CVB FINANCIAL CORP
Form 10-Q
May 10, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from _________ to _________

Commission File Number: 0-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

California		**95-3629339**
(State or other jurisdiction of incorporation or organization)		**(I.R.S. Employer Identification No.)**
701 North Haven Ave, Suite 350, Ontario, California		**91764**
(Address of Principal Executive Offices)		**(Zip Code)**

(909) 980-4030

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares of common stock of the registrant: 104,953,607 outstanding as of April 30, 2013.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION (UNAUDITED)		3
ITEM 1.	CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	4
	NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	9
ITEM 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	36
	CRITICAL ACCOUNTING POLICIES	36
	OVERVIEW	36
	ANALYSIS OF THE RESULTS OF OPERATIONS	38
	RESULTS BY BUSINESS SEGMENTS	44
	ANALYSIS OF FINANCIAL CONDITION	46
	RISK MANAGEMENT	58
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	61
ITEM 4.	CONTROLS AND PROCEDURES	65
PART II OTHER INFORMATION		66
ITEM 1.	LEGAL PROCEEDINGS	66
ITEM 1A.	RISK FACTORS	67
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	67
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	67
ITEM 4.	MINE SAFETY DISCLOSURES	67
ITEM 5.	OTHER INFORMATION	67
ITEM 6.	EXHIBITS	68
SIGNATURES		69

Table of Contents

PART I FINANCIAL INFORMATION (UNAUDITED)

GENERAL

Forward Looking Statements

Certain statements in this Report on Form 10-Q, including, but not limited to, statements under the heading Management Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995, including but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business prospects, strategic alternatives, business strategies, regulatory and competitive outlook, capital and financing needs and availability, acquisition and divestiture opportunities, investment and expenditure plans, plans and objectives of management for future operations and other similar forecasts and statements of expectations of assumptions underlying any of the foregoing. Words such as will likely result, aims , anticipates , believes , could , estimates , expects , hopes , intends , may , plans , projects , seeks , should , wil words and similar expressions are intended to identify these forward looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, local, regional, national and international economic conditions and events and the impact they may have on us and our customers; ability to attract deposits and other sources of liquidity; supply of property inventory and renewed fluctuation or deterioration in values of real estate in California or other jurisdictions where we lend, whether involving residential or commercial property; a prolonged slowdown or decline in construction activity; changes in the financial performance and/or condition of our borrowers; changes in the level of nonperforming assets and charge-offs; the cost or effect of acquisitions we may make; the effect of changes in laws and regulations (including laws, regulations and judicial decisions concerning financial reform, taxes, banking, securities, employment, executive compensation, insurance, and information security) with which we and our subsidiaries must comply; changes in the applicability or costs of deposit insurance; changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant legal, regulatory and accounting requirements; inflation, interest rate, securities market and monetary fluctuations; internal and external fraud and cyber-security threats including theft or loss of bank or customer funds, loss of system functionality or theft or loss of data; political instability; acts of war or terrorism, or natural disasters, such as earthquakes, or the effects of pandemic flu; the timely development and acceptance of new banking products and services and perceived overall value of these products and services by users; changes in consumer spending, borrowing and savings habits; the effects of technological change and product innovation; the ability to retain or increase market share, retain or grow customers and control expenses; changes in the risk or competitive environment among financial and bank holding companies and other financial service providers; continued volatility in the credit and equity markets and its effect on the general economy; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other national or international accounting standard setters; changes in our organization, management, compensation and benefit plans, and our ability to retain or expand our management team; the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries, including, but not limited to, the current investigation by the Securities and Exchange Commission and the related class-action lawsuits filed against us, and the results of regulatory examinations or reviews. The Company cautions that the foregoing factors are not exclusive. For additional information concerning these factors and other factors which may cause actual results to differ from the results discussed in our forward-looking statements, see the periodic filings the Company makes with the Securities and Exchange Commission, and, in particular, the information set forth in Item 1A herein and in Item 1A. Risk Factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by law.

Table of Contents

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 79,669	$ 87,274
Interest-earning balances due from Federal Reserve	55,609	11,157
Total cash and cash equivalents	135,278	98,431
Interest-earning balances due from depository institutions	70,000	70,000
Investment securities available-for-sale, at fair value (with amortized cost of $2,329,892 at March 31, 2013, and $2,374,816 at December 31, 2012)	2,390,673	2,449,387
Investment securities held-to-maturity	1,975	2,050
Investment in stock of Federal Home Loan Bank (FHLB)	50,981	56,651
Loans and lease finance receivables, excluding covered loans	3,189,514	3,252,313
Allowance for loan losses	(92,218)	(92,441)
Net loans and lease finance receivables	3,097,296	3,159,872
Covered loans and lease finance receivables, net	178,694	195,215
Premises and equipment, net	34,886	35,080
Bank owned life insurance	120,476	119,744
Accrued interest receivable	22,985	22,355
Intangibles	2,950	3,389
Goodwill	55,097	55,097
FDIC loss sharing asset	14,230	18,489
Non-covered other real estate owned	13,341	14,832
Covered other real estate owned	857	1,067
Income taxes	35,077	16,978
Other assets	40,971	44,727
TOTAL ASSETS	$ 6,265,767	$ 6,363,364
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 2,366,719	$ 2,420,993
Interest-bearing	2,319,442	2,352,994
Total deposits	4,686,161	4,773,987
Customer repurchase agreements	500,115	473,244
FHLB advances	199,002	198,934
Other borrowings		26,000
Accrued interest payable	1,306	1,493
Deferred compensation	9,259	8,781
Junior subordinated debentures	46,393	67,012
Other liabilities	55,319	50,943

TOTAL LIABILITIES	5,497,555	5,600,394
COMMITMENTS AND CONTINGENCIES		
Stockholders Equity:		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 104,903,107 at March 31, 2013, and 104,889,586 at December 31, 2012.	485,246	484,709
Retained earnings	247,713	235,010
Accumulated other comprehensive income, net of tax	35,253	43,251
Total stockholders equity	768,212	762,970
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,265,767	$ 6,363,364

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	**2012**
Interest income:		
Loans and leases, including fees	41,654	46,032
Accretion on acquired loans	4,393	4,692
Loans, including fees	46,047	50,724
Investment securities:		
Taxable	6,747	9,170
Tax-advantaged	5,541	5,796
Total investment income	12,288	14,966
Dividends from FHLB stock	343	90
Federal funds sold	14	185
Interest-earning deposits with other institutions	121	100
Total interest income	58,813	66,065
Interest expense:		
Deposits	1,241	1,653
Borrowings	2,700	4,971
Junior subordinated debentures	283	839
Total interest expense	4,224	7,463
Net interest income before provision for credit losses	54,589	58,602
Provision for credit losses		
Net interest income after provision for credit losses	54,589	58,602
Noninterest income:		
Service charges on deposit accounts	3,826	4,124
Trust and investment services	2,005	2,185
Bankcard services	839	919
BOLI income	743	750
Gain on sale of securities, net	2,094	
Decrease in FDIC loss sharing asset, net	(4,023)	(2,944)
Other	1,261	222
Total noninterest income	6,745	5,256
Noninterest expense:		
Salaries and employee benefits	17,300	16,721
Occupancy and equipment	3,682	3,948
Professional services	1,596	1,991
Software licenses and maintenance	1,152	909
Promotion	1,258	1,251

Amortization of intangibles		438		816
OREO expense		330		730
Other		5,042		3,846
Total noninterest expense		30,798		30,212
Earnings before income taxes		30,536		33,646
Income taxes		8,921		11,378
Net earnings	$	21,615	$	22,268
Other comprehensive income (loss):				
Unrealized loss on securities arising during the period	$	(11,696)	$	(73)
Less: Reclassification adjustment for net gain on securities included in net income		(2,094)		
Other comprehensive loss, before tax		(13,790)		(73)
Income tax benefit related to items of other comprehensive loss		5,792		31
Other comprehensive loss, net of tax		(7,998)		(42)
Comprehensive income	$	13,617	$	22,226
Basic earnings per common share	$	0.21	$	0.21
Diluted earnings per common share	$	0.21	$	0.21
Cash dividends declared per common share	$	0.085	$	0.085

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Three Months Ended March 31, 2013 and 2012

(Dollars and shares in thousands)

(Unaudited)

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance January 1, 2012	104,482	$ 479,973	$ 193,372	$ 41,469	$ 714,814
Exercise of stock options	225	1,355			1,355
Tax benefit from exercise of stock options		110			110
Shares issued pursuant to stock-based compensation plan		405			405
Cash dividends declared Common ($0.085 per share)			(8,903)		(8,903)
Net earnings			22,268		22,268
Other comprehensive income				(42)	(42)
Balance March 31, 2012	104,707	481,843	206,737	41,427	730,007
Balance January 1, 2013	104,890	484,709	235,010	43,251	762,970
Repurchase of common stock	(2)	(24)			(24)
Exercise of stock options	10	95			95
Tax benefit from exercise of stock options		5			5
Shares issued pursuant to stock-based compensation plan	5	461			461
Cash dividends declared Common ($0.085 per share)			(8,912)		(8,912)
Net earnings			21,615		21,615
Other comprehensive income				(7,998)	(7,998)
Balance March 31, 2013	104,903	$ 485,246	$ 247,713	$ 35,253	$ 768,212

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and dividends received	$ 59,834	$ 66,789
Service charges and other fees received	8,905	8,030
Interest paid	(4,343)	(7,504)
Cash paid to vendors and employees	(34,057)	(34,081)
Income taxes paid	(22,200)	
Proceeds from FDIC loss share agreement	187	1,316
Net cash provided by operating activities	8,326	34,550
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of FHLB stock	5,670	3,467
Proceeds from sale of investment securities	99,155	
Proceeds from repayment of investment securities	136,939	129,203
Proceeds from maturity of investment securities	6,533	36,397
Purchases of investment securities	(197,690)	(360,846)
Net decrease in loan and lease finance receivables	83,023	52,869
Proceeds from sales of premises and equipment	5	25
Purchase of premises and equipment	(1,059)	(711)
Proceeds from sales of other real estate owned	3,443	6,507
Net cash provided by/(used in) investing activities	136,019	(133,089)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease)/increase in transaction deposits	(85,560)	115,807
Net decrease in time deposits	(2,266)	(40,248)
Repayment of junior subordinated debentures	(20,619)	(6,805)
Net decrease in other borrowings	(26,000)	
Net increase/(decrease) in customer repurchase agreements	26,871	(31,802)
Cash dividends on common stock		(8,903)
Repurchase of common stock	(24)	
Proceeds from exercise of stock options	95	1,355
Tax benefit related to exercise of stock options	5	110
Net cash (used in)/provided by financing activities	(107,498)	29,514
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	36,847	(69,025)
CASH AND CASH EQUIVALENTS, beginning of period	98,431	345,343
CASH AND CASH EQUIVALENTS, end of period	$ 135,278	$ 276,318

See accompanying notes to the condensed consolidated financial statements.

7

Table of Contents

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Dollars in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net earnings	$ 21,615	$ 22,268
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of investment securities	(2,094)	
Loss on sale of premises and equipment, net	6	
Gain on sale of other real estate owned	(512)	(151)
Amortization of capitalized prepayment penalty on borrowings	68	68
Increase in bank owned life insurance	(732)	(750)
Net amortization of premiums and discounts on investment securities	6,786	5,448
Accretion of SJB discount	(4,393)	(4,692)
Provision for credit losses		
Valuation adjustment on other real estate owned	73	226
Change in FDIC loss share asset	4,023	2,944
Proceeds from FDIC loss share agreement	187	1,316
Stock-based compensation	461	405
Depreciation, amortization, net	831	2,158
Change in accrued interest receivable	(630)	137
Change in accrued interest payable	(187)	(109)
Change in other assets and liabilities	(17,176)	5,282
Total adjustments	(13,289)	12,282
Net cash provided by operating activities	$ 8,326	$ 34,550
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Securities purchased and not settled	$ 4,630	$ 2,014
Transfer of loans to other real estate owned	$ 1,303	$ 808

See accompanying notes to the condensed consolidated financial statements.

CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2013, and 2012

(Unaudited)

1. BUSINESS

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

The Company s primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank also provides automobile and equipment leasing to customers through its Citizens Financial Services Group and trust and investment-related services to customers through its CitizensTrust Division. The Bank s customers consist primarily of small to mid-sized businesses and individuals located in San Bernardino County, Riverside County, Orange County, Los Angeles County, Madera County, Fresno County, Tulare County, Kern County and San Joaquin County, California. The Bank operates 40 Business Financial Centers, five Commercial Banking Centers, and three trust office locations, with its headquarters located in the city of Ontario, California.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated unaudited financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results for the full year. These unaudited financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited condensed consolidated unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. A summary of the significant accounting policies consistently applied in the preparation of the accompanying unaudited condensed consolidated financial statements follows.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Securities The Company classifies as held-to-maturity those debt securities that the Company has the positive intent and ability to hold to maturity. Securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available-for-sale. Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized gains and losses being included in current earnings. Available-for-sale securities are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects, presented as a separate component of stockholders equity. Realized gains and losses on sales of securities are recognized in earnings at the time of sale and are determined on a specific-identification basis. Purchase premiums and discounts are recognized in interest income using the effective-yield method over the expected terms of the securities. For mortgage-backed securities (MBS), the

amortization or accretion is based on the estimated average lives of the securities. The lives of these securities can fluctuate based on the amount of prepayments received on the underlying collateral of the securities. The Company s investment in the Federal Home Loan Bank of San Francisco (FHLB) stock is carried at cost.

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

Loans and Lease Finance Receivables Non-covered loans and lease finance receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, less deferred net loan origination fees. In the ordinary course of business, the Company enters into commitments to extend credit to its customers. To the extent that such commitments are unfunded, the related unfunded amounts are not reflected in the accompanying unaudited condensed consolidated financial statements.

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

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

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

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

When determining whether or not a loan modification is a TDR under ASC 310-40, the Company evaluates loan modification requests from borrowers experiencing financial difficulties on a case-by-case basis. Any such modifications granted are unique to the borrower s circumstances. Because of the Company s focus on the commercial lending sector, each business customer has unique attributes, which in turn means that modifications of loans to those customers are not easily categorized by type, key features, or other terms, but are evaluated individually based on all relevant facts and circumstances pertaining to the modification request and the borrower s/guarantor s financial condition at the time of the request. The evaluation of whether or not a borrower is experiencing financial difficulties will include, among other relevant factors considered by the Company, a review of (i) whether the borrower is in default on any of its debt, (ii) whether the borrower is experiencing payment delinquency, (iii) whether the global cash

flows of the borrower and the owner guarantor(s) of the borrower have diminished below what is necessary to service existing debt obligations, (iv) whether the borrowers forecasted cash flows will be insufficient to service the debt in future periods or in accordance with the contractual terms of the existing agreement with the Company (or agreements with other lenders) through maturity, (v) whether the borrower is unable to refinance the subject debt from other financing sources with similar terms, and (vi) whether the borrower is in jeopardy as a going-concern and/or considering bankruptcy. In any case, the debtor is presumed to be experiencing financial difficulties if the Company determines it is probable the debtor will default on the original loan if the modification is not granted.

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

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

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

2. The delay is insignificant relative to any of the following:

   - The frequency of payments due;

   - The debt s original contractual maturity; or

   - The debt s original expected duration.

Most modified loans *not* classified and accounted for as troubled debt restructurings were performing and paying as agreed under their original terms in the six-month period immediately preceding a request for modification. Subsequently, these modified loans have continued to perform under the modified terms and deferrals that amounted to insignificant delays, which in turn is supported by the facts and circumstances of each individual customer and loan as described above. Payment performance continues to be monitored once modifications are made. The Company s favorable experience regarding re-defaults under modified terms, or upon return of the loan to its original terms, indicates that such relief may improve ultimate collection and reduces the Company s risk of loss.

A loan is generally considered impaired, when based on current events and information, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan, including a restructured loan, for which there is an insignificant delay relative to the frequency of payments due, and/or the original contractual maturity, is not considered an impaired loan. Generally, impaired loans include loans on nonaccrual status and TDRs.

The Company s policy is to record a specific valuation allowance, which is included in the allowance for credit losses, or to charge off that portion of an impaired loan that represents the impairment or shortfall amount as determined utilizing one of the three methods described in ASC 310-10-35-22. Impairment on non-collateral dependent restructured loans is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan s carrying value. The impairment amount, if any, is generally charged off and recorded against the allowance for credit losses at the time impairment is measurable and a probable loss is

determined. As a result, most of the TDRs have no specific allowance allocated because, consistent with the Company s stated practice, any impairment is typically charged-off in the period in which it is identified. Impairment on collateral dependent restructured loans is measured by determining the amount by which the impaired loan exceeds the fair value of the collateral less estimated selling costs. The fair value is generally determined by one or more appraisals of the collateral, performed by a Company approved third-party independent appraiser. The majority of impaired loans that are collateral dependent are charged off down to their estimated fair value of the collateral (less selling costs) at each reporting date based on current appraised value.

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

are generally based on previous appraisals adjusted for current market conditions, based on preliminary appraisal values that are still being reviewed or for single-family loans under review for modification on an appraisal or indications of comparable home sales from external sources.

Charge-offs of unsecured consumer loans are recorded when the loan reaches 120 days past due or sooner as circumstances indicate. Except for the charge-offs of unsecured consumer loans, the charge-off policy is generally applied consistently across all portfolio segments.

The Company measures impairment based on the present value of expected future cash flows discounted at the loan s effective interest rate, except that as a practical expedient, the Company may measure impairment based on a loan s observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan. Impaired single-family mortgage loans that have been modified in accordance with the various government modification programs are also measured based on the present value of the expected cash flows discounted at the loan s pre-modification interest rate. The Company recognizes the change in present value attributable to the passage of time as interest income on such performing single-family mortgage loans and the amount of interest income recognized to date has been insignificant.

Covered Loans We refer to covered loans as those loans that we acquired in the San Joaquin Bank (SJB) acquisition for which we will be reimbursed for a substantial portion of any future losses under the terms of the Federal Deposit Insurance Corporation (FDIC) loss sharing agreement. We account for loans under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (acquired impaired loan accounting) when (i) we acquire loans deemed to be impaired when there is evidence of credit deterioration since their origination and it is probable at the date of acquisition that we would be unable to collect all contractually required payments and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition. Acquired impaired loans are accounted for individually or in pools of loans based on common risk characteristics. The excess of the loan s or pool s scheduled contractual principal and interest payments over all cash flows expected at acquisition is the nonaccretable difference. The remaining amount, representing the excess of the loan s cash flows expected to be collected over the fair value is the accretable yield (accreted into interest income over the remaining life of the loan or pool).

Provision and Allowance for Credit Losses The allowance for credit losses is management s estimate of probable losses inherent in the loan and lease receivables portfolio. The allowance is increased by the provision for losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management s judgment, is appropriate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors that would deserve current recognition in estimating inherent credit losses.

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

The Company s methodology is consistently applied across all portfolio segments taking into account the applicable historical loss rates and the qualitative factors applicable to each pool of loans. A key factor in the Company s methodology is the loan risk rating (Pass, Special Mention, Substandard, Doubtful and Loss). Loan risk ratings are updated as facts related to the loan or borrower become available. In addition, all term loans in excess of $1.0 million are subject to an annual internal credit review process where all factors underlying the loan, borrower and guarantors are subject to review which may result in changes to the loan s risk rating. Periodically, we assess various attributes utilized in adjusting our historical loss factors to reflect our view of current economic conditions. The estimate is reviewed quarterly by the Board of Directors and management and periodically by various regulatory agencies and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

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

are measured based on the expected cash flows of the entire pool.

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

The FDIC loss sharing asset was initially recorded at fair value which represents the present value of the estimated cash payments from the FDIC for future losses on covered loans. The ultimate collectability of this asset is dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC. The loss estimates used in calculating the FDIC loss sharing asset are determined on the same basis as the loss estimates on the related covered loans and is the present value of the cash flows the Company expects to collect from the FDIC under the loss sharing agreement. The difference between the present value and the undiscounted cash flow the Company expects to collect from the FDIC is accreted (or amortized) 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 covered loan performance. Any increases in the cash flows of covered loans over those expected will reduce the FDIC indemnification asset and any decreases in the cash flows of covered loans over those expected will increase the FDIC indemnification asset, with the remaining balance amortized on the same basis as the discount, not to exceed its remaining contract life. These increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

Goodwill and Intangible Assets Goodwill resulting from business combinations prior to January 1, 2009, represents the excess of the purchase price over the fair value of the net assets of the businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interest in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually, or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed.

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet. Based on the Company s annual impairment test, there was zero recorded impairment as of March 31, 2013.

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

At March 31, 2013, goodwill was $55.1 million. As of March 31, 2013, intangible assets that continue to be subject to amortization include core deposit premiums of $3.0 million (net of $29.0 million of accumulated amortization). Amortization expense for such intangible assets was $438,000 for the three months ended March 31, 2013. Estimated amortization expense for the remainder of 2013 is expected to be $689,000. Estimated amortization expense for the succeeding years is $475,000 for 2014, $437,000 for 2015, $395,000 for 2016, $366,000 for 2017, and $589,000 for the period from 2018 to 2019. The weighted average remaining life of intangible assets is approximately 2.1 years.

Fair Value of Financial Instruments We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Investment securities available-for-sale and interest-rate swaps are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a non-recurring basis, such as impaired loans and other real estate owned (OREO). These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets. Further, we include in Note 8 of the unaudited condensed consolidated financial statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value we disclose the estimate of their fair value.

Earnings per Common Share The Company calculates earnings per common share (EPS) using the two-class method. The two-class method requires the Company to present EPS as if all of the earnings for the period are distributed to common shareholders and any participating securities. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities. The Company grants restricted shares under the 2008 Equity Incentive

Table of Contents

Plan that qualify as participating securities. Restricted shares issued under this plan are entitled to dividends at the same rate as common stock. A reconciliation of the numerator and the denominator used in the computation of basic and diluted earnings per common share is included in Note 7 of these condensed consolidated financial statements.

Stock-Based Compensation Consistent with the provisions of ASC 718, Stock Compensation , we recognize expense for the grant date fair value of stock options and restricted shares issued to employees, officers and non-employee directors over the their requisite service periods (generally the vesting period). The service periods may be subject to performance conditions.

At March 31, 2013, the Company had three stock-based employee compensation plans. The Company accounts for stock compensation using the modified prospective method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are measured at fair value as of the grant date with compensation costs recognized over the vesting period on a straight-lined basis. Also under this method, unvested stock awards as of January 1, 2006 are recognized over the remaining service period with no change in historical reported earnings.

The fair value of each stock option grant is estimated as of the grant date using the Black-Scholes option-pricing model. Management assumptions used at the time of grant impact the fair value of the option calculated under the Black-Scholes option-pricing model, and ultimately, the expense that will be recognized over the life of the option.

The grant date fair value of restricted stock awards is measured at the fair value of the Company s common stock as if the restricted share was vested and issued on the date of grant.

Additional information is included in Note 19, Stock Option Plan and Restricted Stock Awards , of the Company s Annual Report on Form 10-K.

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

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for credit losses. Other significant estimates which may be subject to change include fair value determinations and disclosures, impairment of investments, goodwill, loans, determining the amount and realization of the FDIC loss sharing asset, and valuation of deferred tax assets, other intangibles and OREO.

Other Contingencies In the ordinary course of business, the Company becomes involved in litigation. Based upon the Company s internal records and discussions with legal counsel, the Company records reserves as appropriate, for estimates of the probable outcome of all cases brought against the Company. Except as discussed in Part II Other Information, Item 1. Legal Proceedings, at March 31, 2013, the Company does not have any litigation reserves, and is not aware of any material pending legal action or complaints asserted against the Company.

Recent Accounting Pronouncements In January 2013, the FASB issued Accounting Standards Update (ASU) 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (Topic 210) , which amends the scope of FASB ASU 2011-11, Disclosures about Offsetting Assets and Liabilities , to clarify that the disclosure requirements of ASU 2011-11 are limited to derivatives, including bifurcated embedded derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in the statement of financial position or subject to an enforceable master netting arrangement or similar agreement. The ASU responds to implementation issues raised by stakeholders about the scope of ASU 2011-11. Consistent with the effective date of ASU 2011-11, an entity is required to apply the amendments retrospectively for annual periods beginning on or after January 1, 2013 (and interim periods within those annual periods). The adoption of this new guidance does not have a material impact on the Company s consolidated financial statements.

In November 2006, we began a repurchase agreement product with our customers, which include master netting agreements that allow for the netting of collateral positions. This product, known as Citizens Sweep Manager, sells our securities overnight to our customers under an agreement to repurchase them the next day. The repurchase agreements are not offset in the consolidated balance sheet.

Our interest rate swap derivatives are subject to a master netting arrangement with one counterparty bank. None of our derivative assets and liabilities are offset in the balance sheet.

In February 2013, the FASB issued ASU 2013-02, *Other Comprehensive Income (Topic 220), Reporting of Amounts Reclassified out of Other Comprehensive Income*. The provisions in the ASU supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income (AOCI) in ASUs 2011-05 and 2011-12. ASU 2013-02 requires entities to disclose additional information about reclassification adjustments, including (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company s adoption of this new guidance does not have a material effect on its consolidated financial statements.

4. FEDERALLY ASSISTED ACQUISITION OF SAN JOAQUIN BANK

On October 16, 2009, the Bank acquired SJB and entered into a loss sharing agreement with the FDIC that is more fully discussed in the Significant Accounting Policies (Note3) included herein.

Loans acquired from the SJB acquisition have performed better than originally expected. At March 31, 2013, the remaining discount associated with the SJB loans approximated $20.9 million. Based on the Company s regular re-forecast of expected cash flows from these loans, approximately $13.2 million of the related discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which approximates 4.9 years and 0.9 year, respectively. Due to the decrease in estimated losses to be incurred in the remaining portfolio, the expected reimbursement from the FDIC under the loss sharing agreement decreased. The FDIC loss sharing asset of $14.2 million at March 31, 2013 will continue to be reduced by reimbursements of loss claims submitted to the FDIC with the remaining balance amortized on the same basis as the discount on the related loans, not to exceed its remaining contract life of approximately 1.5 years.

5. INVESTMENT SECURITIES

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

	March 31, 2013				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				
Investment securities available-for-sale:					
Government agency	$ 391,336	$ 845	$ (1,543)	$ 390,638	16.34%
Residential mortgage-backed securities	874,913	21,139	(3,415)	892,637	37.34%
CMO s / REMIC s - residential	470,694	7,439	(556)	477,577	19.98%
Municipal bonds	587,949	37,264	(414)	624,799	26.13%
Other securities	5,000	22		5,022	0.21%
Total investment securities	$ 2,329,892	$ 66,709	$ (5,928)	$ 2,390,673	100.00%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				
Investment securities available-for-sale:					
Government agency	$ 357,960	$ 1,588	$ (248)	$ 359,300	14.67%
Residential mortgage-backed securities	862,196	25,529	(127)	887,598	36.24%
CMO s / REMIC s - residential	565,968	7,402	(1,410)	571,960	23.35%
Municipal bonds	583,692	41,920	(183)	625,429	25.53%
Other securities	5,000	100		5,100	0.21%
Total investment securities	$ 2,374,816	$ 76,539	$ (1,968)	$ 2,449,387	100.00%

Approximately 74% of the available-for-sale portfolio at March 31, 2013 represents securities issued by the U.S government or U.S. government-sponsored agencies and enterprises, with the implied guarantee of payment of principal and interest. The remaining CMO/REMICs are backed by agency-pooled collateral or whole loan collateral. All non-agency available-for-sale CMO/REMIC issues held are rated investment grade or better by either Standard & Poor s or Moody s, as of March 31, 2013 and December 31, 2012. The Company had $1.1 million and $1.2 million in CMO/REMIC s backed by whole loans issued by private-label companies (non-government sponsored) as of March 31, 2013, and December 31, 2012, respectively.

During the first quarter of 2013, we identified 13 securities with a par value of $94.2 million that were experiencing accelerated prepayment speeds that were causing a deterioration in yield. We elected to sell these securities and recognized a net pre-tax gain on sale of $2.1 million. There were no gains or losses recognized during the first quarter of 2012.

Table of Contents

	March 31, 2013					
	Less Than 12 Months		12 Months or Longer		Total	
	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	$	$	$	$	$	$
Available-for-sale:						
Government agency	$ 182,843	$ 1,543	$	$	$ 182,843	$ 1,543
Residential mortgage-backed securities	173,748	3,415			173,748	3,415
CMO / REMICs - residential	45,399	539	5,460	17	50,859	556
Municipal bonds	26,788	343	2,207	71	28,995	414
Other securities						
Total	$ 428,778	$ 5,840	$ 7,667	$ 88	$ 436,445	$ 5,928

	December 31, 2012					
	Less Than 12 Months		12 Months or Longer		Total	
	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	$	$	$	$	$	$
Available-for-sale:						
Government agency	$ 51,134	$ 248	$	$	$ 51,134	$ 248
Residential mortgage-backed securities	55,118	127			55,118	127
CMO / REMICs - residential	74,784	572	69,042	838	143,826	1,410
Municipal bonds	13,110	162	975	21	14,085	183
Other securities						
Total	$ 194,146	$ 1,109	$ 70,017	$ 859	$ 264,163	$ 1,968

The tables above show the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2013 and December 31, 2012. The Company has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary.

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

CMO Held-to-Maturity We have one investment security classified as held-to-maturity. This security was issued by Countrywide Financial and is collateralized by Alt-A mortgages. The mortgages are primarily fixed-rate, 30-year loans, originated in early 2006 with average FICO scores of 715 and an average LTV of 71% at origination. The security was a senior security in the securitization, was rated triple AAA at origination and was supported by subordinate securities. This security is classified as held-to-maturity as we have both the intent and ability to hold this debt security to maturity. We acquired this security in February 2008 at a price of 98.25%. The significant decline in the fair value of the security first appeared in August 2008 at the time the financial crisis in the markets occurred and the market for securities collateralized by Alt-A mortgages

diminished.

As of March 31, 2013, the unrealized loss on this security was zero and the current fair value on the security was 72% of the current par value. This Alt-A bond, with a book value of $2.0 million as of March 31, 2013, has had $1.9 million in net impairment losses to date. These losses have been recorded as a reduction to noninterest income. The security is rated non-investment grade. We evaluated the security for an other-than-temporary decline in fair value as of March 31, 2013. The key assumptions include default rates, loss severities and prepayment rates. There were no changes in credit related other-than temporary impairment recognized in earnings for the three months ended March 31, 2013, and 2012.

Government Agency & Government-Sponsored Enterprise The government agency bonds are backed by the full faith and credit of Agencies of the U.S. Government. As of March 31, 2013, approximately $162.1 million in U.S. government agency bonds are callable. These securities are bullet securities, that is, they have a defined maturity date on which the principal is paid. The contractual term of these investments provides that the Company will receive the face value of the bond at maturity which will equal the amortized cost of the bond. Interest is received throughout the life of the security.

Mortgage-Backed Securities and CMO/REMICs Almost all of the available-for-sale mortgage-backed and CMO/REMICs securities are issued by the government-sponsored enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying residential mortgages. All mortgage-backed securities are considered to be rated investment grade with a weighted average life of approximately 4.2 years. Of the total MBS/CMO, 99.92% have the implied guarantee of U.S. government-sponsored agencies and enterprises. The remaining 0.08% are issued by banks. Accordingly, it is expected the securities would not be settled at a price less than the amortized cost of the bonds.

Municipal Bonds The majority of our municipal bonds are insured by the largest bond insurance companies with maturities of approximately 9.3 years. The Company diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Company s exposure to any single adverse event. Because we believe the decline in fair value is attributable to the changes in interest rates and not credit quality and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized costs, which may be at maturity, management does not consider these investments to be other than temporarily impaired at March 31, 2013.

We are continually monitoring the quality of our municipal bond portfolio in light of the current financial problems exhibited by certain monoline insurance companies. Many of the securities that would not be rated without insurance are pre-refunded and/or are general obligation bonds. We continue to monitor municipalities, which includes a review of the respective municipalities audited financial statements to determine whether there are any audit or performance issues. We use outside brokers to assist us in these analyses. Based on our monitoring of the municipal marketplace, to our knowledge, none of the municipalities are exhibiting financial problems that would lead us to believe that there is an OTTI for any given security.

At March 31, 2013 and December 31, 2012, investment securities having a carrying value of approximately $2.30 billion and $2.24 billion, respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at March 31, 2013, by contractual maturity, are shown below. Although mortgage-backed securities and CMO/REMICs have contractual maturities through 2041, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed securities and CMO/REMICs are included in maturity categories based upon estimated prepayment speeds.

	March 31, 2013		
	Amortized Cost	**Fair Value**	**Weighted-Average Yield**
		(Dollars in thousands)	
Available-for-Sale:			
Due in one year or less	$ 226,351	$ 228,686	1.83%
Due after one year through five years	1,566,483	1,613,119	2.36%
Due after five years through ten years	492,241	501,892	2.54%
Due after ten years	44,817	46,976	3.45%
Total	$ 2,329,892	$ 2,390,673	2.36%

The investment in FHLB stock is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through March 31, 2013.

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

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

	March 31, 2013		
	Non-Covered Loans	Covered Loans	Total
		(Dollars in thousands)	
Commercial and industrial	$ 532,941	$ 25,314	$ 558,255
Real estate:			
Construction	55,703	1,061	56,764
Commercial real estate	1,996,198	160,069	2,156,267
SFR mortgage	162,022	1,321	163,343
Consumer	44,116	5,967	50,083
Municipal lease finance receivables	109,727		109,727
Auto and equipment leases, net of unearned discount	12,422		12,422
Dairy and livestock	278,502		278,502
Agribusiness	5,370	5,870	11,240
Gross loans	3,197,001	199,602	3,396,603
Less:			
Purchase accounting discount		(20,908)	(20,908)
Deferred loan fees, net	(7,487)		(7,487)
Gross loans, net of deferred loan fees and discount	3,189,514	178,694	3,368,208
Less: Allowance for credit losses	(92,218)		(92,218)
Net loans	$ 3,097,296	$ 178,694	$ 3,275,990

	December 31, 2012		
	Non-Covered Loans	Covered Loans	Total
		(Dollars in thousands)	
Commercial and industrial	$ 547,422	$ 26,149	$ 573,571
Real estate:			
Construction	59,721	1,579	61,300
Commercial real estate	1,990,107	179,428	2,169,535
SFR mortgage	159,288	1,415	160,703
Consumer	47,557	6,337	53,894
Municipal lease finance receivables	105,767		105,767
Auto and equipment leases, net of unearned discount	12,716		12,716
Dairy and livestock	327,579		327,579
Agribusiness	9,081	5,651	14,732
Gross loans	3,259,238	220,559	3,479,797
Less:			
Purchase accounting discount		(25,344)	(25,344)
Deferred loan fees, net	(6,925)		(6,925)
Gross loans, net of deferred loan fees and discount	3,252,313	195,215	3,447,528
Less: Allowance for credit losses	(92,441)		(92,441)

Net loans	$ 3,159,872	$ 195,215	$ 3,355,087

As of March 31, 2013, 63.48% of the total gross loan portfolio consisted of commercial real estate loans and 1.67% of the total gross loan portfolio consisted of construction loans, respectively. Substantially all of the Company s real estate loans and construction loans are secured by real properties located in California. At March 31, 2013, the Company held approximately $1.56 billion of fixed rate loans.

At March 31, 2013 and December 31, 2012, loans totaling $2.31 billion and $2.32 billion, respectively, were pledged to secure borrowings from the FHLB and the Federal Reserve Bank.

Credit Quality Indicators

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

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

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

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

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

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

Doubtful Loans classified doubtful have all the weaknesses inherent in those classified substandard with the added provision that the weaknesses make collection or the liquidation, on the basis of currently existing facts, conditions and values, highly

questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to the advantage and strengthening of the assets, their classifications as losses are deferred until their more exact status may be determined.

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

The following table summarizes our internal risk grouping by loan class as of March 31, 2013 and December 31, 2012:

Credit Quality Indicators

	March 31, 2013					
	Pass	Watch List	Special Mention	Substandard	Doubtful & Loss	Total
	(Dollars in thousands)					
Commercial & industrial	$ 338,974	$ 119,560	$ 48,081	$ 24,931	$ 1,395	$ 532,941
Construction - speculative	3,756		13,599	18,272		35,627
Construction - non-speculative	6,540	4,317		9,219		20,076
Commercial real estate - owner occupied	374,300	142,436	88,461	85,950		691,147
Commercial real estate - non-owner occupied	926,150	215,660	94,016	69,225		1,305,051
Residential real estate (SFR 1-4)	131,708	11,158	4,273	14,883		162,022
Dairy and livestock	48,015	64,557	80,048	81,822	4,060	278,502
Agribusiness	3,630	1,050	690			5,370
Municipal lease finance receivables	65,673	21,249	14,535	8,270		109,727
Consumer	37,625	3,206	1,914	1,367	4	44,116
Auto and equipment leases	8,527	2,983	776	136		12,422
Total non-covered loans	1,944,898	586,176	346,393	314,075	5,459	3,197,001
Covered loans	47,139	69,482	22,465	60,516		199,602
Total gross loans	$ 1,992,037	$ 655,658	$ 368,858	$ 374,591	$ 5,459	$ 3,396,603

	December 31, 2012					
	Pass	Watch List	Special Mention	Substandard	Doubtful & Loss	Total
	(Dollars in thousands)					
Commercial & industrial	$ 347,275	$ 131,186	$ 44,466	$ 22,901	$ 1,594	$ 547,422
Construction - speculative	1,417		15,163	21,314		37,894
Construction - non-speculative	9,841	2,767		9,219		21,827
Commercial real estate - owner occupied	382,111	159,653	78,087	84,116		703,967
Commercial real estate - non-owner occupied	888,777	214,901	105,121	77,341		1,286,140
Residential real estate (SFR 1-4)	129,730	10,215	3,107	16,236		159,288
Dairy and livestock	67,144	108,087	74,510	77,721	117	327,579
Agribusiness	4,969	3,306	806			9,081
Municipal lease finance receivables	72,432	20,237	11,124	1,974		105,767
Consumer	40,650	3,538	1,976	1,339	54	47,557
Auto and equipment leases	8,671	3,225	738	82		12,716
Total non-covered loans	1,953,017	657,115	335,098	312,243	1,765	3,259,238
Covered loans	52,637	72,803	31,689	63,354	76	220,559

Total gross loans	$ 2,005,654	$ 729,918	$ 366,787	$ 375,597	$ 1,841	$ 3,479,797

Allowance for Credit Losses

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

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers the Bank s overall loan portfolio. The Bank s methodology consists of two major phases.

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

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

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

The methodology is consistently applied across all the portfolio segments taking into account the applicable historical loss rates and the qualitative factors applicable to each pool of loans. Periodically, we assess various attributes utilized in adjusting our historical loss factors to reflect current economic conditions. Our dairy and livestock borrowers continue to experience a difficult operating environment. Milk prices are up, but high feed costs continue to put pressure on profit margins. As part of our qualitative analysis during the current period, we adjusted the attributes used in the allowance for credit losses to account for challenges evident in the current economic environment of the dairy and livestock industry.

Management believes that the ALLL was appropriate at March 31, 2013. No assurance can be given that economic conditions which adversely affect our service areas or other circumstances will not be reflected in increased provisions for credit losses in the future.

The following table presents the balance and activity in the allowance for credit losses; and the recorded investment in held-for-investment loans by portfolio segment and based upon our impairment method as of March 31, 2013, and 2012:

Allowance for Credit Losses and Recorded Investment in Financing Receivables

	As of and For the Three Months Ended March 31, 2013								
	Commercial and Industrial	**Construction**	**Real Estate**	**Municipal Lease Finance Receivables**	**Dairy, Livestock / Agribusiness**	**Consumer, Auto & Other**	**Covered Loans (1)**	**Unallocated**	**Total**
	(Dollars in thousands)								
Allowance for loan losses:									
Beginning balance, January 1, 2013	$ 11,652	$ 2,291	$ 50,905	$ 1,588	$ 18,696	$ 1,170	$	$ 6,139	$ 92,441
Charge-offs	(357)		(142)			(47)			(546)
Recoveries	99	126	71		14	13			323
Provision / reallocation of ALLL	919	(293)	(503)	1,044	(2,139)	(3)		975	
Ending balance, March 31, 2013	$ 12,313	$ 2,124	$ 50,331	$ 2,632	$ 16,571	$ 1,133	$	$ 7,114	$ 92,218
Individually evaluated for impairment	$ 1,055	$	$ 429	$	$ 2,560	$ 27	$	$	$ 4,071
Collectively evaluated for impairment	$ 11,258	$ 2,124	$ 49,902	$ 2,632	$ 14,011	$ 1,106	$	$ 7,114	$ 88,147
Loans and financing receivables (2):									
Ending balance, March 31, 2013	$ 532,941	$ 55,703	$ 2,158,220	$ 109,727	$ 283,872	$ 56,538	$ 178,694	$	$ 3,375,695
Individually evaluated for impairment	$ 4,579	$ 27,491	$ 55,098	$	$ 25,327	$ 226	$	$	$ 112,721
Collectively evaluated for impairment	$ 528,362	$ 28,212	$ 2,103,122	$ 109,727	$ 258,545	$ 56,312	$	$	$ 3,084,280
Acquired loans with deteriorated credit quality, net of discount	$	$	$	$	$	$	$ 178,694	$	$ 178,694

	As of and For the Three Months Ended March 31, 2012								
	Commercial and Industrial	**Construction**	**Real Estate**	**Municipal Lease Finance Receivables**	**Dairy, Livestock / Agribusiness**	**Consumer, Auto & Other**	**Covered Loans (1)**	**Unallocated**	**Total**
	(Dollars in thousands)								
Allowance for loan losses:									
Beginning balance, January 1, 2012	$ 10,654	$ 4,947	$ 51,873	$ 2,403	$ 17,278	$ 1,590	$	$ 5,219	$ 93,964
Charge-offs	(560)		(530)		(1,150)	(85)	(31)		(2,356)
Recoveries	62	27	221			4			314
Provision / reallocation of ALLL	1,751	(651)	371	(383)	(48)	(20)	31	(1,051)	

Ending balance, March 31, 2012	$ 11,907	$ 4,323	$ 51,935	$ 2,020	$ 16,080	$ 1,489	$	$ 4,168	$ 91,922
Individually evaluated for impairment	$ 421	$	$ 787	$	$ 221	$ 81	$	$	$ 1,510
Collectively evaluated for impairment	$ 11,486	$ 4,323	$ 51,148	$ 2,020	$ 15,859	$ 1,408	$	$ 4,168	$ 90,412
Loans and financing receivables (2):									
Ending balance, March 31, 2012	$ 497,625	$ 67,382	$ 2,153,345	$ 114,724	$ 290,578	$ 67,862	$ 241,943	$	$ 3,433,459
Individually evaluated for impairment	$ 7,820	$ 29,354	$ 51,153	$	$ 8,470	$ 389		$	$ 97,186
Collectively evaluated for impairment	$ 489,805	$ 38,028	$ 2,102,192	$ 114,724	$ 282,108	$ 67,473		$	$ 3,094,330
Acquired loans with deteriorated credit quality, net of discount	$	$	$	$	$	$	$ 241,943	$	$ 241,943

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

Past Due and Nonperforming Loans

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

Loans are reported as a troubled debt restructuring when the Bank grants a concession(s) to a borrower experiencing financial difficulties that the Bank would not otherwise consider. Examples of such concessions include a reduction in the interest rate, deferral of principal or accrued interest, extending the payment due dates or loan maturity date(s), or providing a lower interest rate than would be normally available for new debt of similar risk. As a result of these concessions, restructured loans are classified as impaired. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan s carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and credit losses.

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

The accrual of interest on loans is discontinued when the loan becomes 90 or more days past due based on the contractual term of the loan, or when the full collection of principal and interest is in doubt. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against income. Subsequent collections of cash are applied as reductions to the principal balance unless the loan is returned to accrual status. Nonaccrual loans may be restored to accrual status when principal and interest become current and full payment of principal and interest is expected.

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

Table of Contents

The following table presents the recorded investment in non-covered past due and nonaccrual loans and loans past due by class of loans as of March 31, 2013, and December 31, 2012:

Non-Covered Past Due and Nonaccrual Loans

	March 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due and Accruing	Total Past Due and Accruing	Nonaccrual	Current	Total Loans and Financing Receivables
	(Dollars in thousands)						
Commercial and industrial	$ 1,893	$ 133	$	$ 2,026	$ 3,387	$ 527,528	$ 532,941
Construction - speculative					10,620	25,007	35,627
Construction - non-speculative						20,076	20,076
Commercial real estate - owner occupied	945			945	1,658	688,544	691,147
Commercial real estate - non-owner occupied	875			875	18,306	1,285,870	1,305,051
Residential real estate (SFR 1-4)	824			824	11,561	149,637	162,022
Dairy and livestock					9,371	269,131	278,502
Agribusiness						5,370	5,370
Municipal lease finance receivables						109,727	109,727
Consumer	63			63	161	43,892	44,116
Auto and equipment leases					65	12,357	12,422
Total non-covered gross loans	$ 4,600	$ 133	$	$ 4,733	$ 55,129	$ 3,137,139	$ 3,197,001

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due and Accruing	Total Past Due and Accruing	Nonaccrual	Current	Total Loans and Financing Receivables
	(Dollars in thousands)						
Commercial and industrial	$ 233	$ 457	$	$ 690	$ 3,136	$ 543,596	$ 547,422
Construction - speculative					10,663	27,231	37,894
Construction - non-speculative						21,827	21,827
Commercial real estate - owner occupied					5,415	698,552	703,967
Commercial real estate - non-owner occupied					15,624	1,270,516	1,286,140
Residential real estate (SFR 1-4)	107			107	13,102	146,079	159,288
Dairy and livestock					9,842	317,737	327,579
Agribusiness						9,081	9,081
Municipal lease finance receivables						105,767	105,767
Consumer	74	8		82	215	47,260	47,557
Auto and equipment leases	8			8		12,708	12,716
Total non-covered gross loans	$ 422	$ 465	$	$ 887	$ 57,997	$ 3,200,354	$ 3,259,238

Non-Covered Impaired Loans

At March 31, 2013, the Company had non-covered impaired loans of $112.7 million. Of this amount, there was $10.6 million in nonaccrual commercial construction loans, $11.5 million of nonaccrual single family mortgage loans, $20.0 million of nonaccrual commercial real estate loans, $3.4 million of nonaccrual commercial and industrial loans, $9.4 million of nonaccrual dairy and livestock loans and $226,000 of other loans. These non-covered impaired loans included $87.2 million of loans whose terms were modified in a troubled debt restructure, of which $29.6 million are classified as nonaccrual. The remaining balance of $57.6 million consists of 44 loans performing according to the restructured terms. The impaired loans had a specific allowance of $4.1 million at March 31, 2013. At December 31, 2012, the Company had classified as

impaired, non-covered loans with a balance of $108.4 million with a related allowance of $2.3 million.

Table of Contents

The following table presents held-for-investment, individually evaluated for impairment by class of loans, as of March 31, 2013 and December 31, 2012:

Non-Covered Impaired Loans

	March 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 2,873	$ 3,617	$	$ 2,899	$ 18
Construction - speculative	18,272	18,607		18,272	77
Construction - non-speculative	9,219	9,219		9,219	141
Commercial real estate - owner occupied	13,616	14,827		13,630	122
Commercial real estate - non-owner occupied	27,877	38,306		28,092	202
Residential real estate (SFR 1-4)	10,184	12,821		10,319	16
Dairy and livestock	20,843	21,874		19,170	98
Municipal lease finance receivables					
Consumer	141	196		141	
Auto and equipment leases					
Total	103,025	119,467		101,742	674
With a related allowance recorded:					
Commercial and industrial	1,706	1,871	1,055	1,723	
Construction - speculative					
Construction - non-speculative					
Commercial real estate - owner occupied	12	14	1	16	
Commercial real estate - non-owner occupied					
Residential real estate (SFR 1-4)	3,409	4,040	428	3,415	
Dairy and livestock	4,484	4,944	2,560	4,603	
Municipal lease finance receivables					
Consumer	20	22	7	21	
Auto and equipment leases	65	65	20	22	
Total	9,696	10,956	4,071	9,800	
Total non-covered impaired loans	$ 112,721	$ 130,423	$ 4,071	$ 111,542	$ 674

Table of Contents

	December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 3,385	$ 4,215	$	$ 3,766	$ 43
Construction - speculative	21,314	21,607		21,650	311
Construction - non-speculative	9,219	9,219		9,219	574
Commercial real estate - owner occupied	13,478	14,569		14,459	397
Commercial real estate - non-owner occupied	28,639	38,633		29,801	670
Residential real estate (SFR 1-4)	11,079	14,342		11,292	54
Dairy and livestock	12,406	13,756		11,834	173
Municipal lease finance receivables	263	263		443	