CVB FINANCIAL CORP
Form 10-K
February 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the fiscal year ended December 31, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the transition period from N/A to N/A

Commission file number 1-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

California	**95-3629339**
	(I.R.S. Employer

(State or other jurisdiction of incorporation or organization)	**Identification No.)**
701 N. Haven Avenue, Suite 350	
Ontario, California	**91764**
(Address of Principal Executive Offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, no par value	NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

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

As of June 30, 2011, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $830,627,042.

Number of shares of common stock of the registrant outstanding as of February 15, 2012: 104,609,518.

DOCUMENTS INCORPORATED BY REFERENCE	**PART OF**
Definitive Proxy Statement for the Annual Meeting of Stockholders which will be filed within 120 days of the fiscal year ended December 31, 2011	Part III of Form 10-K

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CVB FINANCIAL CORP.

2011 ANNUAL REPORT ON FORM 10-K

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INTRODUCTION

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Rule 175 promulgated thereunder, Section 21E of the Securities and Exchange Act of 1934, as amended, Rule 3b-6 promulgated thereunder, or Exchange Act, and as such involve risk and uncertainties. All statements in this Form 10-K other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws. These forward-looking statements relate to, among other things, anticipated future operating and financial performance, the allowance for credit losses, our financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs and availability, plans and objectives of management for future operations, expectations of the environment in which we operate, projections of future performance, perceived opportunities in the market and strategies regarding our mission and vision and statements relating to any of the foregoing.

Words such as will likely result, aims , anticipates , believes , could , estimates , expects , hopes , intends , may , plans , projects , seeks , should , will and variations of these words and similar expressions help 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 could cause actual results to differ from those discussed in the forward-looking statements 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 our ability to receive dividends from our subsidiaries;*
- *The effect of any goodwill impairment;*
- *Accounting adjustments in connection with our acquisition of assets and assumptions of liabilities from San Joaquin Bank;*
- *The effect of climate change and attendant regulation on our customers and borrowers*;
- *Our ability to manage the loan portfolio acquired from San Joaquin Bank within the limits of the loss protection provided by the Federal Deposit Insurance Corporation (FDIC);*
- *Compliance with our agreements with the FDIC with respect to the loans we acquired from San Joaquin Bank and our loss-sharing arrangements with the FDIC;*

Impact of reputational risk on such matters as business generation and retention, funding and liquidity;

Changes in the financial performance and/or condition of our borrowers;

Changes in the level of non-performing assets and charge-offs;

Changes in critical accounting policies and judgments;

Effects of acquisitions we may make;

The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities, executive compensation and insurance) with which we and our subsidiaries must comply, including, but not limited to, the Dodd-Frank Act of 2010;

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Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;

Inflation, interest rate, securities market and monetary fluctuations;

Cybersecurity breaches of our systems;

Changes in government interest rate policies;

Fluctuations of our stock price;

Political developments or 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;

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 review ; and

Our success at managing the risks involved in the foregoing items.

For additional information concerning risks we face, see Item 1A. Risk Factors and any additional information we set forth in our periodic reports filed pursuant to the Exchange Act, including this Annual Report on Form 10-K. We do not undertake any obligation to update our forward-looking statements to reflect occurrences or unanticipated events or circumstances arising after the date of such statements, except as required by law.

PART I

ITEM 1. ***BUSINESS***
CVB Financial Corp.

CVB Financial Corp. (referred to herein on an unconsolidated basis as CVB and on a consolidated basis as we or the Company) is a bank holding company incorporated in California on April 27, 1981 and registered under the Bank Holding Company Act of 1956, as amended (the Bank Holding Company Act). The Company commenced business on December 30, 1981 when, pursuant to a reorganization, it acquired all of the voting stock of Chino Valley Bank. On March 29, 1996, Chino Valley Bank changed its name to Citizens Business Bank (the Bank). The Bank is our principal asset. The Company has three other inactive subsidiaries: CVB Ventures, Inc.; Chino Valley Bancorp; and ONB Bancorp. The Company is also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II, and CVB Statutory Trust III. CVB Statutory Trusts I and II were created in December 2003 and CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. A similar entity, FCB Trust II, was acquired by the Company through its acquisition of First Coastal Bancshares (FCB) in June, 2007, the subordinated debt issued by FCB Trust II was redeemed by the Company on January 7, 2012, and FCB Trust II was then terminated in connection with this transaction.

CVB s principal business is to serve as a holding company for the Bank and for other banking or banking related subsidiaries, which the Company may establish or acquire. We have not engaged in any other material activities to date. As a legal entity separate and distinct from its subsidiaries, CVB s principal source of funds is, and will continue to be, dividends paid by and other funds advanced from the Bank and capital raised directly by CVB. Legal limitations are imposed on the amount of dividends that may be paid and loans that may be made by the Bank to CVB. See Item 1. Business Regulation and Supervision Dividends. As of December 31, 2011, the Company had $6.48 billion in total consolidated assets, $3.38 billion in net loans, $4.60 billion in deposits, $509.4 million in customer repurchase agreements, and $448.7 million in borrowings.

On October 16, 2009, we acquired substantially all of the assets and assumed substantially all of the liabilities of San Joaquin Bank (SJB), headquartered in Bakersfield, California, in an FDIC-assisted transaction. We acquired all five branches of SJB, one of which we consolidated with our existing Bakersfield business financial center. Through this acquisition, we acquired $489.1 million in loans, $25.3 million in investment securities, $530.0 million in deposits, and $121.4 million in borrowings. The foregoing amounts were reflected at fair value as of the acquisition date.

The principal executive offices of CVB and the Bank are located at 701 North Haven Avenue, Suite 350, Ontario, California. Our phone number is (909) 980-4030.

Citizens Business Bank

The Bank commenced operations as a California state-chartered bank on August 9, 1974. The Bank s deposit accounts are insured under the Federal Deposit Insurance Act up to applicable limits. The Bank is not a member of the Federal Reserve System. At December 31, 2011, the Bank had $6.47 billion in assets, $3.38 billion in net loans, $4.60 billion in deposits, $509.4 million in customer repurchase agreements, and $448.7 million in borrowings.

As of December 31, 2011, we had 42 Business Financial Centers located in the Inland Empire, Los Angeles County, Orange County and the Central Valley areas of California. Of the 42 Business Financial Centers, we opened 13 as de novo centers and obtained the other 29 in acquisition transactions.

We also have five Commercial Banking Centers, of which four were opened in 2008 and one was opened in 2009. No offices were opened in 2010 or 2011. Although able to take deposits, these centers operate primarily as

sales offices and focus on business clients and their principals, professionals, and high net-worth individuals. These centers are located in Encino (in the San Fernando Valley), Los Angeles, Torrance and Burbank. The fifth one, the Inland Empire Commercial Banking Center, is located adjacent to the Ontario Airport Business Financial Center. We also have two trust offices in Ontario and Pasadena. These offices serve as sales offices for wealth management, trust and investment products. In October 2011, we closed a center location in McFarland, California which is located about sixty miles northeast of Bakersfield. We consolidated this location into our Delano Business Financial Center, located about six miles away.

Through our network of banking offices, we emphasize personalized service combined with a full range of banking and trust services for businesses, professionals and individuals located in the service areas of our offices. Although we focus the marketing of our services to small-and medium-sized businesses, a full range of retail banking services are made available to the local consumer market.

We offer a wide range of deposit instruments. These include checking, savings, money market and time certificates of deposit for both business and personal accounts. We also serve as a federal tax depository for our business customers.

We provide a full complement of lending products, including commercial, agribusiness, consumer, real estate loans and equipment and vehicle leasing. Commercial products include lines of credit and other working capital financing, accounts receivable lending and letters of credit. Agribusiness products are loans to finance the operating needs of wholesale dairy farm operations, cattle feeders, livestock raisers, and farmers. We provide lease financing for municipal governments. Financing products for consumers include automobile leasing and financing, lines of credit, and home improvement and home equity lines of credit. Real estate loans include mortgage and construction loans.

We also offer a wide range of specialized services designed for the needs of our commercial accounts. These services include cash management systems for monitoring cash flow, a credit card program for merchants, courier pick-up and delivery, payroll services, remote deposit capture, electronic funds transfers by way of domestic and international wires and automated clearinghouse, and on-line account access. We make available investment products to customers, including mutual funds, a full array of fixed income vehicles and a program to diversify our customers funds in federally insured time certificates of deposit of other institutions.

We offer a wide range of financial services and trust services through our CitizensTrust division. These services include fiduciary services, mutual funds, annuities, 401(k) plans and individual investment accounts.

Business Segments

We are a community bank with two reportable operating segments: (i) Business Financial and Commercial Banking Centers (Centers) and (ii) Treasury. Our Centers are the focal points for customer sales and services. As such, these Centers comprise the biggest segment of the Company. Our other reportable segment, Treasury manages all of the investments for the Company. All administrative and other smaller operating departments are combined into the Other category for reporting purposes. See the sections captioned Results by Segment Operations in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 21 Business Segments in the notes to consolidated financial statements.

Competition

The banking and financial services business is highly competitive. The increasingly competitive environment faced by banks is a result primarily of changes in laws and regulations, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. We compete for loans, deposits, and customers with other commercial banks, savings and loan associations, savings banks, securities and brokerage companies, mortgage companies, insurance companies, finance companies,

money market funds, credit unions, and other nonbank financial service providers. Many competitors are much larger in total assets and capitalization, have greater access to capital markets, including foreign-ownership, and/or offer a broader range of financial services.

Regulation and Supervision

General

Our profitability, like most financial institutions, is primarily dependent on interest rate differentials. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on interest-earning assets, such as loans extended to customers and securities held in the investment portfolio, will comprise the major portion of our earnings. These rates are highly sensitive to many factors that are beyond our control, such as inflation, recession and unemployment, and the impact which future changes in domestic and foreign economic conditions might have on us cannot be predicted.

Our business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the FRB). The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. Government securities by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact of any future changes in monetary and fiscal policies on us cannot be predicted.

The Company and the Bank are subject to significant regulation and restrictions by federal and state laws and regulatory agencies. These regulations and restrictions are intended primarily for the protection of depositors and the deposit insurance fund, and secondarily for the stability of the U.S. banking system. They are not intended for the benefit of shareholders of financial institutions. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion. From time to time, federal and state legislation is enacted which may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers.

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although general economic conditions have somewhat improved, certain sectors, such as real estate, remain weak and unemployment remains high. Local governments and many businesses are still experiencing difficulty due to reduced consumer spending and continued liquidity challenges in the credit markets. In response to this economic downturn and financial industry instability, legislative and regulatory initiatives were, and are expected to continue to be, introduced and implemented, which substantially intensify the regulation of the financial services industry.

We cannot predict whether or when potential legislation or new regulations will be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Such developments may further alter the structure, regulation, and competitive relationship among financial institutions, and may subject us to increased regulation, disclosure, and reporting requirements. Moreover, the bank regulatory agencies have been very aggressive in the current economic environment in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement actions to financial institutions requiring action to address credit quality, liquidity and risk management and capital adequacy, as well as other safety and soundness concerns.

Government Policies, Legislation, and Regulation

The Dodd-Frank Wall Street Reform and Consumer Protection Act financial reform legislation (Dodd-Frank), which became law on July 21, 2010, significantly revised and expanded the rulemaking, supervisory and enforcement authority of federal bank regulators. The numerous rules and regulations promulgated under Dodd-Frank are likely to impact our operations and compliance costs. Other legislative and regulatory initiatives which could affect us, and the banking industry in general, are pending. Additional initiatives may be proposed or introduced before Congress, the California legislature, and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation, and competitive relationship among financial institutions, and may subject us to increased regulation, disclosure, and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules and regulations and policies to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations or changes in policy may be enacted or the extent to which the business of the Bank would be affected thereby.

Dodd-Frank followed the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009 (ARRA) in response to the economic downturn and financial industry instability. Dodd-Frank impacts many aspects of the financial industry and, in many cases, will impact larger and smaller financial institutions and community banks differently over time. Dodd-Frank includes the following key provisions affecting the banking industry:

(i) the creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation;

(ii) expanded FDIC resolution authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;

(iii) the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;

(iv) the requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;

(v) enhanced regulation of financial markets, including the derivative and securitization markets, and the elimination of certain proprietary trading activities by banks (the Volcker Rule);

(vi) the termination of investments by the U.S. Treasury under TARP;

(vii) the elimination and phase out of trust preferred securities (TRUPS) from Tier 1 capital with certain exceptions;

(viii) a permanent increase of the previously implemented temporary increase of FDIC deposit insurance to $250,000 and an extension of federal deposit coverage until January 1, 2013 for the full net amount held by depositors in non-interesting bearing transaction accounts;

(ix) authorization for financial institutions to pay interest on business checking accounts;

(x) changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution s deposit base, but instead, will be its average consolidated total assets less its average tangible equity;

(xi) the elimination of remaining barriers to de novo interstate branching by banks;

(xii) expanded restrictions on transactions with affiliates and insiders under Section 23A and 23B of the Federal Reserve Act and lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions;

(xiii) the transfer of oversight of federally chartered thrift institutions to the Office of the Comptroller of the Currency and state chartered savings banks to the FDIC, and the elimination of the Office of Thrift Supervision;

(xiv) provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including financial institutions, including (1) stockholder advisory votes on executive compensation, (2) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria, (3) enhanced independence requirements for compensation committee members, and (4) authority for the SEC to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company s proxy statement; and

(xv) the creation of a Consumer Financial Protection Bureau, which is authorized to promulgate consumer protection regulations relating to bank and non-bank financial products and examine and enforce these regulations on banks with more than $10 billion in assets.

The federal regulatory agencies are in the process of issuing all of the proposed and certain final rules, studies and reports as required by Dodd-Frank. We cannot predict the extent to which the interpretations and implementation of this wide-ranging federal legislation by regulations and in supervisory policies and practices may affect us. Dodd-Frank is expected to result in more stringent capital, liquidity and leverage requirements on us and may otherwise adversely affect our business. For example, the provisions that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek other sources of capital in the future. As a result of the changes required by Dodd-Frank, the profitability of our business activities may be impacted and we may be required to make changes to certain of our business practices. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

Bank Holding Company Regulation

CVB is a bank holding company within the meaning of the Bank Holding Company Act (BHCA) and is registered as such with the Federal Reserve Board (Federal Reserve). It is also subject to supervision and examination by the Federal Reserve and its authority to:

- Require periodic reports and such additional information as the Federal Reserve may require;
- Require bank holding companies to maintain increased levels of capital (See Capital Adequacy Requirements below);
- Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank;
- Restrict the ability of bank holding companies to obtain dividends on other distributions from their subsidiary banks;
- Terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- Require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination;
- Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations;

Approve acquisitions and mergers with banks and consider certain competitive, management, financial or other factors in granting these approvals in addition to similar California or other state banking agency approvals which may also be required.

The Federal Reserve s view is that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company s failure to meet its source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the Federal Reserve Board s regulations, or both. The source-of-strength doctrine most directly affects bank holding companies where a bank holding company s subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank s federal regulator to take prompt corrective action. See Prompt Corrective Action Provisions below.

Restrictions on Activities

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain financial holding company status pursuant to the Gramm-Leach-Bliley Act of 1999 (GLBA) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be financial in nature or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to GLBA and Dodd-Frank, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (CRA), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. CVB has not elected financial holding company status and neither CVB nor the Bank has engaged in any activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature.

CVB is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, CVB and any of its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Financial Institutions (DFI). DFI approvals may also be required for certain mergers and acquisitions.

Securities Exchange Act of 1934

CVB s common stock is publicly held and listed on the NASDAQ Stock Market (NASDAQ), and CVB is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the Securities and Exchange Commission (SEC) promulgated thereunder as well as listing requirements of NASDAQ.

Sarbanes-Oxley Act

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting.

Bank Regulation

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DFI and by the FDIC, as the Bank s primary Federal regulator, and must additionally comply with certain applicable regulations of the Federal Reserve. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to insiders , including officers, directors, and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. Dodd-Frank expanded definitions and restrictions on transactions with affiliates and insiders under Section 23A and 23B and also lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions

Pursuant to the Federal Deposit Insurance Act (FDI Act) and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called closely related to banking or nonbanking activities commonly conducted by national banks in operating subsidiaries or subsidiaries of bank holding companies. Further, pursuant to GLBA, California banks may conduct certain financial activities in a subsidiary to the same extent as may a national bank, provided the bank is and remain**s** well-capitalized, well-managed and in satisfactory compliance with the CRA. The Bank currently has no financial subsidiaries.

Enforcement Authority

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution s capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DFI or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank s operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DFI and the FDIC**,** and separately the FDIC as insurer of the Bank s deposits, have residual authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- Restrict the Bank s growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- Enter into or issue informal or formal enforcement actions, including required Board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;

Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and

Take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the Deposit Insurance Fund (the DIF) up to prescribed limits for each depositor. Pursuant to Dodd-Frank, the maximum deposit insurance amount has been permanently increased to $250,000 and all non-interest-bearing transaction accounts are insured through December 31, 2012. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Due to the number of bank failures and losses incurred by DIF in recent years, as well as the recent extraordinary programs in which the FDIC has been involved to support the banking industry generally, the FDIC s DIF was substantially depleted and the FDIC incurred substantially increased operating costs. In November, 2009, the FDIC adopted a requirement for institutions to prepay in 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. The Bank prepaid its assessments based on the calculations of the projected assessments at that time.

As required by Dodd-Frank, the FDIC adopted a DIF restoration plan which became effective on January 1, 2011. Among other things, the plan: (1) raises the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removes the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund; (2) requires that the fund reserve ratio reach 1.35 percent by 2020; (3) eliminates the requirement that the FDIC provide dividends from the fund when the reserve ratio is between 1.35 percent and 1.5 percent; and (4) continues the FDIC s authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but grants the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends. The FDI Act continues to require that the FDIC s Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of getting its reserve ratio up to 2% of insured deposits by 2027. In connection with these changes, we expect our FDIC deposit insurance premiums to increase.

On February 7, 2011, the FDIC approved a final rule, as mandated by Dodd-Frank, changing the deposit insurance assessment system from one that is based on total domestic deposits to one that is based on average consolidated total assets minus average tangible equity. In addition, the final rule creates a scorecard-based assessment system for larger banks (those with more than $10 billion in assets) and suspends dividend payments if the DIF reserve ratio is less than 1.5 percent, but provides for decreasing assessment rates when the DIF reserve ratio reaches certain thresholds. Larger insured depository institutions will likely pay higher assessments to the DIF than under the old system. Additionally, the final rule includes an adjustment for depository institution debt whereby an institution would pay an additional premium equal to 50 basis points on every dollar of long-term, unsecured debt held as an asset that was issued by another insured depository institution (excluding debt guaranteed under the FDIC s Temporary Liquidity Guarantee Program) to the extent that all such debt exceeds 3 percent of the issuing insured depository institution s Tier 1 capital. The new rule became effective for the quarter beginning April 1, 2011.

Our FDIC insurance expense totaled $4.6 million for 2011. FDIC insurance expense includes deposit insurance assessments and Financing Corporation (FICO) assessments related to outstanding FICO bonds to fund interest payments on bonds to recapitalize the predecessor to the DIF. These assessments will continue until the FICO bonds mature in 2017. The FICO assessment rates, which are determined quarterly, were 0.01020% of insured deposits for the first quarter of fiscal 2011, 0.01000% for the second and third quarters of 2011 and 0.00680% of insured deposits for the fourth quarter of 2011.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

The FDIC may terminate a depository institution s deposit insurance upon a finding that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank s depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank s charter by the DFI.

Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Increased capital requirements are expected as a result of expanded authority set forth in Dodd-Frank and the Basel III international supervisory developments discussed above. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. At December 31, 2011, the Company s and the Bank s capital ratios significantly exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for well capitalized institutions. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources.

The current risk-based capital guidelines for bank holding companies and banks adopted by the federal banking agencies are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards.

Qualifying capital is classified depending on the type of capital:

- *Tier 1 capital* currently includes common equity and trust preferred securities, subject to certain criteria and quantitative limits. Accordingly, the capital received from trust preferred offerings qualifies as Tier 1 capital, but is subject to the new provisions of Dodd-Frank. Under Dodd-Frank, depository institution holding companies with more than $15 billion in total consolidated assets as of December 31, 2009, will no longer be able to include trust preferred securities as Tier 1 regulatory capital after the end of a 3-year phase-out period beginning 2013, and would need to replace any outstanding trust preferred securities issued prior to May 19, 2010 with qualifying Tier 1 regulatory capital during the phase-out period. For institutions with less than $15 billion in total consolidated assets, existing trust preferred capital will still qualify as Tier 1. Small bank holding companies with less than $500 million in assets could issue new trust preferred which could still qualify as Tier 1; however, the market for any new trust preferred capital raises is uncertain.

- *Tier 2 capital* includes hybrid capital instruments, other qualifying debt instruments, a limited amount of the allowance for credit losses, and a limited amount of unrealized holding gains on equity securities. Following the phase-out period under Dodd-Frank, trust preferred securities will be treated as Tier 2 capital for institutions with more than $15 billion in total consolidated assets.

- *Tier 3 capital* consists of qualifying unsecured debt. The sum of Tier 2 and Tier 3 capital may not exceed the amount of Tier I capital.

Under the current capital guidelines, there are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed well capitalized a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least ten percent, six percent and five percent, respectively. There is currently no Tier 1 leverage requirement for a holding company to be deemed well-capitalized. At December 31, 2011, the respective capital ratios of the Company and the Bank exceeded the minimum percentage requirements to be deemed well-capitalized . As of December 31, 2011, the Bank s total risk-based capital ratio was 18.63% and its Tier 1 risk-based capital ratio was 17.36%. As of December 31, 2011, the Company s total risk-based capital ratio was 19.05% and its Tier 1 risk-based capital ratio was 17.79%. The federal banking agencies may change existing capital guidelines or adopt new capital guidelines in the future and have required many banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed well capitalized and may therefore be subject to restrictions on taking brokered deposits.

The Company and the Bank are also required to maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and that are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets of at least 3%. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3% minimum, for a minimum of 4% to 5%. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. Federal regulators may, however, set higher capital requirements when a bank s particular circumstances warrant. As of December 31, 2011, the Bank s leverage capital ratio was 10.92%, and the Company s leverage capital ratio was 11.19%, both ratios significantly exceeding regulatory minimums.

Federal Banking Agency Compensation Guidelines

Guidelines adopted by the federal banking agencies pursuant to the FDI Act prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In June 2010, the federal bank regulatory agencies jointly issued additional comprehensive guidance on incentive compensation policies (the Incentive Compensation Guidance) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

On February 7, 2011, the Board of Directors of the FDIC approved a joint proposed rulemaking to implement Section 956 of Dodd-Frank for banks with $1 billion or more in assets. Section 956 prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial

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institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would move the U.S. closer to aspects of international compensation standards by 1) requiring deferral of a substantial portion of incentive compensation for executive officers of particularly large institutions described above; 2) prohibiting incentive-based compensation arrangements for covered persons that would encourage inappropriate risks by providing excessive compensation; 3) prohibiting incentive-based compensation arrangements for covered persons that would expose the institution to inappropriate risks by providing compensation that could lead to a material financial loss; 4) requiring policies and procedures for incentive-based compensation arrangements that are commensurate with the size and complexity of the institution; and 5) requiring annual reports on incentive compensation structures to the institution s appropriate Federal regulator. A joint rule making proposal will be published for comment by all of the banking agencies and the SEC, among other agencies.

The scope, content and application of the U.S. banking regulators policies on incentive compensation continue to evolve in the aftermath of the economic downturn. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of the Company and the Bank to hire, retain and motivate key employees.

Basel Accords

The current risk-based capital guidelines which apply to the Company and the Bank are based upon the 1988 capital accord (referred to as Basel I) of the International Basel Committee on Banking Supervision (the Basel Committee), a committee of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. A new framework and accord, referred to as Basel II evolved from 2004 to 2006 out of the efforts to revise capital adequacy standards for internationally active banks. Basel II emphasizes internal assessment of credit, market and operational risk; supervisory assessment and market discipline in determining minimum capital requirements and became mandatory for large or core international banks outside the United States in 2008 (total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more). Basel II was optional for others, and if adopted, must first be complied with in a parallel run for two years along with the existing Basel I standards.

The United States federal banking agencies issued a proposed rule for banking organizations that do not use the advanced approaches under Basel II. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where United States markets have unique characteristics and risk profiles. A definitive final rule has not yet been issued. The United States banking agencies indicated, however, that they would retain the minimum leverage requirement for all United States banks.

In January 2009, the Basel Committee proposed to reconsider regulatory capital standards, supervisory and risk-management requirements and additional disclosures to further strengthen the Basel II framework in response to the worldwide economic downturn. In December 2009, the Basel Committee released two consultative documents proposing significant changes to bank capital, leverage and liquidity requirements to enhance the Basel II framework which had not yet been fully implemented internationally and even less so in the United States. The Group of Twenty Finance Ministers and Central Bank Governors (commonly referred to as the G-20), including the United States, endorsed the reform package, referred to as Basel III, and proposed phase in timelines in November, 2010. Basel III provides for increases in the minimum Tier 1 common equity ratio and the minimum requirement for the Tier 1 capital ratio. Basel III additionally includes a capital conservation buffer on top of the minimum requirement designed to absorb losses in periods of financial and economic distress; and an additional required countercyclical buffer percentage to be implemented according to a particular nation s circumstances. These capital requirements are further supplemented under Basel III by a non-risk-based leverage ratio. Basel III also reaffirms the Basel Committee s intention to introduce higher capital requirements on securitization and trading activities at the end of 2011.

The Basel III liquidity proposals have three main elements: (i) a liquidity coverage ratio designed to meet the bank s liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a net stable

funding ratio designed to promote more medium and long-term funding over a one-year time horizon, and (iii) a set of monitoring tools that the Basel Committee indicates should be considered as the minimum types of information that banks should report to supervisors.

Implementation of Basel III in the United States will require regulations and guidelines by United States banking regulators, which may differ in significant ways from the recommendations published by the Basel Committee. It is unclear how United States banking regulators will define well-capitalized in their implementation of Basel III and to what extent and when smaller banking organizations in the United States will be subject to these regulations and guidelines. Basel III standards, if adopted, would lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. The Basel III standards, if adopted, could lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios.

Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3 percent, based on a measure of total exposure rather than total assets, and new liquidity standards. The new Basel III capital standards will be phased in from January 1, 2013 until January 1, 2019.

United States banking regulators must also implement Basel III in conjunction with the provisions of Dodd-Frank related to increased capital and liquidity requirements. Dodd-Frank Act requires the Federal Reserve Board, the Office of the Comptroller of the Currency (OCC) and the FDIC to adopt regulations imposing a continuing floor of the minimum leverage and Basel I-based capital requirements, as in effect for depository institutions as of the date of enactment, July 21, 2010, in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. In December 2010, the Federal Reserve Board, the OCC and the FDIC issued a joint notice of proposed rulemaking that would implement this requirement.

The regulations ultimately applicable to the Company may be substantially different from the Basel III final framework as published in December 2010. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company s net income and return on equity.

Prompt Corrective Action Provisions

The Federal Deposit Insurance Act (FDIA) provides a framework for regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. Among other things, it requires the relevant federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Supervisory actions by the appropriate federal banking regulator under the prompt corrective action rules generally depend upon an institution s classification within five capital categories as defined in the regulations. The relevant capital measures are the capital ratio, the Tier 1 capital ratio, and the leverage ratio. However, the federal banking agencies have also adopted non-capital safety and soundness standards to assist examiners in identifying and addressing potential safety and soundness concerns before capital becomes impaired. These include operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset quality and growth, (v) earnings, (vi) risk management, and (vii) compensation and benefits.

A depository institution s capital tier under the prompt corrective action regulations will depend upon how its capital levels compare with various relevant capital measures and the other factors established by the regulations. A bank will be: (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of

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8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The regulatory agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for a hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

Dividends

It is the Federal Reserve s policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. It is also the Federal Reserve s policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The Bank is a legal entity that is separate and distinct from its holding company. CVB receives income through dividends paid by the Bank. Subject to the regulatory restrictions which currently further restrict the ability of the Bank to declare and pay dividends, future cash dividends by the Bank will depend upon management s assessment of future capital requirements, contractual restrictions, and other factors.

The powers of the board of directors of the Bank to declare a cash dividend to CVB is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank s retained earnings or net income for its last three fiscal years (less any distributions to shareholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DFI in an amount not exceeding the greatest of (1) retained earnings of the bank; (2) the net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year.

Operations and Consumer Compliance Laws

The Bank must comply with numerous federal anti-money laundering and consumer protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act (effective 2013), the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act and various federal and state privacy protection laws. Noncompliance with these laws could subject the Bank to lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

Dodd-Frank provides for the creation of the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve. This bureau is a new regulatory agency for United States banks. It has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives, determinations as to a borrower s ability to repay and prepayment penalties. The bureau s functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to consumer financial products and services. Banks with less than $10 billion in assets, such as the Bank, will continue to be examined for compliance by their primary federal banking agency.

Regulation of Non-bank Subsidiaries

Non-bank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies.

Employees

At February 15, 2012, we employed 811 persons, 578 on a full-time and 233 on a part-time basis. We believe that our employee relations are satisfactory.

Available Information

Reports filed with the SEC include our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports and other information on file can be inspected and copied on official business days between 10:00 a.m. and 3:00 p.m. at the public reference facilities of the SEC on file at 100 F Street, N.E., Washington D.C., 20549. The public may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains the

reports, proxy and information statements and other information we file with them. The address of the site is http://www.sec.gov. The Company also maintains an Internet website at http://www.cbbank.com. We make available, free of charge through our website, our Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and current Report on Form 8-K, and any amendment there to, as soon as reasonably practicable after we file such reports with the SEC. None of the information contained in or hyperlinked from our website is incorporated into this Form 10-K.

Executive Officers of the Company

The following sets forth certain information regarding our executive officers as of February 15, 2012:

Executive Officers:

Name	Position	Age
Christopher D. Myers	President and Chief Executive Officer of the Company and the Bank	49
Richard C. Thomas	Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank	63
James F. Dowd	Executive Vice President and Chief Credit Officer of the Bank	59
David A. Brager	Executive Vice President and Sales Division Manager of the Bank	44
David C. Harvey	Executive Vice President and Chief Operations Officer of the Bank	44

Mr. Myers assumed the position of President and Chief Executive Officer of the Company and the Bank on August 1, 2006. Prior to that, Mr. Myers served as Chairman of the Board and Chief Executive Officer of Mellon First Business Bank from 2004 to 2006. From 1996 to 2003, Mr. Myers held several management positions with Mellon First Business Bank, including Executive Vice President, Regional Vice President, and Vice President/Group Manager.

Mr. Thomas assumed the position of Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank on March 1, 2011. Mr. Thomas initially joined the Bank as an Executive Vice President Finance and Accounting on December 13, 2010. Previously, Mr. Thomas served as Chief Risk Officer of Community Bank. From 1987 to 2009, he was an audit partner of Deloitte & Touche LLP.

Mr. Dowd assumed the position of Executive Vice President and Chief Credit Officer of the Bank on June 30, 2008. From 2006 to 2008, he served as Executive Vice President and Chief Credit Officer for Mellon First Business Bank. From 1991 to 2006, Mr. Dowd held several management positions with City National Bank, including Senior Vice President and Manager of Special Assets, Deputy Chief Credit Officer, and Interim Chief Credit Officer.

Mr. Brager assumed the position of Executive Vice President and Sales Division Manager of the Bank on November 22, 2010. From 2007 to 2010, he served as Senior Vice President and Regional Manager of the Central Valley Region for the Bank. From 2003 to 2007, he served as Senior Vice President and Manager of the Fresno Business Financial Center for the Bank. From 1997 to 2003, Mr. Brager held management positions with Westamerica Bank.

Mr. Harvey assumed the position of Executive Vice President and Chief Operations Officer of the Bank on December 31, 2009. From 2000 to 2008, he served as Senior Vice President and Operations Manager at Bank of the West. From 2008 to 2009 he served as Executive Vice President and Commercial and Treasury Services Manager at Bank of the West.

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ITEM 1A. ***RISK FACTORS***

Risk Factors That May Affect Future Results Together with the other information on the risks we face and our management of risk contained in this Annual Report or in our other SEC filings, the following presents significant risks which may affect us. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also impair our business operations and results.

Risk Relating to Recent Economic Conditions and Government Response Efforts

Difficult economic and market conditions have adversely affected our industry

After suffering sharp declines over the past several years, the pace of housing price declines has appeared to slow more recently, although existing delinquencies and foreclosures continue to create overhang. This in turn has negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. In addition, while there are signs that general economic conditions, including the employment markets, have started to show improvement, such signs remain tentative, and compared to prior periods of growth, most areas and industries continue to experience reduced availability of commercial credit and high unemployment. This in turn has negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. These economic conditions and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. The resulting economic pressure on consumers and businesses and the lack of confidence in the economy and financial markets may adversely affect our business, financial condition, results of operations and stock price. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events, or any downward turn in the economy:

- We face increased regulation of our industry as demonstrated by the adoption of Dodd-Frank. Compliance with such regulations may increase our costs and limit our ability to pursue business opportunities.

- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.

- The Company s commercial, residential and consumer borrowers may be unable to make timely repayments of their loans, or the decrease in value of real estate collateral securing the payment of such loans could result in significant credit losses, increasing delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company s operating results.

- The value of the portfolio of investment securities that we hold may be adversely affected by increasing interest rates and defaults by debtors.

- Further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in difficulty in accessing capital or an inability to borrow on favorable terms or at all from other financial institutions.

- Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investments banks to bank holding companies may adversely affect the Company s ability to market its products and services.

We are subject to cybersecurity risks and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents. In certain cases, we are responsible for protecting customers proprietary information as well as their accounts with us. We have security measures and processes in place to defend against these cybersecurity risks but these cyber attacks are rapidly evolving and we may not be able to anticipate or prevent all such attacks. Any compromise of our security could result in a violation of privacy or other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, which could harm our business.

If economic conditions do not significantly improve, there can be no assurance that we will not experience an adverse effect, which may be material, on our business, financial condition and results of operations.

Legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system. Future legislation and regulations may be adopted which could result in a comprehensive overhaul of the U.S. banking system. There can be no assurance, however, as to the actual impact that legislation and regulations will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of legislation and regulations to help stabilize the financial markets and a continuation or worsening of current financial market conditions could have a material, adverse effect on our business, financial condition, results of operations, and access to credit or the value of our securities.

U.S. and international financial markets and economic conditions could adversely affect our liquidity, results of operations and financial condition

As described in Business Economic Conditions, Government Policies, Legislation and Regulation , turmoil and downward economic trends have been particularly acute in the financial sector. Although the Company and the Bank remain well capitalized and have not suffered any significant liquidity issues as a result of these events, the cost and availability of funds may be adversely affected by illiquid credit markets and the demand for our products and services may decline as our borrowers and customers continue to realize the impact of an economic slowdown, previous recession and ongoing high unemployment rates. In view of the concentration of our operations and the collateral securing our loan portfolio in Central and Southern California, we may be particularly susceptible to adverse economic conditions in the state of California, where our business is concentrated. In addition, adverse economic conditions may exacerbate our exposure to credit risk and adversely affect the ability of borrowers to perform under the terms of their lending arrangements with us.

Adverse conditions in the U.S. and international markets and economy may adversely affect our liquidity, financial condition, results or operations and profitability.

We may be required to make additional provisions for credit losses and charge off additional loans in the future, which could adversely affect our results of operations

For the year ended December 31, 2011, we recorded a $7.1 million provision for credit losses, charged off $20.5 million, and had net recoveries of $2.2 million. There has been a significant slowdown in the real estate markets in portions of Los Angeles, Riverside, San Bernardino and Orange counties, and the Central Valley area of California where a majority of our loan customers are based. This slowdown reflects declining prices in real estate, excess inventories of homes and increasing vacancies in commercial and industrial properties, all of which have contributed to financial strain on real estate developers and suppliers. In addition, the Federal Reserve Board and other government officials have expressed concerns about banks concentration in commercial real estate lending and the ability of commercial real estate borrowers to perform pursuant to the terms of their loans. As of December 31, 2011, we had $2.17 billion in commercial real estate loans, $94.8 million in construction loans and $179.7 million in single family residential mortgages. Although there are signs that the U.S. economy is now appearing to emerge from recession, deterioration in the real estate market, and in particular the commercial real estate market, could affect the ability of our loan customers to service their debt. This which could result in loan charge-offs and provisions for credit losses in the future, which could have a material adverse effect on our financial condition, net income and capital.

Volatility in commodity prices may adversely affect our results of operations.

As of December 31, 2011, approximately ten percent (10.5%) of our gross loan portfolio was comprised of dairy, livestock and agribusiness loans. Recent volatility in certain commodity prices, including milk prices, could adversely impact the ability of those to whom we have made dairy and livestock loans to perform under the terms of their borrowing arrangements with us. In addition, certain grains are being diverted from the food chain into the production of ethanol which is causing the price of feed stocks for dairies to remain high, therefore putting pressure on margins of milk sales and cash flows. These situations, as well as others, could result in additional loan charge-offs and provisions for credit losses in the future, which could have a material adverse effect on our financial condition, net income and capital.

Risks Related to Our Market and Business

Our allowance for credit losses may not be appropriate to cover actual losses

A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for credit losses to provide for loan and lease defaults and non-performance. The allowance is also appropriately increased for new loan growth. While we believe that our allowance for credit losses is appropriate to cover inherent losses, we cannot assure you that we will not increase the allowance for credit losses further or that regulators will not require us to increase this allowance.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

The actions and commercial soundness of other financial institutions could affect our ability to engage in routine funding transactions.

Financial service institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to different industries and counterparties, and execute transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Defaults by financial services institutions, even rumors or questions about one or more financial institutions or the financial services industry in general, could lead to market wide liquidity problems and further, could lead to losses or defaults by the Company or other institutions. Many of these transactions expose us to credit risk in the event of default of its counterparty or client. In addition, our credit risk may increase when the collateral held by it cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. Any such losses could materially and adversely affect our results of operations.

Our interest expense may increase following the repeal of the federal prohibition on payment of interest on demand deposits

The federal prohibition on the ability of financial institutions to pay interest on demand deposit accounts was repealed as part of Dodd-Frank. As a result, beginning on July 21, 2011, financial institutions could

commence offering interest on demand deposits to compete for clients. While the Company has not yet incurred significant deposit costs as a result of this repeal, it is possible that our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers. This could have a material adverse effect on our financial condition, net income and results of operations.

Our loan portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets

A further downturn in our real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and national disasters particular to California. Substantially all of our real estate collateral is located in California. If real estate values, including values of land held for development, continue to decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. Commercial real estate loans typically involve large balances to single borrowers or group of related borrowers. Since payments on these loans are often dependent on the successful operation or management of the properties, as well as the business and financial condition of the borrower, repayment of such loans may be subject to adverse conditions in the real estate market, adverse economic conditions or changes in applicable government regulations.

Additional risks associated with our construction loan portfolio include failure of contractors to complete construction on a timely basis or at all, market deterioration during construction, cost overruns and failure to sell or lease the security underlying the construction loans so as to generate the cash flow anticipated by our borrower. Continued declines in real estate values, coupled with the current economic downturn and an associated increase in unemployment, may result in higher than expected loan delinquencies or problem assets, a decline in demand for our products and services, or a lack of growth or decrease in deposits, which may cause us to incur losses, adversely affect our capital or hurt our business.

We are exposed to risk of environmental liabilities with respect to properties to which we take title

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. While we will take steps to mitigate this risk, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and prospects could be adversely affected.

We may experience goodwill impairment

If our estimates of segment fair value change due to changes in our businesses or other factors, we may determine that impairment charges on goodwill recorded as a result of acquisitions are necessary. Estimates of fair value are determined based on a complex model using cash flows, the fair value of our Company as determined by our stock price, and company comparisons. If management s estimates of future cash flows are inaccurate, fair value determined could be inaccurate and impairment may not be recognized in a timely manner. If the fair value of the Company declines, we may need to recognize goodwill impairment in the future which would have a material adverse effect on our results of operations and capital levels.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance

A substantial portion of our income is derived from the differential or spread between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. At December 31, 2011 our balance sheet was slightly liability sensitive and, as a result, our net interest margin tends to decline in a rising interest rate environment and expand in a declining interest rate environment. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability. In addition, loan origination volumes are affected by market interest rates. Rising interest rates, generally, are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase. In addition, in a rising interest rate environment, we may need to accelerate the pace of rate increases on our deposit accounts as compared to the pace of future increases in short-term market rates. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality and loan origination volume.

We are subject to extensive government regulation that could limit or restrict our activities, which, in turn, may hamper our ability to increase our assets and earnings

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. Perennially various laws, rules and regulations are proposed, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products.

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

Recent government efforts to strengthen the U.S. financial system have resulted in the imposition of additional regulatory requirements, including expansive financial services regulatory reform legislation. Dodd-Frank sets out sweeping regulatory changes. Changes imposed by Dodd-Frank include, among others: (i) new requirements on banking, derivative and investment activities, including modified capital requirements, the repeal of the prohibition on the payment of interest on business demand accounts, and debit card interchange fee requirements; (ii) corporate governance and executive compensation requirements; (iii) enhanced financial institution safety and soundness regulations, including increases in assessment fees and deposit insurance coverage; and (iv) the establishment of new regulatory bodies, such as the Bureau of Consumer Financial Protection. Certain provisions are effective immediately; however, much of the Financial Reform Act is subject to further rulemaking and/or studies. As such, while we are subject to the legislation, we cannot fully assess the impact of Dodd-Frank until more final rules are implemented.

Current and future legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd-Frank, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules and may make it more difficult for us to attract and retain qualified executive officers and employees.

The FDIC s restoration plan and the related increased assessment rate could adversely affect our earnings.

As a result of a series of financial institution failures and other market developments, the deposit insurance fund, or DIF, of the FDIC has been significantly depleted and reduced the ratio of reserves to insured deposits.

As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased the deposit insurance assessment rates and thus raised deposit premiums for insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required which we may be required to pay. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect our results of operations.

The impact of the new Basel III capital standards will likely impose enhanced capital adequacy standards on us.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III, which were approved in November 2010 by the G20 leadership. Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%. Basel III increases the minimum Tier 1 capital ratio to 8.5% inclusive of the capital conservation buffer, increases the minimum total capital ratio to 10.5% inclusive of the capital buffer and introduces a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards will be phased in over a multi-year period. The Federal Reserve will likely implement changes to the capital adequacy standards applicable to us and the Bank which will increase our capital requirements and compliance costs.

Failure to manage our growth may adversely affect our performance

Our financial performance and profitability depend on our ability to manage past and possible future growth. Future acquisitions and our continued growth may present operating, integration and other issues that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We could be liable for breaches of security in our online banking services. Fear of security breaches (including cybersecurity breaches) could limit the growth of our online services

We offer various internet-based services to our clients, including online banking services. The secure transmission of confidential information over the Internet is essential to maintain our clients   confidence in our online services. Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology we use to protect client transaction data. In addition, individuals may seek to intentionally disrupt our online banking services or compromise the confidentiality of customer information with criminal intent. Although we have developed systems and processes that are designed to prevent security breaches and periodically test our security, failure to mitigate breaches of security could adversely affect our ability to offer and grow our online services, result in costly litigation and loss of customer relationships, negatively impact the Bank   s reputation, and could have an adverse effect on our business, results of operations and financial condition.

Our controls and procedures could fail or be circumvented

Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition.

We may engage in FDIC-assisted transactions, which could present additional risks to our business

On October 16, 2009, we acquired substantially all of the assets and assumed substantially all of the liabilities of San Joaquin Bank from the FDIC. We may have opportunities to acquire the assets and liabilities of additional failed banks in FDIC-assisted transactions. Although these FDIC-assisted transactions typically provide for FDIC assistance to an acquirer to mitigate certain risks, such as sharing exposure to loan losses and providing indemnification against certain liabilities of the failed institution, we are (and would be in future transactions) subject to many of the same risks we would face in acquiring another bank in a negotiated transaction, including risks associated with maintaining customer relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. In addition, because these acquisitions are structured in a manner that would not allow us the time and access to information normally associated with preparing for and evaluating a negotiated acquisition, we may face additional risks in FDIC-assisted transactions, including additional strain on management resources, management of problem loans, problems related to integration of personnel and operating systems and impact to our capital resources requiring us to raise additional capital. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with FDIC-assisted transactions. Although we have entered into a loss sharing agreement with the FDIC in connection with our acquisition of loans from San Joaquin Bank, we cannot guarantee that we will be able to adequately manage the loan portfolio within the limits of the loss protections provided by the FDIC from the San Joaquin Bank acquisition or any other FDIC-assisted acquisition we may make. Our inability to overcome these risks could have a material adverse effect on our business, financial condition and net income.

Income that we recognized and continue to recognize in connection with our 2009 FDIC-assisted San Joaquin Bank acquisition may be non-recurring or finite in duration

Through the acquisition of San Joaquin Bank, we acquired approximately $673.1 million of assets and assumed $660.9 million of liabilities. The San Joaquin Bank acquisition was accounted for under the purchase method of accounting and we recorded an after-tax bargain purchase gain totaling $12.3 million as a result of the acquisition. This gain was included as a component of other operating income on our statement of earnings for 2009. The amount of the gain was equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities. The bargain purchase gain resulting from the acquisition was a one-time gain that is not expected to be repeated in future periods.

In addition, the loans that we acquired from San Joaquin Bank were acquired at a $199.8 million discount. Approximately $197.7 million of this discount represents the non accretable discount and $2.1 million of the discount represents the adjustment for the differences between current market interest rates and the contractual interest rates on the acquired loans. The accretable discount is amortized and accreted to interest income on a monthly basis, in accordance with ASC 310-30, Loans and Debt securities Acquired with Deteriorated Credit Quality. However, as these loans are paid-off, charged-off, sold, or transferred to OREO, the income from the discount accretion is reduced. As the acquired loans are removed from our books, the related discount will no longer be available for accretion into income. During 2009, no accelerated accretion on loans was recorded in interest income. During 2011 and 2010, $12.6 million and $26.7 million in accelerated accretion were recorded in interest income. As of December 31, 2011, the balance of the carrying value of our discount on loans was $50.8 million, which has decreased by $64.0 million from its carrying value of $114.8 million as of December 31, 2010, by $133.6 million from its carrying value of $184.4 million as of December 31, 2009 and by $149.0 million from its initial value of $199.8 million. The reduction in the discount from December 31, 2010 to December 31, 2011 was primarily due to $36.6 million in loan charge-offs and $12.6 million in accelerated accretion. The reduction in the discount from December 31, 2009 to December 31, 2010 is primarily due to $42.2 million in loan charge-offs and $26.7 million in accelerated accretion. The reduction in discount from the initial value to December 31, 2009 was primarily due to $15.1 million in loan charge-offs. We expect the continued reduction of discount accretion recorded as interest income in future quarters, especially related to accelerated accretion.

Our decisions regarding the fair value of assets acquired, including the FDIC loss sharing assets, could be different than initially estimated, which could materially and adversely affect our business, financial condition, results of operations, and future prospects.

We acquired significant portfolios of loans in the San Joaquin Bank acquisition. Although these loans were marked down to their estimated fair value, there is no assurance that the acquired loans will not suffer further deterioration in value resulting in additional charge-offs. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may increase the level of charge-offs in the loan portfolio that we acquired from San Joaquin Bank and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition, even if other favorable events occur.

Although we have entered into loss sharing agreements with the FDIC which provide that a significant portion of losses related to the assets acquired from San Joaquin Bank will be borne by the FDIC, we are not protected for all losses resulting from charge-offs with respect to those assets. Additionally, the loss sharing agreements have limited terms. Therefore, any charge-off of related losses that we experience after the term of the loss sharing agreements will not be reimbursed by the FDIC and will negatively impact our net income.

Our ability to obtain reimbursement under the loss sharing agreement on covered assets depends on our compliance with the terms of the loss sharing agreement.

We must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss sharing agreement as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the agreement are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss sharing coverage. As of December 31, 2011, $262.5 million, or 4.1%, of our assets were covered by the FDIC loss sharing agreement. No assurances can be given that we will manage the covered assets in such a way as to always maintain loss share coverage on all such assets.

We face strong competition from financial services companies and other companies that offer banking services

We conduct most of our operations in California. The banking and financial services businesses in California are highly competitive and increased competition in our primary market area may adversely impact the level of our loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to offer products at lower costs, maintain numerous locations, and mount extensive promotional and advertising campaigns. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology driven products and services. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits.

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in security of these systems could result in failures or interruptions in our customer relationship management, the Bank s reputation, general ledger, deposit, servicing and/or loan origination systems. The occurrence of any failures or interruptions may require us to

identify alternative sources of such services, which may result in increased costs or other consequences that in turn could have an adverse effect on our business.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. In addition, legislation and regulations which impose restrictions on executive compensation may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our President and Chief Executive Officer, and certain other employees. In addition, our success has been and continues to be highly dependent upon the services of our directors, some of whom may be considering retirement, and we may not be able to identify and attract suitable candidates to replace such directors.

Managing reputational risk is important to attracting and maintaining customers, investors and employees

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.

***We are subject to a pending investigation by* the SEC, a consolidated class action lawsuit and a similar state law derivative action which could adversely affect us.**

We are subject to an investigation by the SEC. In addition, two federal securities class action lawsuits, which have been consolidated, were filed against us and certain of our officers, and a state law derivative action was filed in the name of the Company against our directors. Although the consolidated federal action was dismissed by the federal district court subsequent to the end of 2011, on January 12, 2011, the plaintiffs were given leave by the court to file an amended complaint, which the plaintiffs may decide to pursue. We are unable, at this time, to estimate our potential liability in these matters, but may be required to pay judgments, settlements or other penalties and incur other costs and expenses in connection with the SEC investigation and the consolidated lawsuit which could have a material adverse effect on our business, results of operations and financial condition. In addition, responding to requests for information in the SEC investigation and the federal and state lawsuits may divert internal resources away from managing our business. See Legal Proceedings

Federal and state laws and regulations may restrict our ability to pay dividends

The ability for the Bank to pay dividends to the Company and for the Company to pay dividends to its shareholders is limited by applicable federal and California law and regulations. See Business Regulation and Supervision and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Cash Flow.

The price of our common stock may be volatile or may decline

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in its share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional shareholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect the Company and/or the Bank; or
- domestic and international economic factors unrelated to the Company s performance.

The stock market and, in particular, the market for financial institution stocks, experienced significant volatility in recent years. The market price of our common stock and the trading volume in our common stock may fluctuate and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified above in Cautionary Note Regarding Forward-Looking Statement . The capital and credit markets have been experiencing volatility and disruption for more than three years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. A significant decline in our stock price could result in substantial losses for individual shareholders and could lead to costly and disruptive securities litigation.

Anti-takeover provisions and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline

Various provisions of our articles of incorporation and by-laws and certain other actions we have taken could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our shareholders. The Bank Holding Company Act of 1956, as amended, and the Change in

Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, either Federal Reserve approval must be obtained or notice must be furnished to the Federal Reserve and not disapproved prior to any person or entity acquiring control of a state member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

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Changes in stock market prices could reduce fee income from our brokerage, asset management and investment advisory businesses

We earn substantial wealth management fee income for managing assets for our clients and also providing brokerage and investment advisory services. Because investment management and advisory fees are often based on the value of assets under management, a fall in the market prices of those assets could reduce our fee income. Changes in stock market prices could affect the trading activity of investors, reducing commissions and other fees we earn from our brokerage business.

We may face other risks

From time to time, we detail other risks with respect to our business and/or financial results in our filings with the SEC.

For further discussion on additional areas of risk, see Item 7. Management s Discussion and Analysis of Financial Condition and the Results of Operations Risk Management.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***
None

ITEM 2. ***PROPERTIES***
The principal executive offices of the Company and the Bank are located in Ontario, California, and are owned by the Company.

As of December 31, 2011, the Bank occupied a total of 49 premises consisting of (i) 47 of its Business Financial and Commercial Banking Centers (Centers) of which two Centers are located at our Corporate Headquarters, (ii) a Corporate Headquarters and two operations/administrative centers, and (iii) a storage facility. We own 11 of these locations and the remaining properties are leased with expiration dates ranging from 2012 through 2020, at which time we can exercise options that could extend certain leases through 2030. All properties are located in Southern and Central California.

As of December 31, 2011, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization totaled $36.3 million. Our total occupancy expense, exclusive of furniture and equipment expense, for the year ended December 31, 2011, was $11.3 million. We believe that our existing facilities are adequate for our present purposes. The Company believes that if necessary, it could secure suitable alternative facilities on similar terms without adversely affecting operations. For additional information concerning properties, see Notes 8 of the Notes to the Consolidated Financial Statements included in this report. See Item 8. Financial Statements and Supplemental Data.

ITEM 3. ***LEGAL PROCEEDINGS***
Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with FASB guidance over contingencies (ASC 450). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations. As of December 31, 2011, the Company does not have any significant litigation reserves.

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

On July 26, 2010, we received a subpoena from the Los Angeles office of the SEC regarding the Company s allowance for credit loss methodology, loan underwriting guidelines, methodology for grading loans, and the

process for making provisions for loan losses. In addition, the subpoena requested information regarding certain presentations Company officers have given or conferences Company officers have attended with analysts, brokers, investors or prospective investors. We are fully cooperating with the SEC in its investigation, including its follow-up requests. We cannot predict the timing or outcome of the investigation.

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

On February 28, 2011, a purported shareholder derivative complaint was filed in an action captioned *Sanderson v. Borba, et al.*, Case No. CIVRS1102119, in California State Superior Court in San Bernardino County. The complaint names as defendants the members of our board of directors and also refers to unnamed defendants allegedly responsible for the conduct alleged. The Company is included as a nominal defendant. The complaint alleges breaches of fiduciary duties, abuse of control, gross mismanagement and corporate waste. Specifically, the complaint alleges, among other things, that defendants engaged in accounting manipulations in order to falsely portray the Company s financial results in connection with its commercial real estate portfolio. Plaintiff seeks compensatory and exemplary damages to be paid by the defendants and awarded to the Company, as well as other relief. On June 20, 2011, defendants filed a demurrer requesting dismissal of the derivative complaint. Following the filing by each side of additional motions, the parties filed a notice on September 30, 2011 to postpone the Court s hearing on the defendants demurrer until January 12, 2012, and this postponement was subsequently extended to April 16, 2012.

Because we are in the early stages of these proceedings, we cannot predict any range of loss or even if any loss is probable related to the actions described above.

ITEM 4. ***REMOVED AND RESERVED***

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PART II

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

Our common stock is traded on the Nasdaq Global Select National Market under the symbol CVBF. The following table presents the high and low sales prices and dividend information for our common stock during each quarter for the past two years. The Company had approximately 1,819 shareholders of record as of February 15, 2012.

Two Year Summary of Common Stock Prices

Quarter Ended	High	Low	Dividends
12/31/2011	$10.27	$7.28	$0.085 Cash Dividend
9/30/2011	$10.00	$7.41	$0.085 Cash Dividend
6/30/2011	$9.94	$8.18	$0.085 Cash Dividend
3/31/2011	$9.32	$7.83	$0.085 Cash Dividend
12/31/2010	$9.09	$7.30	$0.085 Cash Dividend
9/30/2010	$10.99	$6.61	$0.085 Cash Dividend
6/30/2010	$11.85	$9.00	$0.085 Cash Dividend
3/31/2010	$10.89	$8.44	$0.085 Cash Dividend

For information on the statutory and regulatory limitations on the ability of the Company to pay dividends to its shareholders and on the Bank to pay dividends to the Company, see Item 1. Business-Regulation and Supervision Dividends and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Cash Flow .

Issuer Purchases of Equity Securities

On July 16, 2008, our Board of Directors approved a program to repurchase up to 10,000,000 shares of our common stock. As of December 31, 2011, we have the authority to repurchase up to 7,765,171 shares of our common stock (such number will not be adjusted for stock splits, stock dividends, and the like) in the open market or in privately negotiated transactions, at times and at prices considered appropriate by us, depending upon prevailing market conditions and other corporate and legal considerations. During 2011 and 2010, we repurchased 1,594,488 and 640,341 shares of common stock at the average price of $7.86 and $8.07, respectively. The shares are canceled and retired upon repurchase. There is no expiration date for our current stock repurchase program.

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Performance Graph

The following Performance Graph and related information shall not be deemed soliciting material or be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph compares the yearly percentage change in CVB Financial Corp. s cumulative total shareholder return (stock price appreciation plus reinvested dividends) on common stock (i) the cumulative total return of the Nasdaq Composite Index; and (ii) a published index comprised by Morningstar (formerly Hemscott, Inc.) of banks and bank holding companies in the Pacific region (the industry group line depicted below). The graph assumes an initial investment of $100 on January 1, 2006, and reinvestment of dividends through December 31, 2011. Points on the graph represent the performance as of the last business day of each of the years indicated. The graph is not necessarily indicative of future price performance.

COMPARISON OF CUMULATIVE TOTAL RETURN

(PERFORMANCE GRAPH)

ASSUMES $100 INVESTED ON JAN. 01, 2006

ASSUMES DIVIDEND REINVESTED

FISCAL YEAR ENDING DEC. 31, 2011

Company/Market/Peer Group	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
CVB Financial Corp.	$ 100.00	$ 80.92	$ 96.84	$ 73.77	$ 76.87	$ 91.77
NASDAQ Composite	$ 100.00	$ 110.38	$ 65.58	$ 95.27	$ 112.22	$ 110.58
Peer Group Index	$ 100.00	$ 71.15	$ 53.46	$ 42.53	$ 52.44	$ 46.33

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ITEM 6. ***SELECTED FINANCIAL DATA***

The following table reflects selected financial information at and for the five years ended December 31. Throughout the past five years, the Company has acquired other banks. This may affect the comparability of the data.

	At or For the Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars In thousands, except per share amounts and percentages)				
Interest Income	$ 269,720	$ 317,289	$ 310,759	$ 332,518	$ 341,277
Interest Expense	35,039	57,972	88,495	138,839	180,135
Net Interest Income	234,681	259,317	222,264	193,679	161,142
Provision for Credit Losses	7,068	61,200	80,500	26,600	4,000
Other Operating Income	34,216	57,114	81,071	34,457	31,325
Other Operating Expenses	141,025	168,492	133,586	115,788	105,404
Earnings Before Income Taxes	120,804	86,739	89,249	85,748	83,063
Income Taxes	39,071	23,804	23,830	22,675	22,479
NET EARNINGS	$ 81,733	$ 62,935	$ 65,419	$ 63,073	$ 60,584
Basic Earnings Per Common Share	$ 0.77	$ 0.59	$ 0.56	$ 0.75	$ 0.72
Diluted Earnings Per Common Share	$ 0.77	$ 0.59	$ 0.56	$ 0.75	$ 0.72
Cash Dividends Declared Per Common Share	$ 0.340	$ 0.340	$ 0.340	$ 0.340	$ 0.340
Cash Dividends paid on Common Shares	$ 35,805	$ 36,103	$ 32,228	$ 28,317	$ 28,479
Dividend Pay-Out Ratio (2)	43.81%	57.37%	49.26%	44.90%	47.01%
Weighted Average Common Shares:					
Basic	105,142,650	105,879,779	92,955,172	83,120,817	83,600,316
Diluted	105,222,566	106,125,761	93,055,801	83,335,503	84,005,941
Common Stock Data:					
Common shares outstanding at year end	104,482,271	106,075,576	106,263,511	83,270,263	83,164,906
Book Value Per Share	$ 6.84	$ 6.07	$ 6.01	$ 5.92	$ 5.11
Financial Position:					
Assets	$ 6,482,915	$ 6,436,691	$ 6,739,769	$ 6,649,651	$ 6,293,963
Investment Securities available-for-sale	2,201,526	1,791,558	2,108,463	2,493,476	2,390,566
Net Non-Covered Loans	3,125,763	3,268,469	3,499,455	3,682,878	3,462,095
Net Covered Loans (5)	256,869	374,012	470,634		
Deposits	4,604,548	4,518,828	4,438,654	3,508,156	3,364,349
Borrowings	958,032	1,095,578	1,488,250	2,345,473	2,339,809
Junior Subordinated debentures	115,055	115,055	115,055	115,055	115,055
Stockholders Equity	714,814	643,855	638,228	614,892	424,948
Equity-to-Assets Ratio (1)	11.03%	10.00%	9.47%	9.25%	6.75%
Financial Performance:					
Net Income to Beginning Equity	12.69%	9.77%	10.64%	14.84%	15.64%
Net Income to Average Equity (ROE)	12.00%	9.40%	10.00%	13.75%	15.00%
Net Income to Average Assets (ROA)	1.26%	0.93%	0.98%	0.99%	1.00%
Net Interest Margin (TE) (3)	4.04%	4.28%	3.72%	3.41%	3.03%
Efficiency Ratio (4)	53.86%	66.02%	59.95%	57.45%	55.93%
Credit Quality (Non-covered Loans):					
Allowance for Credit Losses	$ 93,964	$ 105,259	$ 108,924	$ 53,960	$ 33,049
Allowance/Gross Non-Covered Loans	2.92%	3.12%	3.02%	1.44%	0.95%
Total Non-Covered Non-Accrual Loans	$ 62,672	$ 157,020	$ 69,779	$ 17,684	$ 1,435
Non-Covered Non-Accrual Loans/Gross Non-Covered Loans	1.94%	4.65%	1.93%	0.47%	0.04%
Allowance/Non-Covered Non-Accrual Loans	149.93%	67.04%	156.10%	305.13%	2,303%
Charge-offs, net of recoveries	$ 18,363	$ 64,865	$ 25,536	$ 5,689	$ 1,358

Charge-offs, net of recoveries/Average loans	0.57%	1.86%	0.68%	0.16%	0.04%
Regulatory Capital Ratios For the Company:					
Leverage Ratio	11.19%	10.58%	9.63%	9.84%	7.57%
Tier 1 Capital	17.79%	16.61%	15.06%	14.18%	11.04%
Total Capital	19.05%	18.00%	14.45%	15.54%	12.01%
For the Bank:					
Leverage Ratio	10.92%	10.54%	9.58%	9.65%	7.14%
Tier 1 Capital	17.36%	16.55%	14.99%	13.93%	10.45%
Total Capital	18.63%	17.82%	16.26%	15.19%	11.31%

(1) Stockholders equity divided by total assets.
(2) Cash dividends on common stock divided by net earnings.
(3) Net interest income (TE) divided by total average earning assets
(4) Noninterest expense divided by total revenue (net interest income, after provision for credit losses, and other operating income).
(5) Covered loans are those loans acquired from SJB and covered by a loss sharing agreement with the FDIC.

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

GENERAL

Management s discussion and analysis is written to provide greater detail of the results of operations and the financial condition of CVB Financial Corp. and its subsidiaries. This analysis should be read in conjunction with the audited financial statements contained within this report including the notes thereto.

OVERVIEW

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

Our primary source of income is from the interest earned on our loans and investments whereas 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.

Historically, we have been active in completing 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 centers: Bakersfield, Fresno, Madera, and Stockton, California. We also opened four new Commercial Banking Centers since 2008. We closed the McFarland center in October 2011.

Economic conditions in our California service area impact our business. Unemployment is high in our market areas and areas of our marketplace have been significantly affected by adverse economic conditions, both nationally and in California. As of December 31, 2011, approximately 18% of our total loan portfolio of $3.5 billion is located in the Inland Empire region of California. Approximately 32%, 24%, and 13% of our total loan portfolio is located in Los Angeles County, the Central Valley, and Orange County, respectively. The balance of the portfolio (13%) is outside these regions. We continue to see the impact of constrained economic conditions on our loan portfolio; however, there have been recent improvements in the level of our non-performing loans and the levels of our classified assets. 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.

Despite the continued weakness in economic outlook, in October 2011, Fitch Ratings affirmed the long-term Issuer Default Ratings (IDR) of the Company and the Bank at BBB . The affirmation of the Company ratings reflects its stable performance through the most recent cycle, solid core earnings and recent improvements in asset quality.

Our net interest income before provision for credit losses of $234.7 million in 2011, decreased by $24.6 million or 9.50%, compared to net interest income before provision for credit losses of $259.3 million for 2010, principally due to a decrease of $47.6 million in interest income, partially offset by a decrease of $22.9 million in interest expense. The 17 basis point decrease in our net interest spread tax equivalent (TE) resulted from a 59 basis point decrease in the yield on average earning assets, offset by a 42 basis point decrease in the average cost of interest-bearing liabilities. The Bank has historically had a favorable level of noninterest-bearing deposits, primarily due to our specialization in businesses and professionals as customers. As of December 31, 2011, 44.04% of our deposits were interest-free. This, accompanied by a decreasing interest rate environment, has allowed us to retain a low cost of deposits of 0.19% for 2011 compared to 0.40% for 2010, which contributed to the reduction in interest expense for 2011.

Our net earnings increased to $81.7 million in 2011 compared to $62.9 million in 2010, an increase of $18.8 million, or 29.87%. The year-over-year increase was primarily the result of decreases in the provision for credit losses, interest expense, and other operating expenses in 2011, offset by decreases in other operating income and interest income. Diluted earnings per common share increased $0.18 to $0.77 in 2011 from $0.59 in 2010.

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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 assessment, 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 and lease 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 appropriate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors 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 Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation Risk Management and Notes 1 and 4 of our Consolidated Financial Statements.

Investment Portfolio: The investment portfolio is an integral part of our financial performance. 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 as held-to-maturity securities 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 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. 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. Our investment in Federal Home Loan Bank (FHLB) stock is carried at cost. The classification and accounting for investment securities are discussed in detail in Note 3, Investment Securities, of the Consolidated Financial Statements presented elsewhere in this report.

The fair values of investment securities are generally determined by reference to an independent external pricing service provider who has experience in valuing these securities. In obtaining such valuation information from third parties, management has evaluated the methodologies used to develop the resulting fair values. Management performs a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and on-going review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. Prices from third party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations, which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

At each reporting date, securities are assessed to determine whether there is an other-than-temporary impairment (OTTI). Such impairment, if any, is required to be recognized in earnings. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgment and assumptions. We

examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment-related factors that we examine to assess impairment include the nature of the investment, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of the issuers of the securities, and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question. We reexamine the financial resources, intent and the overall ability of the Company to hold the securities until their fair values recover. Management does not believe that there are any investment securities, other than those identified in the current and previous periods, which are deemed to be other-than-temporarily impaired as of December 31, 2011.

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 determined by use of internal and external valuation techniques. The excess purchase price is allocated to assets and liabilities respectively, resulting in identified intangibles. The identified intangible assets and liabilities are amortized over the estimated lives of the assets or liabilities. Any excess purchase price after this allocation results in goodwill. Goodwill is tested on an annual basis for impairment.

Goodwill Impairment: Under ASC 350 (previously SFAS No. 142, *Goodwill and Other Intangibles*), goodwill must be allocated to reporting units and tested for impairment. The Company tests goodwill for impairment at least annually, or more frequently if events or circumstances, such as adverse changes in the business, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level (which is the same level as the Company s two major operating segments identified in Note 21 to the Company s consolidated financial statements presented elsewhere in this report). Under the market approach utilized, the fair value is calculated using the current fair values of comparable peer banks of similar size, geographic footprint and focus. The market capitalization and multiple was used to calculate the market price of the Company and each reporting unit. The fair value was also subject to a control premium adjustment, which is the cost savings that a purchase of the reporting unit could achieve by eliminating duplicative costs. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the actual carrying value of goodwill allocated to the reporting unit. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then the Company would recognize an impairment loss for the amount of the difference, which would be recorded as a charge against net income. There was no recorded impairment as of December 31, 2011.

Acquired Loans: Acquired loans are valued as of the acquisition date in accordance with ASC 805 *Business Combinations (*formerly FAS 141R *Business Combinations).* Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly SOP 03-3 *Accounting for Certain Loans or Debt Securities Acquired in a Transfer).* Further, the Company elected to account for all other acquired loans within the scope of ASC 310-30 using the same methodology.

Under ASC 805 and ASC 310-30, loans are recorded at fair value at the acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses is not carried over or recorded as of the acquisition date. In situations where loans have similar risk characteristics, loans were aggregated into pools to estimate cash flows under ASC 310-30. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The Company aggregated non-distressed loans acquired in the FDIC-assisted acquisition of San Joaquin Bank in ten different pools, based on common risk characteristics.

Under ASC 310-30, the excess of the expected cash flows at the acquisition over the fair value is considered to be the accretable yield and is recognized as interest income over the life of the loan or pool. The excess of the contractual cash flows over the expected cash flows is considered to be the nonaccretable difference. Subsequent to the acquisition date, any increases in cash flow over those expected at the acquisition date in excess of fair value are recorded as an adjustment to accretable difference on a prospective basis. Any subsequent decreases in cash flow over those expected at the acquisition date are recognized by recording an allowance for credit losses. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the ASC 310-30 portfolio at the allocated carrying amount.

Covered Loans: The majority of the loans acquired in the FDIC-assisted acquisition of San Joaquin Bank are included in a FDIC shared-loss agreement and are referred to as covered loans. Covered loans are reported exclusive of the expected cash flow reimbursements expected from the FDIC. At the date of acquisition, all covered loans were accounted for under ASC 805 and ASC 310-30. Subsequent to acquisition all covered loans are accounted for under ASC 310-30.

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

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

Non-Covered Other Real Estate Owned: Other real estate owned (OREO) represents properties acquired through foreclosure or through full or partial satisfaction of loans, is considered held for sale, and is recorded at the lower of cost or estimated fair value at the time of foreclosure. Loan balances in excess of fair value of the real estate acquired at the date of foreclosure are charged against the allowance for credit losses. After foreclosure, valuations are periodically performed as deemed necessary by management and the real estate is carried at the lower of carrying value or fair value less costs to sell. Subsequent declines in the fair value of the OREO below the carrying value are written down to fair value with a direct charge to other operating expense.

Any subsequent operating expenses or income of such properties are charged to other operating expense or income, respectively. Any declines in value after foreclosure are recorded as OREO expense. Revenue recognition upon disposition of a property is dependent on the sale having met certain criteria relating to the buyer s initial investment in the property sold.

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

Fair Value of Financial Instruments: We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Investment securities available-for-sale and interest-rate swaps are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a non-recurring basis, such as impaired loans and OREO. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or writedowns of individual assets. Further, we include in Note 20 to the Consolidated Financial Statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value we disclose the estimate of their fair value.

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ANALYSIS OF THE RESULTS OF OPERATIONS

The following table summarizes net earnings, earnings per common share, and key financial ratios for the periods indicated.

	For the Year Ended December 31,		
	2011	2010	2009
	(Dollars in thousands, except per share amounts)		
Net earnings	$ 81,733	$ 62,935	$ 65,419
Earnings per common share:			
Basic (1)	$ 0.77	$ 0.59	$ 0.56
Diluted (1)	$ 0.77	$ 0.59	$ 0.56
Return on average assets	1.26%	0.93%	0.98%
Return on average shareholders equity	12.00%	9.40%	10.00%

(1) Earnings and diluted earnings per common share for 2009 includes $0.14 per share due to the preferred stock dividend and discount amortization and $0.07 per share due to the increase in weighted common shares outstanding as a result of our capital offering.

Earnings

We reported net earnings of $81.7 million for the year ended December 31, 2011. This represented an increase of $18.8 million, or 29.87%, from net earnings of $62.9 million for the year ended December 31, 2010. Net earnings for 2010 increased $2.5 million to $62.9 million, or 3.80%, from net earnings of $65.4 million for the year ended December 31, 2009. Basic and diluted earnings per common share were $0.77 in 2011, compared to $0.59 in 2010, and $0.56 in 2009.

The increase in net earnings for 2011 compared to 2010 was primarily the result of a decrease in the provision for credit losses of $54.1 million and a $27.5 million decrease in other operating expenses. These decreases included $15.4 million in prepayment penalties ($3.3 million in 2011 compared to $18.7 million in 2010) and $3.5 million in provision for unfunded commitments, partially offset by a decrease in net interest income of $24.6 million, as described herein, and a decrease in other operating income of $22.9 million. The decrease in other operating income was primarily due to gain on sale of securities of $38.9 million in 2010, partially offset by an increase of $16.0 million in the FDIC loss sharing asset

The decrease in net earnings for 2010 compared to 2009 was primarily the result of an increase in other operating expenses. Significant items included prepaying $350.0 million in borrowings which resulted in $18.7 million in prepayment penalties, a $6.3 million increase in professional fees, and a $6.3 million increase in OREO expenses. In addition, there was a decrease in other operating income due to several causes. Gain on sales of securities increased $10.5 million in 2010 over 2009. However, this was offset by a $15.9 million reduction in the SJB loss-sharing asset in 2010. In addition, 2009 included a $21.1 million gain from the SJB acquisition. These three items resulted in a $26.5 million reduction in other operating income. The provision for credit losses decreased $19.3 million in 2010 from 2009.

For 2011, our return on average assets was 1.26%, compared to 0.93% for 2010 and 0.98% for 2009. Our return on average stockholders equity was 12.00% for 2011, compared to a return of 9.40% for 2010, and 10.00% for 2009. The increase in return on average assets and stock stockholders equity in 2011 was primarily due to the increase in net earnings as described herein.

Income and Expense Related to Covered Assets

The following table summarizes the components of income and expense related to covered assets excluding normal accretion of interest income on covered loans for 2011 and 2010:

Summary of Covered Asset Related Income (excluding normal loan accretion)

December 31, 2011 and 2010

Covered Asset Related income/expense	For the Year Ended December 31 2011	2010
	(Dollars in thousands)	
Interest Income-Accelerated accretion	$ 12,586	$ 26,740
Other Income-Increase/(decrease) in FDIC loss share asset	171	(15,856)
Other Income-Gain/(loss) on sale of OREO	446	(916)
Expenses-legal and professional	(2,011)	(1,912)
Expenses-OREO write-down	(4,484)	(1,917)
Expenses-OREO expenses	(988)	(616)
Expenses-Other expenses (appraisals)	(485)	(376)
Net income before income taxes related to covered assets	$ 5,235	$ 5,147

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

The accelerated discount accretion of $12.6 million in 2011, recognized as part of interest income from covered loans, decreased $14.1 million compared to $26.7 million in 2010. This decrease was partially offset by a $16.0 million increase resulting from changes in the FDIC loss sharing asset ($171,000 net increase in 2011 compared to a net decrease of $15.9 million in 2010).

The Company also recognized net gain on sales of covered OREO of $446,000 in 2011 compared to a loss of $916,000 for 2010.

Noninterest expense related to covered assets includes OREO expense, legal and professional expense and other covered asset related expenses. Total covered asset-related expenses were $8.0 million for 2011, up from $4.8 million for 2010.

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 net interest income during changing interest rate environments will have a significant impact on our overall performance. Our balance sheet is slightly liability-sensitive; meaning interest-bearing liabilities will generally reprice more quickly than earning assets. Therefore, our net interest margin is likely to decrease in sustained periods of rising interest rates and

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increase in sustained periods of declining interest rates. We manage net interest income through affecting changes in the mix of earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to earning assets, and in the growth of earning assets.

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

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

	For the Year Ended December 31,								
	2011			2010			2009		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in thousands)								
ASSETS									
Investment Securities (1)									
Taxable	$ 1,359,434	$ 37,310	2.77%	$ 1,318,601	$ 49,720	3.78%	$ 1,652,509	$ 76,798	4.67%
Tax-advantaged	624,340	23,640	5.37%	651,811	25,394	5.51%	675,273	27,329	5.71%
Investment in FHLB stock	80,091	242	0.30%	93,461	324	0.35%	93,989	195	0.21%
Federal Funds Sold & Interest Bearing									
Deposits with other institutions	461,837	1,438	0.31%	337,908	1,125	0.33%	124,039	358	0.29%
Loans HFS	4,471	56	1.25%	3,078	54	1.75%	153	5	3.27%
Loans (2)	3,623,137	194,448	5.37%	4,067,702	213,932	5.26%	3,735,339	206,074	5.52%
Yield adjustment to interest income from discount accretion	(81,847)	12,586		(162,667)	26,740				
Total Earning Assets	6,071,463	269,720	4.61%	6,309,894	317,289	5.20%	6,281,302	310,759	5.13%
Total Non Earning Assets	434,045			461,923			361,180		
Total Assets	$ 6,505,508			$ 6,771,817			$ 6,642,482		
LIABILITIES AND STOCKHOLDERS EQUITY									
Savings Deposits (3)	$ 1,741,128	$ 5,592	0.32%	$ 1,698,628	$ 9,947	0.59%	$ 1,366,355	$ 10,336	0.76%
Time Deposits	910,965	3,116	0.34%	1,188,878	8,306	0.70%	1,195,378	14,620	1.22%
Total Deposits	2,652,093	8,708	0.33%	2,887,506	18,253	0.63%	2,561,733	24,956	0.97%
Other Borrowings	1,200,613	26,331	2.19%	1,484,356	39,719	2.68%	1,927,923	63,539	3.30%
Interest Bearing Liabilities	3,852,706	35,039	0.91%	4,371,862	57,972	1.33%	4,489,656	88,495	1.97%
Non-interest bearing deposits	1,905,605			1,669,611			1,431,204		
Other Liabilities	65,847			61,021			67,741		
Stockholders Equity	681,350			669,323			653,881		
Total Liabilities and Stockholders Equity	$ 6,505,508			$ 6,771,817			$ 6,642,482		
Net interest income		$ 234,681			$ 259,317			$ 222,264	
Net interest income excluding discount		222,095			232,577				
Net interest spread tax equivalent			3.70%			3.87%			3.16%
			3.43%			3.32%			N/A

Net interest spread tax equivalent excluding discount			
Net interest margin	3.87%	4.11%	3.54%
Net interest margin tax equivalent	4.04%	4.28%	3.72%
Net interest margin tax equivalent excluding discount	3.78%	3.76%	N/A
Net interest margin excluding loan fees	3.83%	4.07%	3.49%
Net interest margin excluding loan fees tax equivalent	4.00%	4.23%	3.67%

(1) Non tax-equivalent (TE) rate w as 3.09% for 2011, 3.82% for 2010, and 4.49% for 2009.

(2) Loan fees are included in total interest income as follow s, (000)s omitted: 2011, $2,124; 2010, $2,646.

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

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As stated above, the net interest margin measures net interest income as a percentage of average earning assets. Our net interest margin (TE) was 4.04% for 2011, compared to 4.28% for 2010, and 3.72% for 2009. Our net interest income and net interest margin are driven by the combination of our loan and securities volume, yield on assets, deposit and borrowings volume, and our deposit pricing as discussed in the following paragraphs. The net interest spread is an indication of our ability to manage interest rates received on loans and investments and rates paid on deposits and borrowings in a competitive and changing interest rate environment.

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

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

	Comparison of Year Ended December 31,							
	2011 Compared to 2010 Increase (Decrease) Due to				2010 Compared to 2009 Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
	(Dollars in thousands)							
Interest Income:								
Taxable investment securities	$ 1,270	($ 13,289)	($ 391)	($ 12,410)	($ 15,287)	($ 14,623)	$ 2,832	($ 27,078)
Tax-advantaged securities	(1,501)	(297)	44	(1,754)	(1,301)	(670)	36	(1,935)
Fed funds sold & interest-bearing deposits with other institutions	409	(68)	(28)	313	620	50	97	767
Investment in FHLB stock	(47)	(47)	12	(82)	(1)	132	(2)	129
Loans HFS	24	(15)	(7)	2	96	(2)	(45)	49
Loans	(23,384)	4,474	(574)	(19,484)	18,346	(9,712)	(776)	7,858
Yield adjustment from discount accretion	(13,287)	(1,724)	857	(14,154)	0	0	26,740	26,740
Total interest on earning assets	(36,516)	(10,966)	(87)	(47,569)	2,473	(24,825)	28,882	6,530
Interest Expense:								
Savings deposits	251	(4,586)	(20)	(4,355)	2,525	(2,323)	(591)	(389)
Time deposits	(1,945)	(4,280)	1,035	(5,190)	(79)	(6,216)	(19)	(6,314)
Other borrowings	(7,604)	(7,273)	1,489	(13,388)	(14,841)	(12,119)	3,140	(23,820)
Total interest on interest-bearing liabilities	(9,298)	(16,139)	2,504	(22,933)	(12,395)	(20,658)	2,530	(30,523)
Net Interest Income	($ 27,218)	$ 5,173	($ 2,591)	($ 24,636)	14,868	(4,167)	26,352	37,053

2011 Compared to 2010

Net interest income, before provision for credit losses decreased $24.6 million, or 9.50%, over net interest income of $259.3 million for 2010. This decrease in net interest income for 2011 resulted from a decrease of $47.6 million in interest income, partially offset by a decrease of $22.9 million in interest expense. The 17 basis

point decrease in our net interest spread (TE) resulted from a 59 basis point decrease in the yield on average earning assets, offset by a 42 basis point decrease in the average cost of interest-bearing liabilities.

Interest income of $269.7 million decreased $47.6 million, or 14.99% compared to total interest income of $317.3 million for 2010. The decrease in interest income was primarily due to a $444.6 million decrease in the average balance of loans for 2011 which decreased interest income by $23.4 million. In addition, there was a $14.1 million decrease in the discount accretion from covered SJB loans, and $13.3 million from a 101 basis point decrease in the yield on taxable investment securities as result of the decreasing interest rate environment. The discount accretion represents accelerated principal payments on SJB loans and is recorded as a yield adjustment to interest income. As a result, the average yield (TE) on interest-earning assets decreased to 4.61% in 2011, or 59 basis points, from 5.20% in 2010. Average earning assets decreased by $238.4 million, or 3.78%, from $6.31 billion for 2010 compared to $6.07 billion for 2011. Excluding the accelerated accretion, the yield in interest-earning assets would have been 4.34% for 2011 compared to 4.65% for 2010.

In general, we stop accruing interest on a loan after its principal or interest becomes 90 days or more past due. When a loan is placed on non-accrual, all interest previously accrued but not collected is charged against earnings. There was no interest income that was accrued and not reversed on non-accrual loans at December 31, 2011 and 2010. As of December 31, 2011 and 2010, we had $62.7 million and $157.0 million of non-covered non-accrual loans, respectively. Had non-covered non-accrual loans for which interest was no longer accruing complied with the original terms and conditions, interest income would have been $3.5 million and $5.2 million greater for 2011 and 2010, respectively.

Fees collected on loans are an integral part of the loan pricing decision. Net loan fees and the direct costs associated with the origination of loans are deferred and deducted from total loans on our balance sheet. Net deferred loan fees are recognized in interest income over the term of the loan using the effective-yield method. We recognized loan fee income of $2.1 million for 2011 and $2.6 million for 2010. The decrease in loan fee income during 2011 was due to a decrease in loan originations as a result of the sustained weakness in the economy resulting in declining loan demand.

Interest income includes dividends earned on our investment in FHLB capital stock. For the year ended December 31, 2011 and 2010, dividends earned on FHLB stock totaled $242,000 and $324,000, respectively. In 2009, the FHLB announced that there can be no assurance that the FHLB will pay dividends at the same rate it has paid in the past. However, the FHLB did declare and pay dividends during both 2010 and 2011.

Interest expense of $35.0 million for 2011 decreased $22.9 million, or 39.56% compared to $58.0 million for 2010. The average rate paid on interest-bearing liabilities decreased 42 basis points, to 0.91% in 2011 from 1.33% in 2010 as a result of a decreasing interest rate environment in 2011 as well as the mix of interest-bearing liabilities. Other borrowings typically have a higher cost than interest-bearing deposits. The average cost of borrowings decreased to 2.19% for 2011 from 2.68% for 2010 and was primarily due to a $283.7 million decrease in the average balance of other borrowings for 2011 which increased interest expense by $7.6 million. The prepayments of a $250 million structured repurchase agreement and $100 million in FHLB advances in 2010 resulted in an additional reduction of $5.6 million in interest expense compared to 2010. The $100.0 million in FHLB maturities, which we elected not to renew, also contributed to the decrease in the average cost of borrowings for 2011. The decline in interest expense was driven by lower rates paid and lower average balances on deposits as reflected by the decrease in our average cost of interest-bearing deposits (0.33% for 2011 compared to 0.63% for 2010). Average interest-bearing deposits decreased $235.4 million, or 8.15%, from $2.89 billion in 2010 to $2.65 billion in 2011. Average noninterest-bearing deposits increased $236.0 million to $1.91 billion, or 41.81% of total average deposits for 2011, compared to $1.67 billion, or 36.64% of total average deposits for 2010. The decrease in rates paid on deposits (0.19% for 2011 compared to 0.40% for 2010) also contributed to our lower cost of funds.

2010 Compared to 2009

Net interest income increased $37.1 million for 2010 compared to 2009 primarily due to a decrease of $30.5 million in interest expense and a $6.5 million increase in interest income. The decrease in interest expense resulted from a decrease in the average rate paid on interest-bearing liabilities to 1.33% in 2010 from 1.97% in 2009, and a decrease in average interest-bearing liabilities of $117.8 million. The 56 basis point increase in the net interest margin (TE) in 2010 was primarily the result of changes in the mix of assets and liabilities and a $26.7 million discount accretion on covered SJB loans. The increase in the net interest spread (TE) for 2010 compared to 2009 resulted from a 64 basis point decrease in the average cost of interest-bearing liabilities and a 7 basis point increase in the average yield (TE) on earning assets, thus resulting in a 71 basis point increase in the net interest spread. The decrease in rates during 2010 had a smaller impact on our assets since a majority of our assets are fixed rate, while our deposits and borrowings benefited from rate decreases.

The average yield (TE) on earning assets increased to 5.20% for 2010, from 5.13% for 2009, as a result of a decreasing interest rate environment as well as a change in the mix of average earning assets, and a $26.7 million discount accretion on covered SJB loans. Interest income totaled $317.3 million for 2010. This represented a decrease of $6.5 million, or 2.10%, compared to total interest income of $310.8 for 2009. Investments as a percent of earning assets decreased to 31.23% in 2010 from 37.06% in 2009. The yield on investments for 2010 decreased to 4.35% as compared to 4.98% in 2009. Interest discount accretion from SJB covered loans increased the yield on loans by 90 basis points. Excluding the accelerated accretion, the yield in interest-earning assets would have been 4.65% for 2010.

There was zero interest income that was accrued and not reversed on non-accrual loans at December 31, 2010, and 2009. As of December 31, 2010 and 2009, we had $157.0 million and $69.8 million of non-covered non-accrual loans, respectively. Had non-covered non-accrual loans for which interest was no longer accruing complied with the original terms and conditions, interest income would have been $5.2 million and $4.1 million greater for 2010 and 2009, respectively.

We recognized loan fee income of $2.6 million for 2010 and $3.2 million for 2009. The decrease in loan fee income during 2010 was due to a decrease in loan originations as a result of the weakening economy and diminished loan demand.

For the year ended December 31, 2010 and 2009, dividends earned on FHLB stock totaled $324,000, and $195,000, respectively. In 2009 the FHLB announced that there can be no assurance that the FHLB will pay dividends at the same rate it has paid in the past, or that it will pay any dividends in the future, which, in both cases would decrease our interest income as compared to prior periods, However, the FHLB did declare and pay dividends during 2010.

For 2010, total interest expense decreased $30.5 million, or 34.49%, from total interest expense of $88.5 million for 2009. The decrease in interest expense in 2010 from 2009 was due to the decrease in interest rates on interest-bearing liabilities from 1.97% for 2009 to 1.33% for 2010, and a $117.8 million decrease in average interest bearing liabilities. These variations reflected the decreasing interest rate environment in 2010 and 2009, as well as the change in the mix of interest-bearing liabilities. The average balance of other borrowings as a percent of average interest-bearing liabilities decreased to 33.95% for 2010 as compared to 42.94% for 2009. Other borrowings typically have a higher cost than interest-bearing deposits. The average cost of other borrowings for 2010 was 2.68% compared to 3.30% for 2009, also reflecting the same fluctuating interest rate environment as well as maturity and early extinguishment of borrowings. The cost of interest-bearing deposits was 0.63% for 2010 compared to 0.97% for 2009, as a result of a decreasing interest rate environment in 2010.

Provision for Credit Losses

We maintain an allowance for credit losses that is increased by a provision for non-covered credit losses charged against operating results. The provision for credit losses is determined by management as the amount to

be added to the allowance for credit losses after net charge-offs have been deducted to bring the allowance to an appropriate level which, in management s best estimate, is necessary to absorb probable credit losses within the existing loan portfolio.

Our provision for credit losses on non-covered loans was $7.1 million in 2011, $61.2 million in 2010 and $80.5 million in 2009. The decrease in the provision for credit losses was primarily due to the continued decrease in classified assets. We believe the allowance is appropriate as of December 31, 2011. We continually assess the quality of our portfolio to determine whether additional provision for credit losses is necessary. The ratio of the allowance for credit losses to total non-covered net loans as of December 31, 2011, 2010, and 2009 was 2.92%, 3.12% and 3.02%, respectively.

No assurance can be given that economic conditions which adversely affect the Company s service areas or other circumstances will not be reflected in increased provisions for credit losses in the future, as the nature of this process requires considerable judgment. Total net charge-offs totaled $18.4 million in 2011, $64.9 million in 2010, and $25.5 million in 2009. See Risk Management Credit Risk herein.

SJB loans acquired in the FDIC-assisted transaction were initially recorded at their fair value and are covered by a loss sharing agreement with the FDIC. Due to the timing of the acquisition and the October 16, 2009 fair value estimate, there was no provision for credit losses on the covered SJB loans in 2009. In 2011 and 2010, there was $893,000 and $370,000, respectively, in net charge-offs for loans in excess of the amount originally expected in the fair value of the loans at acquisition. Our provision for credit losses on covered SJB loans was $893,000 in 2011 and $370,000 in 2010. An offsetting adjustment was recorded to the FDIC loss-sharing asset based on the appropriate loss-sharing percentage.

Other Operating Income

The components of other operating income were as follows:

	For the years ended December 31,		
	2011	**2010**	**2009**
	(Dollars in thousands)		
Service charges on deposit accounts	$ 15,768	$ 16,745	$ 14,889
CitizensTrust	8,683	8,363	6,657
Bankcard services	3,144	2,776	2,338
BOLI Income	3,259	3,125	2,792
Gain on sale of securities		38,900	28,446
Increase (reduction) in FDIC loss sharing asset	171	(15,856)	1,398
Impairment loss on investment security	(656)	(904)	(323)
Other	3,847	3,965	3,752
Gain on SJB acquisition			21,122
Total other operating income	$ 34,216	$ 57,114	$ 81,071

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

2011 Compared to 2010

Other operating income of $34.2 million in 2011 decreased $22.9 million, or 40.09%, over other operating income of $57.1 million for 2010. The decrease was primarily due to $38.9 million in net gain on sales of

securities for 2010 compared to zero gain on sale of securities for 2011. This decrease was partially offset by a $16.0 million increase resulting from changes in the FDIC loss sharing asset ($171,000 net increase in 2011 compared to a net decrease of $15.9 million in 2010).

During 2011, we recognized a $656,000 other-than-temporary impairment on a private-label mortgage-backed investment security, which was charged to other operating income. There were no securities sold during 2011.

CitizensTrust consists of Wealth Management and Investment Services income. The Wealth Management Group provides a variety of services, which include asset management, financial planning, estate planning, retirement planning, private and corporate trustee services, and probate services. Investment Services provides self-directed brokerage, 401(k) plans, mutual funds, insurance and other non-insured investment products. CitizensTrust generated fees of $8.7 million in 2011. This represented a modest increase of $320,000, or 3.83%, from fees generated of $8.4 million in 2010.

The Bank invests in Bank-Owned Life Insurance (BOLI). BOLI involves the purchasing of life insurance by the Bank on a selected group of employees. The Bank is the owner and beneficiary of these policies. BOLI is recorded as an asset at its cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other operating income and are not subject to income tax, as long as they are held for the life of the covered parties. Bank Owned Life Insurance income of $3.3 million in 2011 reflected a slight increase of $134,000, or 4.29%, compared to BOLI income earned in 2010.

2010 Compared to 2009

During 2010, other operating income decreased $24.0 million, or 29.55%, from other operating income of $81.1 million in 2009. The decrease was primarily due to a $15.9 million charge for the reduction in the FDIC loss sharing asset, partially offset by a $10.5 million increase in net gains on sales of securities; 2009 results included the $21.1 million gain on the SJB acquisition. The $15.9 million net reduction in the FDIC loss sharing asset for 2010 includes a $21.1 million charge due to resolutions of covered loans with losses less than originally expected at acquisition offset by $5.2 million in accretion income.

During 2010, we sold certain securities and recognized a gain on sale of securities of $38.9 million. We also reflected a $904,000 other-than-temporary impairment on a private-label mortgage-backed investment security for 2010, which was charged to other operating income compared to $323,000 for 2009.

During the fourth quarter of 2009, we recorded a pre-tax bargain purchase gain of $21.1 million in connection with our acquisition of SJB. For a detailed discussion on this acquisition and calculation of the gain see Note 2 Federally Assisted Acquisition of San Joaquin Bank in the notes to the consolidated financial statements. This gain represented about 26% other operating income in 2009.

CitizensTrust generated fees of $8.4 million in 2010, representing an increase of $1.7 million, or 25.63% from fees generated of $6.7 million in 2009. This was primarily due to a nearly 10% increase in managed assets and higher margin wealth management accounts replacing lower margin custody accounts.

BOLI income in 2010 increased $333,000, or 11.93% over BOLI income generated of $2.8 million for 2009, following a $1.0 million death settlement received in 2008.

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Other Operating Expenses

The components of other operating expenses were as follows:

	For the years ended December 31,		
	2011	2010	2009
	(Dollars in thousands)		
Salaries and employee benefits	$ 69,993	$ 69,419	$ 62,985
Professional services	15,031	13,308	6,965
Occupancy	11,261	12,127	11,649
Equipment	5,322	7,221	6,712
Stationery and supplies	3,645	4,965	4,509
Software licenses and maintenance	3,669	5,031	2,320
Promotion	4,977	6,084	6,528
Amortization of intangibles	3,481	3,732	3,163
Provision for unfunded commitments	(918)	2,600	3,750
OREO expense	6,729	7,490	1,211
Prepayment penalties on borrowings	3,310	18,663	4,402
Other	14,525	17,852	19,392
Total other operating expenses	$ 141,025	$ 168,492	$ 133,586

Other operating expenses for the Company include expenses for salaries and benefits, occupancy, equipment, stationary and supplies, professional services, amortization of intangibles, and other expenses.

For the most part, other operating expenses reflected the direct expenses and related administrative expenses associated with staffing, maintaining, promoting, and operating center facilities. Our ability to control other operating expenses in relation to asset growth can be measured in terms of other operating expenses as a percentage of average assets. Other operating expenses measured as a percentage of average assets were 2.17% for 2011, compared to 2.49% for 2010, and 2.01% for 2009.

Our ability to control other operating expenses in relation to the level of total revenue (net interest income plus other operating income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. For 2011, the efficiency ratio was 53.86%, compared to 66.02% for 2010 and 59.95% for 2009.

2011 Compared to 2010

Other operating expenses of $141.0 million for 2011 represented a decrease of $27.5 million, or 16.30%, over other operating expenses of $168.5 million for 2010. The overall decrease was primarily attributable to decreases of $15.4 million in prepayment penalties on FHLB advances, $2.7 million in supplies and software expense, $3.8 million for regulatory assessment fees, and $1.9 million in equipment expenses. We also recorded a reduction in our reserve for unfunded commitments of $918,000 during 2011 compared to an increase in our reserve for unfunded commitments of $2.6 million during 2010.

Professional services totaled $15.0 million for 2011 compared to $13.3 million for 2010. The 2011 increases were primarily due to increases in legal expenses for credit and collection issues, a Securities and Exchange Commission investigation and other litigation issues that the Company from time to time became involved in. See Item 3 Legal Proceedings .

Salaries and related expenses comprise the greatest portion of other operating expenses. Salaries and related expenses totaled $70.0 million for 2011 representing a slight increase of $574,000, or 0.83%, over salaries and related expenses of $69.4 million for 2010. At December 31, 2011, we employed 809 associates (578 full-time and 231 part-time) compared to 811 associates (572 full-time and 239 part-time) at December 31, 2010. Salaries and related expenses as a percent of average assets increased to 1.08% for 2011, compared to 1.03% for 2010.

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2010 Compared to 2009

During 2010, other operating expenses of $168.5 million increased $34.9 million, or 26.13%, over other operating expenses of $133.6 million for 2009. The increase in 2010 was primarily due to a $14.3 million increase in prepayment penalties on FHLB advances, a $6.3 million increase in OREO expense, a $6.4 million increase in salaries and related expenses, and a $6.3 million increase in professional services. This was partially offset by a $1.2 million decrease in reserve for unfunded commitments and a $1.3 million decrease in FDIC deposit insurance expense.

Salaries and related expenses totaled $69.4 million for 2010. This represented an increase of $6.4 million, or 10.21%, over salaries and related expenses of $63.0 million for 2009. The increase in salaries and related expenses in 2010 included SJB expenses for the full year, compared to expenses for only the fourth quarter of 2009.

At December 31, 2010, we employed 811 associates (572 full-time and 239 part-time), compared to 831 associates (583 full-time and 248 part-time) at December 31, 2009. Salaries and related expenses as a percent of average assets increased to 1.03% for 2010, compared to 0.95% for 2009.

Professional services totaled $13.3 million for 2010, compared to $7.0 million for 2009. The 2010 increases were primarily due to increases in legal expenses for credit and collection issues, a Securities and Exchange Commission investigation and other litigation issues that the Company from time to time became involved in. See Item 3 Legal Proceedings .

OREO expense for 2010 included $4.1 million in write-downs on non-covered OREO, $1.9 million in write-downs of covered OREO and $1.5 million in maintenance expenses and property taxes associated with OREO properties.

Income Taxes

The Company s effective tax rate for 2011 was 32.34%, compared to 27.44% for 2010, and 26.70% for 2009. The effective tax rates are below the nominal combined Federal and State tax rates as a result of tax-advantaged income from certain investments and municipal loans and leases as a percentage of total income for each period. The majority of tax-advantaged income is derived from municipal securities.

RESULTS BY SEGMENT OPERATIONS

We have two reportable business segments, which are (i) Business Financial and Commercial Banking Centers and (ii) Treasury. The results of these two segments are included in the reconciliation between business segment totals and our consolidated total. Our business segments do not include the results of administration units that do not meet the definition of an operating segment.

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Business Financial and Commercial Banking Centers

Key measures we use to evaluate the Business Financial and Commercial Banking Center s performance are included in the following table for years ended December 31, 2011, 2010 and 2009. The table also provides additional significant segment measures useful to understanding the performance of this segment.

	For the Year Ended December 31,		
	2011	2010	2009
	(Dollars in thousands)		
Key Measures:			
Statement of Operations			
Interest income	$ 182,187	$ 242,087	$ 213,106
Interest expense	15,295	34,181	40,987
Net interest income	$ 166,892	$ 207,906	$ 172,119
Other operating income	21,622	23,204	19,537
Other operating expenses	49,802	51,922	47,860
Segment pretax profit	$ 138,712	$ 179,188	$ 143,796
Balance Sheet			
Average loans	$ 2,639,628	$ 2,822,184	$ 2,701,921
Average interest-bearing deposits and customer repurchases	$ 2,946,270	$ 3,179,968	$ 2,670,312
Yield on loans	5.96%	6.04%	5.92%
Rate paid on interest-bearing deposits and customer repos	0.35%	0.71%	1.06%

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

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

For the year ended December 31, 2011, Business Financial and Commercial Banking Centers segment profits decreased by $40.5 million, or 22.59%, compared to 2010. This was primarily due to a decrease in interest income of $59.9 million, offset by a decrease in interest expense of $18.9 million. The decrease in interest income was primarily due to a $182.6 million, or 6.47% decrease in the average loan balance in 2011 compared to 2010. The decrease in interest expense was primarily due to a decrease in rates paid on deposits and a decrease in average interest-bearing deposits and customer repurchase agreements. During 2011 average interest-bearing deposits and customer repurchase agreements decreased $233.7 million, or 7.35%, compared to 2010.

For the year ended December 31, 2010, segment profits increased by $35.4 million, or 24.61%, compared to 2009. This was primarily due to an increase in interest income of $29.0 million and a decrease in interest expense of $6.8 million. The increase in interest income includes a credit for funds provided which is eliminated in the consolidated total. The credit for funds provided increases as deposit balances increase. During 2010, average interest-bearing deposits and customer repurchase agreements increased $509.7 million, or 19.09%, compared to 2009. The decrease in interest expense is due to a decrease in rates paid on deposits offset by increases in average interest-bearing deposits and customer repurchase agreements.

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Treasury

Key measures we use to evaluate Treasury s performance are included in the following table for the years ended December 31, 2011, 2010 and 2009. The table also provides additional significant segment measures useful to understand the performance of this segment.

	For the Year Ended December 31,		
	2011	2010	2009
	(Dollars in thousands)		
Key Measures:			
Statement of Operations			
Interest income	$ 62,732	$ 76,651	$ 104,778
Interest expense	56,386	73,786	83,649
Net interest income	$ 6,346	$ 2,865	$ 21,129
Other operating income	(655)	37,997	28,124
Other operating expenses	4,117	20,125	5,945
Segment pretax profit (loss)	$ 1,574	$ 20,737	$ 43,308
Balance Sheet			
Average investments	$ 1,983,774	$ 1,970,412	$ 2,327,782
Average interest-bearing deposits	$ 240,302	$ 240,316	$ 246,307
Average borrowings	$ 552,155	$ 796,321	$ 1,367,620
Yield on investments-TE	3.59%	4.35%	4.98%
Non-tax equivalent yield	3.09%	3.82%	4.49%
Rate paid on borrowings	3.80%	4.00%	4.01%

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

For the year ended December 31, 2011, Treasury segment profits decreased by $19.2 million compared to 2010. The decrease was primarily due to $38.9 million in gain on the sale of investment securities in 2010, offset by a decrease of $16.0 million in other operating expense, primarily attributable to a $15.4 million decrease in prepayment penalties in 2011. This was partially offset by a $13.9 million reduction in interest income due to a 76 basis point decrease in yield on investments in 2011. Interest expense decreased $17.4 million and interest income decreased $13.9 million. The decrease in interest expense was primarily due to a decrease of $244.2 million in average borrowings from 2010 to 2011.

For the year ended December 31, 2010, Treasury segment profits decreased by $22.6 million compared to 2009. This decrease was due in part to the sale of investment securities in 2010 and reinvestment into instruments with lower interest rates, resulting in $28.1 million less interest income generated in 2010 compared to 2009. This was partially offset by a $9.9 million reduction in interest expense as average borrowings decreased by $571.3 million from 2009 to 2010. The $38.9 million gain on the sale of investment securities helped to increase other operating income by $9.9 million (from $28.1 million in 2009 to $38.0 million in 2010) in 2010. However, this was partially offset by $18.7 million in prepayment penalties in 2010, which was reflected in other operating expense.

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

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Other

	For the Year Ended December 31,		
	2011	2010	2009
	(Dollars in thousands)		
Key Measures:			
Statement of Operations			
Interest income	$ 89,233	$ 99,268	$ 69,867
Interest expense	27,790	50,722	40,851
Net interest income	$ 61,443	$ 48,546	$ 29,016
Provision for cedit losses	7,068	61,200	80,500
Other operating income	13,249	(4,087)	33,410
Other operating expenses	87,106	96,445	79,781
Pre-tax loss	$ (19,482)	$ (113,186)	$ (97,855)
Balance Sheet			
Average loans	$ 906,133	$ 1,085,929	$ 1,033,571
Average interest-bearing deposits and customer repos	$ (3,555)	$ 35,202	$ 85,362
Yield on loans	5.49%	6.48%	4.45%

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

The Company s administration and other operating departments reported pre-tax loss of $19.5 million for the year ended December 31, 2011. This represented a decrease of $93.7 million over pre-tax loss of $113.2 million for the year ended December 31, 2010. The reduction in pre-tax loss was primarily attributed to the decrease in provision for credit losses of $54.1 million, an increase in other operating income of $17.3 million, an increase in net interest income of $12.9 million, and a decrease in other operating expense of $9.3 million. Interest income in 2011 included $12.6 million in accelerated accretion on SJB acquired loans compared to $26.7 million in 2009.

Pre-tax loss for 2010 increased $15.3 million to $113.2 million, from pre-tax loss of $97.9 million for 2009. The increase was primarily due to a $37.5 million decrease in other operating income and a $16.7 million increase in other operating expense, partially offset by a $ 19.3 million decrease in provision for credit losses and a $19.5 million increase in net interest income. Interest income in 2010 included $26.7 million in accelerated accretion on SJB acquired loans.

ANALYSIS OF FINANCIAL CONDITION

The Company reported total assets of $6.48 billion at December 31, 2011. This represented an increase of $46.2 million, or 0.72%, from total assets of $6.44 billion at December 31, 2010. Total liabilities were $5.77 billion at December 31, 2011, a decrease of $24.7 million, or 0.43%, from total liabilities of $5.79 billion at December 31, 2010. Total equity increased $71.0 million, or 11.02%, to $714.8 million at December 31, 2011 compared to total equity of $643.9 million at December 31, 2010.

Investment Securities

The Company maintains a portfolio of investment securities to provide interest income and to serve as a source of liquidity for its ongoing operations. The tables below set forth information concerning the composition of the investment securities portfolio at December 31, 2011 and 2010, and the maturity distribution of the investment securities portfolio at December 31, 2011.

At December 31, 2011, we reported total investment securities of $2.20 billion. This represented an increase of $409.2 million, or 22.80%, from total investment securities of $1.79 billion at December 31, 2010. Investment securities comprised 35.96% of the Company s total earning assets as of December 31, 2011. During 2010, we sold certain securities and recognized gains on sales of securities of $38.9 million. No securities were sold in 2011.

Securities held as available-for-sale are reported at current fair value for financial reporting purposes. The related unrealized gain or loss, net of income taxes, is recorded as other comprehensive income and is reflected in stockholders equity. At December 31, 2011, securities held as available-for-sale had a fair value of $2.20 billion with an amortized cost of $2.13 billion. At December 31, 2011, the net unrealized holding gain on securities available-for-sale was $71.5 million that resulted in accumulated other comprehensive gain of $41.5 million (net of $30.0 million in deferred taxes). At December 31, 2010, the net unrealized holding gain on securities available-for-sale was $11.1 million that resulted in an accumulated other comprehensive gain of $6.2 million.

Table 3 - Composition of the Fair Value of Securities Available-for-Sale:

(Dollars in thousands)

	December 31, 2011 2011		December 31, 2010 2010		December 31, 2009 2009	
	Fair Value	Total Percent	Fair Value	Percent	Amount	Percent
U.S. Treasury Obligations	$	0.00%	$	0.00%	$ 507	0.02%
Government agency	46,507	2.11%	106,273	5.93%	21,713	1.03%
Mortgage-backed securities	888,000	40.33%	808,409	45.12%	647,168	30.70%
CMO/REMICs	604,508	27.46%	270,477	15.10%	773,165	36.67%
Municipal bonds	652,037	29.62%	606,399	33.85%	663,426	31.46%
Other securities	10,474	0.48%		0.00%	2,484	0.12%
TOTAL	**$ 2,201,526**	**100.00%**	**$ 1,791,558**	**100.00%**	**$ 2,108,463**	**100.00%**

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The maturity distribution of the available-for-sale portfolio at December 31, 2011 consists of the following:

(Dollars in thousands)	One year or less	Weighted Average Yield	After one year through Five Years	Weighted Average Yield	After five years through Ten Years	Weighted Average Yield	After ten years	Weighted Average Yield	Balance as of December 31, 2011	Weighted Average Yield	% to Total
Government agency and government-sponsored enterprises	$ 26,097	1.48%	$ 20,410	1.06%	$	0.00%	$	0.00%	$ 46,507	1.29%	2.11%
Mortgage-backed securities	31,975	3.90%	760,565	2.57%	74,633	3.76%	20,827	3.02%	888,000	2.72%	40.33%
CMO/REMICs	5,281	4.63%	523,539	2.40%	75,688	3.56%		0.00%	604,508	2.56%	27.46%
Municipal bonds (1)	53,341	3.46%	375,035	3.97%	189,788	3.73%	33,873	4.04%	652,037	3.86%	29.62%
Other Securities	10,474	3.49%		0.00%		0.00%		0.00%	10,474	3.49%	0.48%
TOTAL	$ 127,168	3.22%	$ 1,679,549	2.81%	$ 340,109	3.70%	$ 54,700	3.65%	$ 2,201,526	2.99%	100.00%

(1) The weighted average yield is not tax-equivalent. The tax-equivalent yield is 3.59%

The maturity of each security category is defined as the contractual maturity except for the categories of mortgage-backed securities and CMO/REMICs whose maturities are defined as the estimated average life. The final maturity of mortgage-backed securities and CMO/REMICs will differ from their contractual maturities because the underlying mortgages have the right to repay such obligations without penalty. The speed at which the underlying mortgages repay is influenced by many factors, one of which is interest rates. Mortgages tend to repay faster as interest rates fall and slower as interest rate rise. This will either shorten or extend the estimated average life. Also, the yield on mortgage-backed securities and CMO/REMICs are affected by the speed at which the underlying mortgages repay. This is caused by the change in the amount of amortization of premiums or accretion of discount of each security as repayments increase or decrease. The Company obtains the estimated average life of each security from independent third parties.

The weighted-average yield (TE) on the investment portfolio at December 31, 2011 was 2.99% with a weighted-average life of 3.6 years. This compares to a weighted-average yield of 3.25% at December 31, 2010 with a weighted-average life of 4.6 years. The weighted average life is the average number of years that each dollar of unpaid principal due remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal pay-downs.

Approximately 70% of the securities in the investment portfolio, at December 31, 2011, are issued by the U.S. government or U.S. government-sponsored agencies which have the implied guarantee of payment of principal and interest. As of December 31, 2011, approximately $106.0 million in U.S. government agency bonds are callable.

As of December 31, 2011 and 2010, the Company held investment securities in excess of ten-percent of shareholders equity from the following issuers:

Investment Portfolio by Major Issuers

(Dollars in thousands)	December 31, 2011		December 31, 2010	
	Book Value	Market Value	Book Value	Market Value
Federal Home Loan Mortgage Corp	$ 613,392	$ 626,453	$ 387,794	$ 391,189
Federal National Mortgage Association	853,139	867,186	756,659	762,372

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The following table presents municipal securities by the top five holdings by state:

Municipal Securities by Largest State Holdings

(Dollars in thousands)

	December 31, 2011			
State	**Amortized Cost**		**Fair Value**	
New Jersey	$ 87,056	14.3%	$ 93,769	14.4%
Illinois	75,981	12.5%	80,240	12.3%
Michigan	73,827	12.1%	78,635	12.1%
Texas	48,852	8.0%	52,729	8.1%
California	37,913	6.2%	38,438	5.9%
All Other States	284,946	46.9%	308,226	47.2%
Total	$ 608,575	100.0%	$ 652,037	100.0%

	December 31, 2010			
State	**Amortized Cost**		**Fair Value**	
New Jersey	$ 90,211	14.9%	$ 92,004	15.2%
Illinois	77,878	12.9%	78,435	12.9%
Michigan	76,367	12.6%	74,329	12.3%
Washington	42,591	7.0%	42,787	7.1%
California	37,983	6.3%	37,443	6.2%
All Other States	280,169	46.3%	281,401	46.3%
Total	$ 605,199	100.0%	$ 606,399	100.0%

Municipal securities held by the Bank are issued by various states and their various local municipalities.

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

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

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

The tables above show the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2011 and 2010. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired except for one bond held to maturity described below. A summary of our analysis of these securities and the unrealized losses is described more fully in Note 3 Investment Securities in the notes to the consolidated financial statements. Economic trends may adversely affect the value of the portfolio of investment securities that we hold.

During 2011, the Company recognized an other-than-temporary impairment on the held-to-maturity investment security. The total impairment of $254,000 plus $402,000 for the non-credit portion reclassified from other comprehensive income for a $656,000 net impairment loss charged to other operating income.

Non-Covered Loans

At December 31, 2011, total non-covered loans, net of deferred loan fees, were $3.22 billion. This represented a decrease of $154.0 million, or 4.56%, from non-covered loans of $3.38 billion at December 31, 2010. The loan portfolio was affected by real estate trends, diminished loan demand and the weakening of the economy. The overall decrease was attributed to the following:

$62.8 million decline in construction loans.

$45.3 million in note sales related to our former largest borrower.

$32.8 million decrease in the dairy and livestock portfolio.

$36.2 million decline in purchased mortgage pool loans.

Table 4 presents the distribution of our non-covered loans at the dates indicated.

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TABLE 4 Distribution of Loan Portfolio by Type *(Non-Covered Loans)*

	As of December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Commercial and Industrial	$ 494,299	$ 460,399	$ 413,715	$ 370,829	$ 365,214
Real Estate					
Construction	76,146	138,980	265,444	351,543	308,354
Commercial Real Estate	1,948,292	1,980,256	1,989,644	1,945,706	1,805,946
SFR Mortgage	176,442	218,467	265,543	333,931	365,849
Consumer, net of unearned discount	51,436	56,747	67,693	66,255	58,999
Municipal Lease Finance Receivables	113,460	128,552	159,582	172,973	156,646
Auto and equipment leases	17,370	17,982	30,337	45,465	58,505
Dairy and Livestock/Agribusiness	347,677	377,829	422,958	459,329	387,488
Gross Loans (Non-Covered)	3,225,122	3,379,212	3,614,916	3,746,031	3,507,001
Less:					
Allowance for Credit Losses	(93,964)	(105,259)	(108,924)	(53,960)	(33,049)
Deferred Loan Fees	(5,395)	(5,484)	(6,537)	(9,193)	(11,857)
Total Net Loans (Non-Covered)	$ 3,125,763	$ 3,268,469	$ 3,499,455	$ 3,682,878	$ 3,462,095

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

Our loan portfolio is primarily located throughout our marketplace. The following is the breakdown of our total non-covered held-for-investment commercial real estate loans by region at December 31, 2011.

Non-Covered	December 31, 2011			
Loans by Market Area	Total Non-Covered Loans		Commercial Real Estate Loans	
	(Dollars in thousands)			
Los Angeles County	$ 1,118,271	34.7%	$ 701,028	36.0%
Inland Empire	633,881	19.6%	530,767	27.2%
Central Valley	593,133	18.4%	350,194	18.0%
Orange County	471,508	14.6%	192,966	9.9%
Other Areas	408,329	12.7%	173,337	8.9%
	$ 3,225,122	100.0%	$ 1,948,292	100.0%

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

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Non-Covered Commercial and SFR Real Estate Loans (Dollars in thousands)	December 31, 2011 Loan Balance	Percent	Percent Owner-Occupied (1)	Average Loan Balance
Single Family-Direct	$ 42,400	2.0%	100.0%	$ 219
Single Family-Mortgage Pools	134,042	6.3%	100.0%	283
Multifamily	122,238	5.8%	0.0%	1,091
Industrial	619,689	29.3%	34.8%	889
Office	356,867	16.8%	29.2%	939
Retail	289,279	13.5%	11.1%	1,215
Medical	130,715	6.2%	42.5%	1,594
Secured by Farmland	160,160	7.4%	100.0%	2,027
Other	269,344	12.7%	49.0%	1,090
	$ 2,124,734	100.0%	41.2%	$ 1,056

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

In the table above, Single Family-Direct represents those single-family residence loans that we have made directly to our customers. These loans totaled $42.4 million. In addition, we have purchased pools of owner-occupied single-family loans from real estate lenders, Single Family-Mortgage Pools, totaling $134.0 million. These loans were purchased with average FICO scores predominantly ranging from 700 to over 800 and overall original loan-to-value ratios of 60% to 80%. These pools were purchased to diversify our loan portfolio since we make few single-family loans. Due to market conditions, we have not purchased any mortgage pools since August 2007.

Non-Covered

Construction Loans (Dollars in thousands)	December 31, 2011 SFR & Multifamily					
	Land Development		Construction		Total	
Los Angeles	$		$ 673	63.2%	$ 673	18.8%
Central Valley	1,329	52.9%			1,329	37.1%
Orange	1,185	47.1%	5	0.5%	1,190	33.3%
San Diego			386	36.3%	386	10.8%
	$ 2,514	100.0%	$ 1,064	100.0%	$ 3,578	100.0%
Total Non-Performing	$ 920	36.6%	$		$ 920	25.7%

	Commercial					
	Land Development		Construction		Total	
Inland Empire	$		$ 17,992	24.9%	$ 17,992	24.8%
Los Angeles			33,983	47.1%	33,983	46.8%
Central Valley			2,350	3.3%	2,350	3.3%
Other (includes out-of-state)	449	100.0%	17,794	24.7%	18,243	25.1%
	$ 449	100.0%	$ 72,119	100.0%	$ 72,568	100.0%

Total Non-Performing	$ 12,397	17.2%	$ 12,397	17.1%

As of December 31, 2011, the Company had $76.1 million in non-covered construction loans. This represents 2.36% of total non-covered gross loans outstanding of $3.23 billion. Of this $76.1 million in construction loans, approximately 4.70%, or $3.6 million, were for single-family residences, residential land loans, and multi-family land development loans. The remaining construction loans, totaling $72.6 million, were

related to commercial construction. The average balance of any single construction loan was approximately $2.7 million. Our construction loans are located throughout our marketplace as can be seen in the table above.

Covered Loans from the SJB Acquisition

These covered loans were acquired from SJB on October 16, 2009 and are subject to a loss sharing agreement with the FDIC, the terms of which provide that the FDIC will absorb 80% of losses and share in 80% of loss recoveries up to $144.0 million with respect to covered assets, after a first loss amount of $26.7 million, which is assumed by the Bank. The FDIC will reimburse the Bank for 95% of losses and share in 95% of loss recoveries in excess of $144.0 million with respect to covered assets. The loss sharing agreement is in effect for 5 years for commercial loans and 10 years for single-family residential loans from the October 16, 2009 acquisition date and the loss recovery provisions are in effect for 8 and 10 years, respectively for commercial and single-family residential loans from the acquisition date.

The SJB loan portfolio included unfunded commitments for commercial lines or credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is included under the shared-loss agreement. As such, any additional advances up to the total commitment outstanding at the time of acquisition are covered loans.

Covered loans acquired will continue to be subject to our credit review and monitoring. If deterioration is experienced subsequent to the October 16, 2009 acquisition fair value amount, such deterioration will be in our loan loss methodology and a provision for credit losses will be charged to earnings with a partially offsetting other operating income item reflecting the increase to the FDIC loss sharing asset.

The table below presents the distribution of our covered loans as of December 31, 2011 and 2010.

Distribution of Loan Portfolio by Type

(Covered Loans)

	December 31, 2011		December 31, 2010	
	(Dollars in thousands)			
Commercial and Industrial	$ 29,651	9.6%	$ 39,587	8.1%
Real Estate				
Construction	18,685	6.1%	84,498	17.3%
Commercial Real Estate	223,107	72.5%	292,014	59.7%
SFR Mortgage	3,289	1.1%	5,858	1.2%
Consumer, net of unearned discount	8,353	2.7%	10,624	2.2%
Municipal Lease Finance Receivables	169	0.1%	576	0.1%
Dairy, Livestock and Agribusiness	24,395	7.9%	55,618	11.4%
Gross Loans	307,649	100.0%	488,775	100.0%
Less:				
Purchased accounting discount	(50,780)		(114,763)	
Deferred Loan Fees				
Net Valuation of Loans	$ 256,869		$ 374,012	

The excess of cash flows expected to be collected over the initial fair value of acquired loans is referred to as the accretable yield and is accreted into interest income over the estimated life of the acquired loans using the effective yield method. The accretable yield will change due to:

estimate of the remaining life of acquired loans which may change the amount of future interest income;

estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference); and

indices for acquired loans with variable rates of interest.

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Covered Loans by Market Area	December 31, 2011			
	Total Covered Loans		Covered Commercial Real Estate Loans	
	(Dollars in thousands)			
Los Angeles County	$ 15,145	4.9%	$ 11,364	5.1%
Inland Empire	2,667	0.9%	126	0.1%
Central Valley	255,967	83.2%	192,145	86.1%
Other Areas (1)	33,870	11.0%	19,472	8.7%
	$ 307,649	100.0%	$ 223,107	100.0%

Covered Commercial and SFR Real Estate Loans	December 31, 2011			
(Dollars in thousands)	*Loan Balance*	*Percent*	*Percent Owner-Occupied (1)*	*Average Loan Balance*
Single Family-Direct	$ 3,289	1.5%	100.0%	110
Multifamily	2,983	1.3%	0.0%	994
Industrial	52,292	23.2%	47.6%	804
Office	27,487	12.1%	56.0%	550
Retail	30,339	13.4%	33.4%	758
Medical	23,781	10.5%	68.1%	1,132
Secured by Farmland	12,088	5.3%	100.0%	526
Other	74,137	32.7%	21.1%	1,016
	$ 226,396	100.0%	43.1%	848

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

Non-Covered and Covered Loans

Table 5 provides the maturity distribution for commercial and industrial loans, real estate construction loans and dairy and livestock/agribusiness loans as of December 31, 2011. The loan amounts are based on contractual maturities although the borrowers have the ability to prepay the loans. Amounts are also classified according to re-pricing opportunities or rate sensitivity. The following table includes both covered and non-covered loans.

TABLE 5 Loan Maturities and Interest Rate Category at December 31, 2011

	Within One Year	After One But Within Five Years	After Five Years	Total
	(Dollars in thousands)			
Types of Loans:				
Commercial and industrial	$ 193,312	$ 134,468	$ 196,170	$ 523,950
Commercial Real Estate	120,646	749,170	1,301,583	2,171,399
Construction	64,491	24,632	5,708	94,831

Dairy and Livestock/Agribusiness	339,616	25,557	6,899	372,072
Other	23,985	42,179	304,355	370,519
	$ 742,050	$ 976,006	$ 1,814,715	$ 3,532,771
Amount of Loans based upon:				
Fixed Rates	$ 52,163	$ 468,755	$ 787,845	$ 1,308,763
Floating or adjustable rates	689,887	507,251	1,026,870	2,224,008
	$ 742,050	$ 976,006	$ 1,814,715	$ 3,532,771

As a normal practice in extending credit for commercial and industrial purposes, we may accept trust deeds on real property as collateral. In some cases, when the primary source of repayment for the loan is anticipated to come from the cash flow from normal operations of the borrower, and real property has been taken as collateral, the real property is considered a secondary source of repayment for the loan. Since we lend primarily in Southern and Central California, our real estate loan collateral is concentrated in this region. At December 31, 2011, substantially all of our loans secured by real estate were collateralized by properties located in California. This concentration is considered when determining the adequacy of our allowance for credit losses.

Non-Performing Assets (Non-Covered)

The following table provides information on non-covered non-performing assets at the dates indicated.

TABLE 6 Non-Performing Assets, Non-Covered

	December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Nonaccrual loans	$ 38,828	$ 84,050	$ 68,762	$ 17,684	$ 1,435
Troubled debt restructured loans (non-performing)	23,844	72,970	1,017		
Other real estate owned (OREO)	13,820	5,290	3,936	6,565	
Total nonperforming assets	$ 76,492	$ 162,310	$ 73,715	$ 24,249	$ 1,435
Troubled debt restructured performing loans	$ 38,554	$ 13,274	$ 2,500	$ 2,500	$
Percentage of nonperforming assets to total net loans outstanding & OREO	2.37%	4.80%	2.04%	0.65%	0.04%
Percentage of nonperforming assets to total assets	1.18%	2.52%	1.09%	0.36%	0.02%

We had loans with a gross balance of $101.2 million classified as impaired as of December 31, 2011. This balance included the non-performing loans of $62.7 million and loans including loans which were restructured in a troubled debt restructuring with a balance of $62.4 million, of which $23.8 million were non-performing and $38.6 million were performing, as of December 31, 2011. Of the $23.8 million in non-performing TDRs, $3.3 million are not paying in accordance with the modified terms at December 31, 2011 and the remaining $20.5 million have either not demonstrated repayment performance for a sustained period and/or we have not received all necessary documents to determine the borrower s ability to meet all future principal and interest payments under the modified terms. As of December 31, 2010, we had impaired loans with a balance of $170.3 million. The decrease of $69.1 million in impaired loans for 2011 was primarily due to the sale of loans related to our former largest borrowing relationship as well as transfers to OREO. Impaired loans measured 3.14% of total non-covered loans as of December 31, 2011.

Of the total impaired loans as of December 31, 2011, $70.2 million were considered collateral dependent and measured using the fair value of the collateral based on current appraisals (obtained within 1 year). The amount of impaired loans measured using the present value of expected future cash flows discounted at the loans effective rate were $31.1 million.

As of December 31, 2011 and December 31, 2010, impaired loans of $38.6 million and $13.3 million, respectively, were classified as accruing restructured loans, respectively. Of the $25.3 million increase in performing TDRs, $17.1 million was due to two commercial real estate loans that emerged out of bankruptcy court and are now paying in accordance with the terms approved by the court. The restructurings were granted in response to borrower financial difficulty, and generally provide for a modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. A performing restructured loan is reasonably assured of repayment and is performing according to the modified terms.

At December 31, 2011 and December 31, 2010, there was $27,000 and zero of related allowance on TDRs, respectively, as any impairment amounts identified are charged off against the allowance at the time a probable loss is determined. Total charge-offs on TDRs for 2011 and 2010 were $13.1 million and $44.4 million, respectively.

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

As of December 31, 2011, we had $13.8 million in non-covered OREO compared to $5.3 million as of December 31, 2010, an increase of $8.5 million. This was primarily due to the transfer of $16.1 million from non-performing loans during 2011, offset by the sales of existing OREO properties of $6.9 million and write-downs of OREO of $655,000.

Non-Performing Assets and Delinquencies (Non-Covered)

The table below provides trends in our non-performing assets and delinquencies during 2011 for total, covered and non-covered loans.

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Non-Performing Assets & Delinquency Trends

(Non-Covered Loans)

(Dollars in thousands)

	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Non-Performing Loans					
Residential Construction and Land	$ 920	$ 989	$ 1,080	$ 4,001	$ 4,090
Commercial Construction and Land	12,397	13,779	23,953	39,975	60,591
Residential Mortgage	16,970	18,792	17,786	18,425	17,800
Commercial Real Estate	25,992	25,454	24,731	34,951	64,859
Commercial and Industrial	3,432	3,277	4,649	7,542	3,887
Dairy & Livestock	2,475	2,574	2,672	2,996	5,207
Consumer	382	340	179	259	537
Auto & Equipment Leases	104	7		1	49
Total	**$ 62,672**	**$ 65,212**	**$ 75,050**	**$ 108,150**	**$ 157,020**
% of Total Loans, net of deferred fees	**1.95%**	**2.06%**	**2.35%**	**3.33%**	**4.65%**
Past Due 30-89 Days					
Residential Construction and Land	$	$	$	$	$
Commercial Construction and Land				1,492	
Residential Mortgage	1,568		460	993	2,597
Commercial Real Estate	787		2,590	898	3,194
Commercial and Industrial	3,022	940	675	72	3,213
Dairy & Livestock					
Consumer	59	14	91	9	29
Auto & Equipment Leases	20	997	65	167	107
Total	**$ 5,456**	**$ 1,951**	**$ 3,881**	**$ 3,631**	**$ 9,140**
% of Total Loans, net of deferred fees	**0.17%**	**0.06%**	**0.12%**	**0.11%**	**0.27%**
OREO					
Residential Construction and Land	$	$	$	$	$
Commercial Construction and Land	7,117	8,580	7,117	2,709	2,709
Commercial Real Estate	6,566	7,376	6,314	3,322	2,581
Commercial and Industrial	137			209	
Residential Mortgage			287		
Consumer					
Auto & Equipment Leases					
Total	**$ 13,820**	**$ 15,956**	**$ 13,718**	**$ 6,240**	**$ 5,290**
Total Non-Performing, Past Due & OREO	**$ 81,948**	**$ 83,119**	**$ 92,649**	**$ 118,021**	**$ 171,450**
% of Total Loans, net of deferred fees	**2.55%**	**2.62%**	**2.90%**	**3.63%**	**5.08%**

We had $62.7 million in non-covered non-performing loans at December 31, 2011, or 1.95% of total non-covered net loans. This compares to $157.0 million in non-performing loans at December 31, 2010. Five customer relationships make up $28.0 million, or 44.62%, of our non-performing loans at December 31, 2011. Three of these customer relationships are commercial real estate developers (owner/non-owner occupied) and the primary collateral for these loans is commercial real estate properties. Two of the customer relationships are in the dairy and livestock industry; and the collateral is primarily the dairy farm property and the dairy livestock. These five customer relationships have had

total charge-offs of $8.8 million and have $2.3 million of related allowance at December 31, 2011.

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

Non-Performing Assets-Covered

Loans acquired through the SJB acquisition are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as non-performing loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of December 31, 2011, there were no covered loans considered as non-performing as described above. There were sixteen properties in covered OREO totaling $9.8 million as of December, 2011 compared to seventeen properties totaling $11.3 million as of December 31, 2010.

Deposits

The primary source of funds to support earning assets (loans and investments) is the generation of deposits from our customer base. The ability to grow the customer base and deposits from these customers are crucial elements in the performance of the Company.

Total deposits were $4.60 billion at December 31, 2011. This represented an increase of $85.7 million, or 1.90%, over total deposits of $4.52 billion at December 31, 2010. This increase was due to organic growth primarily from our Specialty Banking Group and Commercial Banking Centers. The average balance of deposits by category and the average effective interest rates paid on deposits is summarized for the years ended December 31, 2011, 2010 and 2009 in the table below.

	For the Year Ended December 31,					
	2011		2010		2009	
			Average			
	Balance	Rate	Balance	Rate	Balance	Rate
			(Dollars in thousands)			
Non-interest bearing deposits						
Demand deposits	$ 1,905,605		$ 1,669,611		$ 1,431,204	
Interest bearing deposits						
Investment Checking	343,150	0.10%	427,016	0.27%	403,092	0.41%