| Stock-based Compensation Expense  |                                 | 1,676           |                      |   |                         | 1,676      |
| Cash dividends declared Common (\$0.255 per share)  |                                 |                 | (27,087)             |   |                         | (27,087)   |
| Comprehensive income:   |                                 |                 |                      |   |                         |            |
| Net earnings  |                                 |                 | 53,061               |   | \$ 53,061               | 53,061     |
| Other comprehensive gain:   |                                 |                 |                      |   |                         |            |
| Unrealized gain on securities available-for-sale, net                                     |                                 |                 |                      | 1,629   | 1,629                   | 1,629      |
| Portion of impairment loss on investment securities reclassified in the current year, net |                                 |                 |                      | 414   | 414                     | 414        |
| Comprehensive income  |                                 |                 |                      |   | \$ 55,104               |            |
| <b>Balance September 30, 2010</b>   | 105,918                         | \$ 489,739      | \$ 146,586           | \$ 28,433                                       |                         | \$ 664,758 |

|                                | Common<br>Shares<br>Outstanding | Preferred<br>Stock      | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Comprehensive<br>Income | Total                   |
|--------------------------------|---------------------------------|-------------------------|-----------------|----------------------|---|-------------------------|-------------------------|
| <b>Balance January 1, 2009</b> | 83,270                          | \$ 121,508<br>(130,000) | \$ 364,469      | \$ 100,184           | \$ 28,731                                     |                         | \$ 614,892<br>(130,000) |

|   |         |       |            |            |           |            |
|---|---------|-------|------------|------------|-----------|------------|
| Repurchase of Preferred Stock   |         |       |            |            |           |            |
| Amortization of preferred stock discount  |         | 8,492 | (8,492)    |            |           |            |
| Issuance of common stock  | 22,655  |       | 126,066    |            |           | 126,066    |
| Proceeds from exercise of stock options   | 307     |       | 280        |            |           | 280        |
| Tax benefit from exercise of stock options  |         |       | 62         |            |           | 62         |
| Stock-based Compensation Expense  |         |       | 1,137      |            |           | 1,137      |
| Cash dividends Preferred  |         |       | (23,174)   |            |           | (23,174)   |
| Common (\$0.255 per share)  |         |       | (4,273)    |            |           | (4,273)    |
| Comprehensive income:   |         |       |            |            |           |            |
| Net earnings  |         |       | 48,351     | \$         | 48,351    | 48,351     |
| Other comprehensive gain:   |         |       |            |            |           |            |
| Unrealized loss on securities available-for-sale, net   |         |       |            | 19,107     | 19,107    | 19,107     |
| Non-credit-related impairment loss on investment securities recorded in the current year, net |         |       |            | (938)      | (938)     | (938)      |
| Comprehensive income  |         |       |            | \$         | 66,520    |            |
| <b>Balance</b>  |         |       |            |            |           |            |
| <b>September 30, 2009</b>   | 106,232 | \$    | \$ 492,014 | \$ 112,596 | \$ 46,900 | \$ 651,510 |

**At September 30,**  
**2010                      2009**

**Disclosure of reclassification amount**

|   |    |          |    |          |
|---|----|----------|----|----------|
| Unrealized gain on securities arising during the period                       | \$ | 41,610   | \$ | 59,540   |
| Tax benefit   |    | (17,476) |    | (25,007) |
| Less:   |    |          |    |          |
| Reclassification adjustment for net gain on securities included in net income |    | (38,088) |    | (28,214) |
| Add:  |    |          |    |          |

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|   |          |           |
|---|----------|-----------|
| Tax expense on reclassification adjustments | 15,997   | 11,850    |
| Net unrealized gain on securities           | \$ 2,043 | \$ 18,169 |

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**

|   | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|---|--|-------------|
|   | <b>2010</b>  | <b>2009</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>        |  |             |
| Interest and dividends received                     | \$ 229,991   | \$ 230,996  |
| Service charges and other fees received             | 27,274   | 22,407      |
| Interest paid                                       | (48,574)   | (67,785)    |
| Cash paid to vendors and employees                  | (103,870)  | (81,618)    |
| Income taxes paid                                   | (35,776)   | (34,586)    |
| Net cash provided by operating activities           | 69,045   | 69,414      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>        |  |             |
| Proceeds from sale of FHLB Stock                    | 7,232  |             |
| Proceeds from sales of investment securities        | 743,769  | 459,092     |
| Proceeds from repayment of investment securities    | 213,130  | 296,052     |
| Proceeds from maturity of investment securities     | 185,789  | 153,562     |
| Purchases of investment securities                  | (907,695)  | (790,231)   |
| Net decrease in loans and lease finance receivables | 201,976  | 111,125     |
| Proceeds from sales of premises and equipment       | 114  | 234         |
| Proceeds from sales of other real estate owned      | 6,972  | 12,823      |
| Purchase of premises and equipment                  | (5,811)  | (3,297)     |
| Other, net  | (329)  | (410)       |
| Net cash provided by investing activities           | 445,147  | 238,950     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>        |  |             |
| Net increase in transaction deposits                | 87,231   | 338,369     |
| Net (decrease)/increase in time deposits            | (3,150)  | 193,246     |
| Repayment of advances from Federal Home Loan Bank   | (250,000)  | (600,000)   |
| Net decrease in other borrowings                    | (198,673)  | (184,592)   |
| Net increase in repurchase agreements               | 72,440   | 102,513     |
| Cash dividends on preferred stock                   |  | (4,273)     |
| Cash dividends on common stock                      | (27,087)   | (23,174)    |
| Repurchase of preferred stock                       |  | (130,000)   |
| Repurchase of common stock                          | (4,768)  |             |
| Issuance of common stock                            |  | 126,066     |
| Proceeds from exercise of stock options             | 1,146  | 280         |
| Tax benefit related to exercise of stock options    | 459  | 62          |
| Net cash used in financing activities               | (322,402)  | (181,503)   |
| NET INCREASE IN CASH AND CASH EQUIVALENTS           | 191,790  | 126,861     |
| CASH AND CASH EQUIVALENTS, beginning of period      | 104,480  | 95,297      |

|  |            |            |
|--|------------|------------|
| CASH AND CASH EQUIVALENTS, end of period | \$ 296,270 | \$ 222,158 |
|--|------------|------------|

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**

|   | <b>For the Nine Months<br/>Ended September 30,</b> |                      |
|---|--|----------------------|
|   | <b>2010</b>  | <b>2009</b>          |
| <b>RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b> |  |                      |
| Net earnings  | \$ 53,061  | \$ 48,351            |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |  |                      |
| Gain on sale of investment securities   | (38,900)   | (28,446)             |
| Loss on sale of premises and equipment  | 64   | 53                   |
| Loss/(Gain) on sale of other real estate owned                                      | 686  | (512)                |
| Credit-related impairment loss on investment securities held-to-maturity            | 812  | 232                  |
| Increase from bank owned life insurance   | (2,394)  | (2,081)              |
| Net amortization of premiums on investment securities                               | 3,570  | 1,715                |
| Accretion of SJB Discount   | (22,333)   |                      |
| Provisions for credit losses  | 48,500   | 55,000               |
| Reduction in FDIC Loss Sharing Asset  | 14,800   |                      |
| Stock-based compensation  | 1,676  | 1,137                |
| Depreciation and amortization   | 7,965  | 7,401                |
| Change in accrued interest receivable   | 3,142  | 1,089                |
| Change in accrued interest payable  | (1,377)  | (1,320)              |
| Change in other assets and liabilities  | (227)  | (13,205)             |
| <br>Total adjustments   | <br>15,984   | <br>21,063           |
| <br><b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                | <br><b>\$ 69,045</b>                               | <br><b>\$ 69,414</b> |
| <br><b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</b>                  |  |                      |
| Transfer from loans to Other Real Estate Owned                                      | \$ 25,547  | \$ 7,644             |
| See accompanying notes to the consolidated financial statements.                    |  |                      |

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited)

For the nine months ended September 30, 2010 and 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying condensed consolidated unaudited financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America for interim financial reporting. The results of operations for the nine months ended September 30, 2010 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, 2009 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 Orange National 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 Division 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 44 Business Financial Centers, 6 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.



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***Cash and due from banks*** Cash on hand, cash items in the process of collection, and amounts due from correspondent banks and the Federal Reserve Bank 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 September 30, 2010, the Company had entered into commitments with certain customers amounting to \$555.5 million compared to \$596.6 million at December 31, 2009. Letters of Credit at September 30, 2010 and December 31, 2009, were \$68.4 million and \$69.5 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 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.

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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 nine months of 2010, we recorded a provision for credit losses of \$48.5 million. The allowance for credit losses was \$105.3 million as of September 30, 2010, or 3.08% 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 nine months of 2010, the Company recorded an increase of \$2.2 million in the reserve for undisbursed commitments. As of September 30, 2010, the balance in this reserve was \$10.1 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 September 30, 2010, the Company had non-covered impaired loans of \$162.4 million. Of this amount, \$5.1 million consisted of non-accrual residential construction and land loans, \$71.4 million in non-accrual commercial construction loans, \$14.5 million of non-accrual single family mortgage loans, \$56.3 million of non-accrual commercial real estate loans, \$6.1 million of non-accrual commercial and industrial loans, \$5.2 million in dairy and livestock loans, and \$242,000 of non-accrual consumer loans. Non-covered impaired loans also include \$78.2 million of loans whose terms were modified in a troubled debt restructure, of which \$74.7 million are classified as non-accrual. The remaining balance of \$3.5 million consists of three loans performing according to the restructured terms. The non-covered impaired loans of \$162.4 million (net of \$45.9 million in charge-offs) are supported by collateral with a fair value equal to or greater than the loan amount, less selling costs and net of prior liens. For the collateral-deficient loans, the amount of specific reserve was \$1.5 million at September 30, 2010. At December 31, 2009, the Bank had classified as impaired, non-covered loans with a balance of \$72.3 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 and 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.

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***FDIC Loss Sharing Asset*** The FDIC loss sharing asset is initially recorded at fair value which represents the present value of the estimated cash payments from the FDIC for future losses on covered loans. The ultimate collectability of this asset is dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC.

***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 September 30, 2010 goodwill was \$55.1 million. As of September 30, 2010, intangible assets that continue to be subject to amortization include core deposit premiums of \$9.9 million (net of \$22.1 million of accumulated amortization). Amortization expense for such intangible assets was \$2.8 million for the nine months ended September 30, 2010. Estimated amortization expense, for the remainder of 2010 is expected to be \$908,000. Estimated amortization expense, for the succeeding five fiscal years is \$3.5 million for year one, \$2.2 million for year two, \$1.1 million for year three, \$475,000 for year four and \$1.8 million thereafter. The weighted average remaining life of intangible assets is approximately 3.3 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 September 30, 2010 was 105,918,376. 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)

|   | <b>For the nine months ended<br/>September 30</b> |             | <b>For the three months ended<br/>September 30,</b> |             |
|---|---|-------------|---|-------------|
|   | <b>2010</b>                                       | <b>2009</b> | <b>2010</b>   | <b>2009</b> |
| <b>Earnings per common share</b>                                |   |             |   |             |
| Net earnings  | \$ 53,061   | \$ 48,351   | \$ 17,927   | \$ 19,322   |
| Less: Dividends on preferred stock and discount amortization    |   | 12,765      |   | 8,804       |
| Net earnings available to common shareholders                   | \$ 53,061   | \$ 35,586   | \$ 17,927   | \$ 10,518   |
| Less: Net earnings allocated to restricted stock                | 181   | 114         | 58  | 34          |
| Net earnings allocated to common shareholders (numerator)       | \$ 52,880   | \$ 35,472   | \$ 17,869   | \$ 10,484   |
| <br>  |   |             |   |             |
| Weighted Average Shares Outstanding (denominator)               | 105,926   | 88,601      | 105,685   | 99,242      |
| Earnings per common share                                       | \$ 0.50   | \$ 0.40     | \$ 0.17   | \$ 0.10     |
| <br>  |   |             |   |             |
| <b>Diluted earnings per common share</b>                        |   |             |   |             |
| Net income allocated to common shareholders (numerator)         | \$ 52,880   | \$ 35,472   | \$ 17,869   | \$ 10,484   |
| <br>  |   |             |   |             |
| Weighted Average Shares Outstanding                             | 105,926   | 88,601      | 105,685   | 99,242      |
| Incremental shares from assumed exercise of outstanding options | 171   | 97          | 110   | 90          |
| Diluted Weighted Average Shares Outstanding (denominator)       | 106,097   | 88,698      | 105,795   | 99,332      |
| Diluted earnings per common share                               | \$ 0.50   | \$ 0.40     | \$ 0.17   | \$ 0.10     |

**Stock-Based Compensation** At September 30, 2010, the Company has three stock-based employee compensation plans, which are described more fully in Note 16 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.

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**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 \$2.0 billion in assets under administration, including \$1.0 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 disclosures, impairment of investments and goodwill, and valuation of deferred tax assets, other intangibles and OREO.

**Recent Accounting Pronouncements** In July 2010, the FASB issued an accounting standards update (ASU) 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which amends FASB ASC Topic 310, *Receivables*. The update will significantly increase disclosures that entities must make about the credit quality of financing receivables and the allowance for credit losses. The disclosures will provide financial statement users with additional information about the nature of credit risks inherent in entities' financing receivables, how credit risk is analyzed and assessed when determining the allowance for credit losses, and the reasons for the change in the allowance for credit losses. The guidance in the ASU is effective for interim and annual reporting periods ending on or after December 15, 2010. The Company does not expect the adoption of ASU 2010-20 to have a material effect on the Company's consolidated financial position or results of operations.

**Shareholder Rights Plan** The Company had a shareholder rights plan designed to maximize long-term value and to protect shareholders from improper takeover tactics and takeover bids which are not fair to all shareholders. In accordance with the plan, preferred share purchase rights were distributed as a dividend at the rate of one right to purchase one one-thousandth of a share of the Company's Series A Participating Preferred Stock at an initial exercise price of \$50.00 (subject to adjustment as described in the terms of the plan) upon the occurrence of certain triggering events. The shareholder rights plan expired pursuant to its terms on June 21, 2010.

**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 September 30, 2010 the Company does not have any litigation reserves and is not aware of any material pending legal action or complaints asserted against the Company.

**2. INVESTMENTS**

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.

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|   | <b>September 30, 2010</b> |  |  |                     | <b>Total<br/>Percent</b> |
|---|---------------------------|--|--|---------------------|--------------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Gain</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Loss</b> | <b>Fair Value</b>   |                          |
| (Amounts in thousands)                                  |                           |  |  |                     |                          |
| Investment Securities Available-for-Sale:               |                           |  |  |                     |                          |
| Government agency &<br>government-sponsored enterprises | \$ 184,711                | \$ 410   | \$ (25)  | \$ 185,096          | 9.68%                    |
| Mortgage-backed securities                              | 830,340                   | 16,825   | (1,668)  | 845,497             | 44.21%                   |
| CMO s / REMIC s   | 219,088                   | 5,422  | (245)  | 224,265             | 11.73%                   |
| Municipal bonds   | 628,359                   | 29,507   | (456)  | 657,410             | 34.38%                   |
| <b>Total Investment Securities</b>                      | <b>\$ 1,862,498</b>       | <b>\$ 52,164</b>                                 | <b>\$ (2,394)</b>                                | <b>\$ 1,912,268</b> | <b>100.00%</b>           |

|   | <b>December 31, 2009</b>  |  |  |                     | <b>Total<br/>Percent</b> |
|---|---------------------------|--|--|---------------------|--------------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Gain</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Loss</b> | <b>Fair Value</b>   |                          |
| (Amounts in thousands)                                  |                           |  |  |                     |                          |
| Investment Securities Available-for-Sale:               |                           |  |  |                     |                          |
| U.S. Treasury securities                                | \$ 507                    | \$   | \$   | \$ 507              | 0.02%                    |
| Government agency &<br>government-sponsored enterprises | 21,574                    | 140  | (1)  | 21,713              | 1.03%                    |
| Mortgage-backed securities                              | 629,998                   | 18,138   | (968)  | 647,168             | 30.70%                   |
| CMO s / REMIC s   | 759,179                   | 17,297   | (3,311)  | 773,165             | 36.67%                   |
| Municipal bonds   | 647,556                   | 18,290   | (2,420)  | 663,426             | 31.46%                   |
| Other securities  | 2,484                     |  |  | 2,484               | 0.12%                    |
| <b>Total Investment Securities</b>                      | <b>\$ 2,061,298</b>       | <b>\$ 53,865</b>                                 | <b>\$ (6,700)</b>                                | <b>\$ 2,108,463</b> | <b>100.00%</b>           |

Approximately 65% 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 September 30, 2010 and December 31, 2009.

Gross realized gains in our available-for-sale portfolio were \$38.9 million for the nine months ended September 30, 2010 and \$28.4 million for the same period in 2009.

**Table of Contents****Composition of the Fair Value and Gross Unrealized Losses of Securities:**

| Description of Securities  | Less than 12 months |                                 | September 30, 2010<br>12 months or longer |                                 | Total      |                                 |
|----------------------------|---------------------|---------------------------------|---|---------------------------------|------------|---------------------------------|
|                            | Fair Value          | Gross Unrealized Holding Losses | Fair Value                                | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| <b>Held-To-Maturity</b>    |                     |                                 |   |                                 |            |                                 |
| CMO                        | \$                  | \$                              | \$ 3,161                                  | \$ 746                          | \$ 3,161   | \$ 746                          |
| <b>Available-for-Sale</b>  |                     |                                 |   |                                 |            |                                 |
| Government agency          | \$ 13,904           | \$ 25                           | \$  | \$                              | \$ 13,904  | \$ 25                           |
| Mortgage-backed securities | 487,040             | 1,668                           |   |                                 | 487,040    | 1,668                           |
| CMO/REMICs                 | 43,248              | 245                             |   |                                 | 43,248     | 245                             |
| Municipal bonds            | 12,852              | 155                             | 6,179                                     | 301                             | 19,031     | 456                             |
|                            | \$ 557,044          | \$ 2,093                        | \$ 6,179                                  | \$ 301                          | \$ 563,223 | \$ 2,394                        |

| Description of Securities  | Less than 12 months |                                 | December 31, 2009<br>12 months or longer |                                 | Total      |                                 |
|----------------------------|---------------------|---------------------------------|--|---------------------------------|------------|---------------------------------|
|                            | Fair Value          | Gross Unrealized Holding Losses | Fair Value                               | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| <b>Held-To-Maturity</b>    |                     |                                 |  |                                 |            |                                 |
| CMO (1)                    | \$                  | \$                              | \$ 3,838                                 | \$ 1,671                        | \$ 3,838   | \$ 1,671                        |
| <b>Available-for-Sale</b>  |                     |                                 |  |                                 |            |                                 |
| Government agency          | \$ 5,022            | \$ 1                            | \$                                       | \$                              | \$ 5,022   | \$ 1                            |
| Mortgage-backed securities | 73,086              | 968                             |  |                                 | 73,086     | 968                             |
| CMO/REMICs                 | 179,391             | 3,025                           | 9,640                                    | 286                             | 189,031    | 3,311                           |
| Municipal bonds            | 80,403              | 2,122                           | 1,785                                    | 298                             | 82,188     | 2,420                           |
|                            | \$ 337,902          | \$ 6,116                        | \$ 11,425                                | \$ 584                          | \$ 349,327 | \$ 6,700                        |

(1) For the twelve months ended December 31, 2009, the Company



recorded  
\$1.7 million, 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 September 30, 2010 and December 31, 2009. 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, \$3.2 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 September 30, 2010, the unrealized loss on this security was \$746,000 and the fair value on the security was 81% of the current par value. The security is rated non-investment grade. We evaluated the security for an other than temporary decline in fair value as of September 30, 2010. 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 nine months of 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 an other-than-temporary impairment loss of \$812,000 during the first nine months of 2010.

The following table provides a roll-forward of credit-related other-than-temporary impairment recognized in earnings for the nine months ended September 30, 2010.

|  | <b>For the nine<br/>months<br/>ended<br/>September 30, 2010<br/>(in thousands)</b> |
|--|--|
| Balance, beginning of the period   | \$ 323   |
| Addition of OTTI that was not previously recognized  | 812  |
| 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   | \$ 1,135   |

*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 September 30, 2010.

*Mortgage-Backed Securities and CMO/REMICs* Almost all of the mortgage-backed and CMO/REMICs securities are issued by the government-sponsored enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying residential mortgages. All mortgage-backed securities are rated investment grade with an average life of approximately 2.9 years. The contractual cash flows of 98.7% of these investments are guaranteed by U.S. government-sponsored agencies. The remaining 1.3% 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 September 30, 2010.

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**Municipal Bonds** Ninety-six percent of our \$657.4 million municipal bond portfolio contains securities which have an underlying rating of investment grade. The majority of our municipal bonds are insured by the largest bond insurance companies with maturities of approximately 5.0 years. The unrealized loss greater than 12 months on these securities at September 30, 2010 was \$301,000. 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 Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized costs, which may be at maturity, management does not consider these investments to be other than temporarily impaired at September 30, 2010.

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

At September 30, 2010 and December 31, 2009, investment securities having an amortized cost of approximately \$1.81 billion and \$2.02 billion respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at September 30, 2010, 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.

|  | <b>Available-for-sale</b>     |                     | <b>Weighted-</b> |
|--|-------------------------------|---------------------|------------------|
|  | <b>Amortized</b>              | <b>Fair</b>         | <b>Average</b>   |
|  | <b>Cost</b>                   | <b>Value</b>        | <b>Yield</b>     |
|  | <b>(amounts in thousands)</b> |                     |                  |
| Due in one year or less                | \$ 268,818                    | \$ 270,893          | 2.63%            |
| Due after one year through five years  | 1,156,877                     | 1,182,675           | 3.09%            |
| Due after five years through ten years | 396,938                       | 417,846             | 4.11%            |
| Due after ten years                    | 39,865                        | 40,854              | 3.68%            |
|  | <b>\$ 1,862,498</b>           | <b>\$ 1,912,268</b> | <b>3.26%</b>     |

The investment in FHLB stock is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through September 30, 2010.

**3. FAIR VALUE INFORMATION**

The following disclosure provides fair value information for financial assets and liabilities as of September 30, 2010 and December 31, 2009. 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.

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**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 a reputable third-party pricing service. The service uses 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. During the first nine months of 2010, an other-than-temporary impairment loss was recognized and the carrying balance was reduced to fair value.

*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 September 30, 2010 or December 31, 2009, 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.

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*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 September 30, 2010 and December 31, 2009.

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

| <i>(in thousands)</i><br>Description of Assets | Carrying Value<br>at<br>September 30,<br>2010 | Quoted<br>Prices in<br>Active<br>Markets<br>for Identical | Significant<br>Other<br>Observable | Significant<br>Unobservable |
|--|---|---|------------------------------------|-----------------------------|
|  |   | Assets<br>(Level 1)                                       | Inputs<br>(Level 2)                | Inputs<br>(Level 3)         |
| U.S. Treasury securities                       | \$ 845,497                                    | \$  | \$                                 | \$                          |
| Mortgage-backed securities<br>CMO s / REMIC s  | 224,265                                       |   | 224,265                            |                             |
| Government agency<br>Municipal bonds           | 185,096<br>657,410                            |   | 185,096<br>657,410                 |                             |
| Investment Securities-AFS                      | \$ 1,912,268                                  | \$  | \$ 1,912,268                       | \$                          |
| Interest Rate Swaps                            | 15,008  |   | 15,008                             |                             |
| Total Assets                                   | \$ 1,927,276                                  | \$  | \$ 1,927,276                       | \$                          |
| <b>Description of Liability</b>                |   |   |                                    |                             |
| Interest Rate Swaps                            | \$ 15,008                                     | \$  | \$ 15,008                          | \$                          |

Table of ContentsAssets & Liabilities Measured at Fair Value on a Recurring Basis

| <i>(in thousands)</i><br>Description of Assets | Carrying Value<br>at<br>December 31,<br>2009 | Quoted<br>Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|--|--|---|--|
|  |  |  |   |  |
| U.S. Treasury securities                       | \$ 507                                       | \$   | \$ 507  | \$   |
| Mortgage-backed securities                     | 647,168                                      |  | 647,168   |  |
| CMO s / REMIC s                                | 773,165                                      |  | 773,165   |  |
| Government agency                              | 21,713                                       |  | 21,713  |  |
| Municipal bonds                                | 663,426                                      |  | 663,426   |  |
| Other securities                               | 2,484  |  | 2,484   |  |
| Investment Securities-AFS                      | \$ 2,108,463                                 | \$   | \$ 2,108,463  | \$   |
| Interest Rate Swaps                            | 4,334  |  | 4,334   |  |
| Total Assets                                   | \$ 2,112,797                                 | \$   | \$ 2,112,797  | \$   |
| <b>Description of Liability</b>                |  |  |   |  |
| Interest Rate Swaps                            | \$ 4,334                                     | \$   | \$ 4,334  | \$   |

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 September 30, 2010 and December 31, 2009, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets.

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

| <i>(in thousands)</i><br>Description of Assets | Carrying Value<br>at<br>September 30,<br>2010 | Quoted<br>Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | For the nine<br>months<br>ended<br>September<br>30,<br>2010 |
|--|---|--|---|--|---|
|  |   |  |   |  | Total Losses  |
| Investment Security-HTM                        | \$ 3,161                                      | \$   | \$ 3,161  | \$   | \$ (812)  |
| Impaired Loans-Noncovered                      | \$ 61,934                                     | \$   | \$ 3,545  | \$ 58,389  | \$ (45,943)   |
| OREO-Noncovered                                | \$ 17,387                                     | \$   | \$  | \$ 17,387  | \$ (686)  |

OREO-Covered                    \$            9,358    \$                    \$                    \$            9,358    \$

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

| <i>(in thousands)</i><br>Description of Assets | Carrying Value<br>at<br>December 31,<br>2009 | Quoted<br>Prices in<br>Active<br>Markets | Significant<br>Other              | Significant                         | For the year   |
|--|--|--|-----------------------------------|-------------------------------------|--|
|  |  | for Identical<br>Assets<br>(Level 1)     | Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) | ended<br>December<br>31,<br>2009<br><br>Total Losses |
| Investment Security-HTM                        | \$            3,838                          | \$                                       | \$    3,838                       | \$                                  | \$            (323)                                  |
| Impaired Loans-Noncovered                      | \$          29,982                           | \$                                       | \$    2,500                       | \$    27,482                        | \$        (18,450)                                   |
| OREO-Noncovered                                | \$           3,936                           | \$                                       | \$                                | \$    3,936                         | \$           (848)                                   |
| OREO-Covered                                   | \$           5,565                           | \$                                       | \$                                | \$    5,565                         | \$   |



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The following table presents estimated fair value of financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could have realized in a current market exchange as of September 30, 2010 and December 31, 2009. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

|  | September 30, 2010 |  | December 31, 2009 |                      |
|--|--------------------|--|-------------------|----------------------|
|  | Carrying Amount    | Estimated Fair Value<br>(amounts in thousands) | Carrying Amount   | Estimated Fair Value |
| <b>Assets</b>  |                    |  |                   |                      |
| Cash and due from banks                                    | \$ 195,920         | \$ 195,920                                     | \$ 103,254        | \$ 103,254           |
| Interest-bearing balances due from depository institutions | 100,350            | 100,350  | 1,226             | 1,226                |
| FHLB Stock   | 90,350             | 90,350   | 97,582            | 97,582               |
| Investment securities available-for-sale                   | 1,912,268          | 1,912,268                                      | 2,108,463         | 2,108,463            |
| Investment securities held-to-maturity                     | 3,161              | 3,161  | 3,838             | 3,838                |
| Total Loans, net of allowance for credit losses            | 3,717,513          | 3,864,163                                      | 3,970,089         | 3,955,500            |
| Accrued interest receivable                                | 25,530             | 25,530   | 28,672            | 28,672               |
| Swaps  | 15,008             | 15,008   | 4,334             | 4,334                |
| <b>Liabilities</b>   |                    |  |                   |                      |
| Deposits:  |                    |  |                   |                      |
| Noninterest-bearing  | \$ 1,699,096       | \$ 1,699,096                                   | \$ 1,561,981      | \$ 1,561,981         |
| Interest-bearing   | 2,823,368          | 2,825,472                                      | 2,876,673         | 2,879,305            |
| Demand note to U.S. Treasury                               | 3,752              | 3,752  | 2,425             | 2,425                |
| Borrowings   | 1,110,895          | 1,166,781                                      | 1,488,250         | 1,536,933            |
| Junior subordinated debentures                             | 115,055            | 115,820  | 115,055           | 115,817              |
| Accrued interest payable                                   | 5,104              | 5,104  | 6,481             | 6,481                |
| Swaps  | 15,008             | 15,008   | 4,334             | 4,334                |

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2010 and December 31, 2009. 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.

**4. 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 44 Business Financial Centers and 6 Commercial Banking Centers (branches), organized in 6 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.

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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 Company 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.

The following tables present the operating results and other key financial measures for the individual reportable segments for the three and nine months ended September 30, 2010 and 2009:

|  | <b>Nine Months Ended September 30, 2010</b> |                     |                     |                       |                     |
|--|---|---------------------|---------------------|-----------------------|---------------------|
|  | <b>Business<br/>Financial<br/>Centers</b>   | <b>Treasury</b>     | <b>Other</b>        | <b>Eliminations</b>   | <b>Total</b>        |
| Interest income, including loan fees                         | \$ 128,686                                  | \$ 62,258           | \$ 56,354           | \$                    | \$ 247,298          |
| Credit for funds provided (1)                                | 52,863                                      |                     | 26,553              | (79,416)              |                     |
| <b>Total interest income</b>                                 | <b>181,549</b>                              | <b>62,258</b>       | <b>82,907</b>       | <b>(79,416)</b>       | <b>247,298</b>      |
| Interest expense   | 17,873                                      | 26,874              | 2,383               |                       | <b>47,130</b>       |
| Charge for funds used (1)                                    | 9,550                                       | 29,921              | 39,945              | (79,416)              |                     |
| <b>Total interest expense</b>                                | <b>27,423</b>                               | <b>56,795</b>       | <b>42,328</b>       | <b>(79,416)</b>       | <b>47,130</b>       |
| <b>Net interest income</b>                                   | <b>154,126</b>                              | <b>5,463</b>        | <b>40,579</b>       |                       | <b>200,168</b>      |
| Provision for credit losses                                  |   |                     | 48,500              |                       | <b>48,500</b>       |
| <b>Net interest income after provision for credit losses</b> | <b>\$ 154,126</b>                           | <b>\$ 5,463</b>     | <b>\$ (7,921)</b>   | <b>\$</b>             | <b>\$ 151,668</b>   |
| Non-interest income  | 17,695                                      | 38,089              | (5,858)             |                       | <b>49,926</b>       |
| Non-interest expense   | 39,103                                      | 19,770              | 67,814              |                       | <b>126,687</b>      |
| <b>Segment pretax profit (loss)</b>                          | <b>\$ 132,718</b>                           | <b>\$ 23,782</b>    | <b>\$ (81,593)</b>  | <b>\$</b>             | <b>\$ 74,907</b>    |
| <b>Segment assets as of September 30, 2010</b>               | <b>\$ 4,899,709</b>                         | <b>\$ 1,730,982</b> | <b>\$ 1,311,589</b> | <b>\$ (1,458,409)</b> | <b>\$ 6,483,871</b> |

|  | <b>Nine Months Ended September 30, 2009</b> |                     |                    |                       |                     |
|--|---|---------------------|--------------------|-----------------------|---------------------|
|  | <b>Business<br/>Financial<br/>Centers</b>   | <b>Treasury</b>     | <b>Other</b>       | <b>Eliminations</b>   | <b>Total</b>        |
| Interest income, including loan fees                         | \$ 115,711                                  | \$ 80,877           | \$ 34,068          | \$                    | \$ 230,656          |
| Credit for funds provided (1)                                | 37,526                                      |                     | 16,457             | (53,983)              |                     |
| <b>Total interest income</b>                                 | <b>153,237</b>                              | <b>80,877</b>       | <b>50,525</b>      | <b>(53,983)</b>       | <b>230,656</b>      |
| Interest expense   | 21,382                                      | 41,400              | 3,681              |                       | <b>66,463</b>       |
| Charge for funds used (1)                                    | 9,325                                       | 20,167              | 24,491             | (53,983)              |                     |
| <b>Total interest expense</b>                                | <b>30,707</b>                               | <b>61,567</b>       | <b>28,172</b>      | <b>(53,983)</b>       | <b>66,463</b>       |
| <b>Net interest income</b>                                   | <b>122,530</b>                              | <b>19,310</b>       | <b>22,353</b>      |                       | <b>164,193</b>      |
| Provision for credit losses                                  |   |                     | 55,000             |                       | <b>55,000</b>       |
| <b>Net interest income after provision for credit losses</b> | <b>\$ 122,530</b>                           | <b>\$ 19,310</b>    | <b>\$ (32,647)</b> | <b>\$</b>             | <b>\$ 109,193</b>   |
| Non-interest income  | 14,670                                      | 28,215              | 8,283              |                       | <b>51,168</b>       |
| Non-interest expense   | 36,939                                      | 1,122               | 56,160             |                       | <b>94,221</b>       |
| <b>Segment pretax profit (loss)</b>                          | <b>\$ 100,261</b>                           | <b>\$ 46,403</b>    | <b>\$ (80,524)</b> | <b>\$</b>             | <b>\$ 66,140</b>    |
| <b>Segment assets as of September 30, 2009</b>               | <b>\$ 4,241,933</b>                         | <b>\$ 2,724,010</b> | <b>\$ 738,934</b>  | <b>\$ (1,158,612)</b> | <b>\$ 6,546,265</b> |

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

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|  | <b>Three Months Ended September 30, 2010</b> |                  |                    |                     |                  |
|--|--|------------------|--------------------|---------------------|------------------|
|  | <b>Business<br/>Financial<br/>Centers</b>    | <b>Treasury</b>  | <b>Other</b>       | <b>Eliminations</b> | <b>Total</b>     |
| Interest income, including loan fees                         | \$ 42,926                                    | \$ 18,331        | \$ 15,216          | \$                  | \$ 76,473        |
| Credit for funds provided (1)                                | 18,141                                       |                  | 8,869              | (27,010)            |                  |
| <b>Total interest income</b>                                 | <b>61,067</b>                                | <b>18,331</b>    | <b>24,085</b>      | <b>(27,010)</b>     | <b>76,473</b>    |
| Interest expense   | 5,287  | 7,678            | 893                |                     | <b>13,858</b>    |
| Charge for funds used (1)                                    | 2,976  | 10,830           | 13,204             | (27,010)            |                  |
| <b>Total interest expense</b>                                | <b>8,263</b>                                 | <b>18,508</b>    | <b>14,097</b>      | <b>(27,010)</b>     | <b>13,858</b>    |
| <b>Net interest income</b>                                   | <b>52,804</b>                                | <b>(177)</b>     | <b>9,988</b>       |                     | <b>62,615</b>    |
| Provision for credit losses                                  |  |                  | 25,300             |                     | <b>25,300</b>    |
| <b>Net interest income after provision for credit losses</b> | <b>\$ 52,804</b>                             | <b>\$ (177)</b>  | <b>\$ (15,312)</b> | <b>\$</b>           | <b>\$ 37,315</b> |
| Non-interest income  | 5,891  | 29,993           | 835                |                     | <b>36,719</b>    |
| Non-interest expense   | 12,803                                       | 13,330           | 23,185             |                     | <b>49,318</b>    |
| <b>Segment pretax profit (loss)</b>                          | <b>\$ 45,892</b>                             | <b>\$ 16,486</b> | <b>\$ (37,662)</b> | <b>\$</b>           | <b>\$ 24,716</b> |

|                                      | <b>Three Months Ended September 30, 2009</b> |                 |               |                     |               |
|--------------------------------------|--|-----------------|---------------|---------------------|---------------|
|                                      | <b>Business<br/>Financial<br/>Centers</b>    | <b>Treasury</b> | <b>Other</b>  | <b>Eliminations</b> | <b>Total</b>  |
| Interest income, including loan fees | 38,632                                       | \$ 25,388       | \$ 11,899     | \$                  | \$ 75,919     |
| Credit for funds provided (1)        | 14,877                                       |                 | 6,723         | (21,600)            |               |
| <b>Total interest income</b>         | <b>53,509</b>                                | <b>25,388</b>   | <b>18,622</b> | <b>(21,600)</b>     | <b>75,919</b> |
| Interest expense                     | 6,920  | 13,286          | 907           |                     | <b>21,113</b> |
| Charge for funds used (1)            | 2,522  | \$ 8,995        | 10,083        | (21,600)            |               |

|   |                  |                 |                    |          |                  |
|---|------------------|-----------------|--------------------|----------|------------------|
| Total interest expense                                | 9,442            | 22,281          | 10,990             | (21,600) | <b>21,113</b>    |
| Net interest income                                   | 44,067           | 3,107           | 7,632              |          | <b>54,806</b>    |
| Provision for credit losses                           |                  |                 | 13,000             |          | <b>13,000</b>    |
| Net interest income after provision for credit losses | \$ 44,067        | \$ 3,107        | \$ (5,368)         | \$       | <b>\$ 41,806</b> |
| Non-interest income                                   | 5,058            | 6,667           | 3,377              |          | <b>15,102</b>    |
| Non-interest expense                                  | 12,236           | \$ 383          | 17,226             |          | <b>29,845</b>    |
| Segment pretax profit (loss)                          | <b>\$ 36,889</b> | <b>\$ 9,391</b> | <b>\$ (19,217)</b> | \$       | <b>\$ 27,063</b> |

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

## 5. 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 September 30, 2010, the Bank entered into 46 interest-rate swap agreements with customers and 46 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.

As of September 30, 2010, the total notional amount of the Bank's swaps was \$299.5 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 September 30, 2010.

Table of Contents**Fair Value of Derivative Instruments**

| <b>Derivatives Not Designated as<br/>Hedging Instruments</b> | <b>Asset Derivatives</b>      |            | <b>Liability Derivatives</b> |            |
|--|-------------------------------|------------|------------------------------|------------|
|  | September 30, 2010            |            | September 30, 2010           |            |
|  | <i>(amounts in thousands)</i> |            |                              |            |
|  | Balance Sheet<br>Location     | Fair Value | Balance Sheet<br>Location    | Fair Value |
| Interest Rate Swaps  | Other Assets                  | \$ 15,008  | Other Liabilities            | \$ 15,008  |
| Total Derivatives  |                               | \$ 15,008  |                              | \$ 15,008  |

**The Effect of Derivative Instruments on the Consolidated Statement of Earnings for  
nine months ended September 30, 2010**  
*(amounts in thousands)*

| <b>Derivatives Not Designated as<br/>Hedging Instruments</b> | <b>Location of Gain Recognized in<br/>Income on Derivative</b> | <b>Amount of<br/>Gain<br/>Recognized in<br/>Income<br/>on Derivative<br/>September 30,<br/>2010</b> |
|--|--|---|
|  |  |   |
| Interest Rate Swaps  | Other Income   | \$ 859  |
| Total  |  | \$ 859  |

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****GENERAL**

Management's discussion and analysis is written to provide greater insight into the results of operations and the financial condition of CVB Financial Corp. and its subsidiaries. Throughout this discussion, Company refers to CVB Financial Corp. and its subsidiaries as a consolidated entity. CVB refers to CVB Financial Corp. as the unconsolidated parent company and Bank refers to Citizens Business Bank. For a more complete understanding of the Company and its operations, reference should be made to the financial statements included in this report and this discussion and analysis should be read in conjunction with the Company's 2009 Annual Report on Form 10-K. Certain statements in this Report on Form 10-Q constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995, including but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business prospects, strategic alternatives, business strategies, regulatory and competitive outlook, capital and financing needs and availability, acquisition and divestiture opportunities, investment and expenditure plans, plans and objectives of management for future operations and other similar forecasts and statements of expectations of assumptions underlying any of the foregoing. Words such as will likely result, aims, anticipates, believes, could, estimates, expects, hopes, intends, may, plans, projects, seeks, of these words and similar expressions are intended to identify these forward looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, local, regional, national and international economic conditions and events and the impact they may have on us and our customers; ability to attract deposits and other sources of liquidity; oversupply of inventory and continued deterioration in values of California real estate, both residential and commercial; a prolonged slowdown in construction activity; changes in the financial performance and/or condition of our borrowers; changes in the level of non-performing assets and charge-offs; the effect of acquisitions we may make; the effect of changes in laws and regulations (including laws and regulations concerning financial reform, taxes, banking, securities, executive compensation and insurance) with which we and our subsidiaries must comply; changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; inflation, interest rate, securities market and monetary fluctuations; 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, 2009. 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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**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 Orange National 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 based in Ontario, California in what is known as the Inland Empire of California. Our geographical market area encompasses the City of Stockton (the middle of the Central Valley) 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, attracting new associates who bring customers 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 18% of our total loan portfolio of \$4.0 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 six Commercial Banking Centers since 2008.

Our net income increased to \$53.1 million for the first nine months of 2010 compared with \$48.4 million for the first nine months of 2009, an increase of \$4.7 million, or 9.74%. Diluted earnings per share increased to \$0.50 per share for 2010, from \$0.40 per share for 2009. Operating results for the first nine months of 2010 include a \$48.5 million provision for credit losses, a \$38.9 million gain on sale of securities, and an \$18.7 million charge for the prepayment of borrowings.

For the quarter ended September 30, 2010, our net income decreased to \$17.9 million compared to \$19.3 million for the quarter ended September 30, 2009, a decrease of \$1.4 million, or 7.21%. Diluted earnings per share were \$0.17 for the third quarter of 2010 compared to \$0.10 for the third quarter of 2009. The decrease in diluted earnings per share during the third quarter of 2009 was due to the repayment of TARP preferred stock resulting in a one-time, non-cash reduction in net income applicable to common stockholders of \$7.6 million.

The operating results for the third quarter and first nine months of 2010 were impacted by the accounting treatment of credit-related transactions from the San Joaquin Bank ( 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.

**Table of Contents****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.

**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.

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**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***

We reported net earnings of \$53.1 million for the nine months ended September 30, 2010. This represented an increase of \$4.7 million or 9.74%, from net earnings of \$48.4 million for the nine months ended September 30, 2009. Basic and diluted earnings per common share for the nine-month period increased to \$0.50 per common share for 2010, compared to \$0.40 per common share for 2009. The annualized return on average assets was 1.04% for the nine months of 2010 compared to an annualized return on average assets of 0.99% for the nine months of 2009. The annualized return on average equity was 10.62% for the nine months ended September 30, 2010, compared to an annualized return on average equity of 10.01% for the nine months ended September 30, 2009.

For the quarter ended September 30, 2010, our net earnings were \$17.9 million. This represents a decrease of \$1.4 million, or 7.21%, from net earnings of \$19.3 million for the third quarter of 2009. Basic and diluted earnings per common share increased to \$0.17 per share for the third quarter of 2010 compared to \$0.10 per share for the third quarter of 2009. The annualized return on average assets was 1.05% and 1.17% for the third quarter of 2010 and 2009, respectively. The annualized return on average equity was 10.34% and 11.33% for the third quarter of 2010 and 2009, 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. Our balance sheet is currently liability-sensitive; meaning interest-bearing liabilities will generally reprice more quickly than earning assets. Therefore, our net interest margin is likely to decrease in sustained periods of rising interest rates and increase in sustained periods of declining interest rates. We manage net interest income 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.



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Our net interest income, before the provision for credit losses, totaled \$200.2 million for the nine months ended September 30, 2010. This represented an increase of \$35.9 million, or 21.91%, over net interest income, before provision for credit losses, of \$164.2 million for the same period in 2009. The increase in net interest income of \$35.9 million resulted from a \$16.6 million increase in interest income and a \$19.3 million decrease in interest expense.

Interest income totaled \$247.3 million for the first nine months of 2010. This represented an increase of \$16.6 million, or 7.22%, compared to total interest income of \$230.7 million for the same period last year. The increase in interest income is primarily due to a \$22.3 million discount accretion on covered loans acquired from SJB. The discount accretion represents accelerated principal payments on SJB loans and is recorded as a yield adjustment to interest income. As a result, average yield on earning assets increased to 5.58% for the nine months of 2010 from 5.18% for the same period of 2009, or 40 basis points. Average earning assets decreased by \$62.7 million, or 1.02%, from \$6.18 billion to \$6.12 billion.

Interest expense totaled \$47.1 million for the first nine months of 2010. This represented a decrease of \$19.3 million, or 29.09%, from total interest expense of \$66.5 million for the same period last year. The decrease in interest expense was due to the decrease in average borrowings of \$414.5 million, from \$1.98 billion as of September 30, 2009 to \$1.57 billion as of September 30, 2010. The average rate paid on interest-bearing liabilities decreased to 1.39% for the first nine months of 2010 from 1.98% for the same period in 2009, or 59 basis points. The average cost of deposits decreased to 0.66% for the first nine months of 2010 from 1.03% for the same period in 2009, or 37 basis points. The decrease in rates paid on deposits and borrowings was offset by an increase in average interest-bearing deposits of \$450.9 million, or 18.37%, from \$2.46 billion to \$2.91 billion.

For the third quarter ended September 30, 2010, our net interest income, before provision for credit losses, totaled \$62.6 million. This represented an increase of \$7.8 million, or 14.25%, over net interest income of \$54.8 million for the same period in 2009. The increase in net interest income of \$7.8 million was primarily due to a decrease in interest expense of \$7.3 million and an increase in interest income of \$555,000.

Interest income totaled \$76.5 million for the third quarter of 2010. This represented an increase of \$555,000, or 0.73%, compared to total interest income of \$75.9 million for the same period last year. Interest income on loans increased by \$7.6 million for the third quarter of 2010 compared to the same period last year. This increase includes a \$4.5 million discount accretion on covered loans acquired from SJB. Interest income on loans was offset by a decrease in investment income of \$7.2 million quarter over quarter.

Interest expense totaled \$13.9 million for the third quarter of 2010. This represented a decrease of \$7.3 million or 34.36%, from total interest expense of \$21.1 million for the same period last year. The decrease in interest expense was due to the decrease in average borrowings of \$340.5 million, or 18.95%. The average rate paid on interest-bearing liabilities decreased to 1.25% for the third quarter ending September 30, 2010 from 1.89% for the same period in 2009, or 64 basis points. The average cost of deposits decreased to 0.59% for the third quarter ending September 30, 2010 from 0.91% for the same period in 2009, or 32 basis points. The decrease in yields was offset by an increase in average interest-bearing deposits of \$295.6 million, or 11.39%, from \$2.59 billion to \$2.89 billion.

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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 period and nine-month period ended September 30, 2010 and 2009. Yields for tax-preferenced investments are shown on a taxable equivalent basis using a 35% tax rate.

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

|  | Average<br>Balance | Nine-month period ended September 30,<br>2010 |   | 2009               |                     | Average<br>Yield/Rate |
|--|--------------------|---|---|--------------------|---------------------|-----------------------|
|  |                    | Average<br>Interest                           | Average<br>Yield/Rate<br>(amounts in thousands) | Average<br>Balance | Average<br>Interest |                       |
| <b>ASSETS</b>                                  |                    |   |   |                    |                     |                       |
| Investment Securities                          |                    |   |   |                    |                     |                       |
| Taxable  | \$ 1,365,745       | \$ 41,938                                     | 4.11%   | \$ 1,699,786       | \$ 59,848           | 4.73%                 |
| Tax preferenced (1)                            | 654,988            | 19,265  | 5.55%   | 669,615            | 20,560              | 5.78%                 |
| Investment in FHLB stock                       | 95,117             | 233   | 0.33%   | 93,240             | 195                 | 0.28%                 |
| Federal Funds Sold & Interest Bearing          |                    |   |   |                    |                     |                       |
| Deposits with other institutions               | 52,327             | 757   | 1.93%   | 68,786             | 195                 | 0.38%                 |
| Loans HFS                                      | 2,813              | 40  | 1.90%   |                    |                     | 0.00%                 |
| Loans (2) (3)                                  | 3,944,561          | 185,065                                       | 6.27%   | 3,646,862          | 149,858             | 5.49%                 |
| Total Earning Assets                           | 6,115,551          | 247,298                                       | 5.58%   | 6,178,289          | 230,656             | 5.18%                 |
| Total Non Earning Assets                       | 714,754            |   |   | 356,180            |                     |                       |
| Total Assets                                   | \$ 6,830,305       |   |   | \$ 6,534,469       |                     |                       |
| <b>LIABILITIES AND STOCKHOLDERS<br/>EQUITY</b> |                    |   |   |                    |                     |                       |
| Savings Deposits (4)                           | \$ 1,699,318       | \$ 7,732                                      | 0.61%   | \$ 1,286,477       | \$ 7,469            | 0.78%                 |
| Time Deposits                                  | 1,206,760          | 6,707   | 0.74%   | 1,168,682          | 11,494              | 1.31%                 |
| Total Deposits                                 | 2,906,078          | 14,439  | 0.66%   | 2,455,159          | 18,963              | 1.03%                 |
| Other Borrowings                               | 1,570,007          | 32,691  | 2.75%   | 1,984,526          | 47,500              | 3.16%                 |
| Interest Bearing Liabilities                   | 4,476,085          | 47,130  | 1.39%   | 4,439,685          | 66,463              | 1.98%                 |
| Non-interest bearing deposits                  | 1,624,866          |   |   | 1,380,349          |                     |                       |
| Other Liabilities                              | 61,272             |   |   | 68,597             |                     |                       |
| Stockholders' Equity                           | 668,082            |   |   | 645,838            |                     |                       |
| Total Liabilities and Stockholders' Equity     | \$ 6,830,305       |   |   | \$ 6,534,469       |                     |                       |
| Net interest income                            |                    | \$ 200,168                                    |   |                    | \$ 164,193          |                       |

|  |       |       |
|--|-------|-------|
| Net interest spread tax equivalent                     | 4.19% | 3.20% |
| Net interest margin                                    | 4.39% | 3.57% |
| Net interest margin tax equivalent                     | 4.56% | 3.75% |
| Net interest margin excluding loan fees                | 4.34% | 3.52% |
| Net interest margin excluding loan fees tax equivalent | 4.51% | 3.70% |

(1) Non tax-equivalent rate was 3.93% for 2010, 4.11% for 2009

(2) Loan fees are included in total interest income as follows, (000)s omitted: 2010, \$2,198; 2009, \$2,279

(3) Non-performing, non-covered loans are included in net loans as follows: 2010, \$158.9 million; 2009, \$58.1 million

(4) Includes interest bearing demand and money market accounts

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

|   | Average<br>Balance | Three Months Ended September 30, |   | Average<br>Balance | Average<br>Rate | Average<br>Rate |
|---|--------------------|----------------------------------|---|--------------------|-----------------|-----------------|
|   |                    | 2010<br>Interest                 | Average<br>Rate<br>(amounts in thousands) |                    |                 |                 |
| <b>ASSETS</b>   |                    |                                  |   |                    |                 |                 |
| Investment Securities   |                    |                                  |   |                    |                 |                 |
| Taxable   | \$ 1,294,734       | \$ 11,461                        | 3.57%                                     | \$ 1,635,607       | \$ 18,278       | 4.49%           |
| Tax preferenced (1)   | 654,675            | 6,324                            | 5.46%                                     | 665,405            | 6,749           | 5.76%           |
| Investment in FHLB stock  | 92,038             | 105                              | 0.46%                                     | 93,240             | 195             | 0.84%           |
| Federal Funds Sold & Interest Bearing<br>Deposits with other institutions | 92,148             | 418                              | 1.81%                                     | 143,220            | 136             | 0.38%           |
| Loans HFS   | 3,001              | 7                                | 0.93%                                     |                    |                 |                 |
| Loans (2) (3)   | 3,887,929          | 58,158                           | 5.93%                                     | 3,606,945          | 50,561          | 5.56%           |
| Total Earning Assets  | 6,024,525          | 76,473                           | 5.23%                                     | 6,144,417          | 75,919          | 5.11%           |
| Total Non Earning Assets  | 763,007            |                                  |   | 413,697            |                 |                 |
| Total Assets  | \$ 6,787,532       |                                  |   | \$ 6,558,114       |                 |                 |
| <b>LIABILITIES AND STOCKHOLDERS<br/>EQUITY</b>                            |                    |                                  |   |                    |                 |                 |
| Savings Deposits (4)  | \$ 1,704,896       | \$ 2,372                         | 0.55%                                     | \$ 1,380,686       | \$ 2,466        | 0.71%           |
| Time Deposits   | 1,185,640          | 1,938                            | 0.65%                                     | 1,214,205          | 3,468           | 1.13%           |
| Total Deposits  | 2,890,536          | 4,310                            | 0.59%                                     | 2,594,891          | 5,934           | 0.91%           |
| Other Borrowings  | 1,455,715          | 9,548                            | 2.57%                                     | 1,796,234          | 15,179          | 3.31%           |
| Interest Bearing Liabilities  | 4,346,251          | 13,858                           | 1.25%                                     | 4,391,125          | 21,113          | 1.89%           |
| Non-interest bearing deposits   | 1,677,328          |                                  |   | 1,427,916          |                 |                 |
| Other Liabilities   | 75,828             |                                  |   | 62,538             |                 |                 |
| Stockholders Equity   | 688,125            |                                  |   | 676,535            |                 |                 |
| Total Liabilities and Stockholders Equity                                 | \$ 6,787,532       |                                  |   | \$ 6,558,114       |                 |                 |
| Net interest income   |                    | \$ 62,615                        |   |                    | \$ 54,806       |                 |