CVB FINANCIAL CORP
Form 10-Q
May 10, 2016
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, 2016

or

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

For the transition period from ______ to ______

Commission File Number: 0-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

(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: 107,806,175 outstanding as of April 29, 2016.

Table of Contents

TABLE OF CONTENTS

2

Table of Contents

PART I FINANCIAL INFORMATION (UNAUDITED)

GENERAL

Cautionary Note Regarding Forward-Looking Statements

Certain matters set forth herein (including the exhibits hereto) constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including forward-looking statements relating to the Company s current business plans and expectations and our future financial position and operating results. These forward-looking statements are subject to risks and uncertainties that could cause actual results, performance and/or achievements to differ materially from those projected. These risks and uncertainties include, but are not limited to, local, regional, national and international economic and market conditions and events and the impact they may have on us, our customers and our assets and liabilities; our ability to attract deposits and other sources of funding or liquidity; supply and demand for real estate and periodic deterioration in real estate prices and/or values in California or other states where we lend, including both residential and commercial real estate; a prolonged slowdown or decline in real estate construction or sales activity; changes in the financial performance and/or condition of our borrowers or key vendors or counterparties; changes in the levels of nonperforming assets, allowance for loan losses and charge-offs; the costs or effects of acquisitions or dispositions we may make, whether we are able to obtain any required governmental approvals in connection with any such acquisitions or dispositions, and/or our ability to realize the contemplated financial or business benefits associated with any such acquisitions or dispositions; the effect of changes in laws, regulations and applicable judicial decisions (including laws, regulations and judicial decisions concerning financial reforms, taxes, banking capital levels, securities and securities trading and hedging, compliance, fair lending, employment, executive compensation, insurance, vendor management and information security) with which we and our subsidiaries must comply or believe we should comply; changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant regulatory and accounting requirements, including changes in the Basel Committee framework establishing capital standards for credit, operations and market risk; inflation, interest rate, securities market and monetary fluctuations; changes in government interest rates or monetary policies; changes in the amount and availability of deposit insurance; cyber-security threats, including loss of system functionality or theft or loss of Company or customer data or money; political instability; acts of war or terrorism, or natural disasters, such as earthquakes, drought, or the effects of pandemic diseases; the timely development and acceptance of new banking products and services and the perceived overall value of these products and services by customers and potential customers; the Company s relationships with and reliance upon vendors with respect to the operation of certain of the Company s key internal and external systems and applications; changes in commercial or consumer spending, borrowing and savings preferences or behaviors; technological changes and the expanding use of technology in banking (including the adoption of mobile banking and funds transfer applications); the ability to retain and increase market share, retain and grow customers and control expenses; changes in the competitive environment among financial and bank holding companies, banks and other financial service providers; competition and innovation with respect to financial products and services by banks, financial institutions and non-traditional providers including retail businesses and technology companies; volatility in the credit and equity markets and its effect on the general economy or local or regional business conditions; fluctuations in the price of the Company s common stock or other securities and the resulting impact on the Company s ability to raise capital or make acquisitions; the effect of changes in accounting policies and practices, as may be adopted from time-to-time by the regulatory agencies, as well as by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard-setters; changes in our organization, management, compensation and benefit plans, and our ability to retain or expand our management team and/or our board of directors; the costs and effects of legal, compliance and regulatory actions, changes and developments, including the initiation and resolution of legal proceedings (such as securities, consumer or employee class action litigation), regulatory or other governmental *inquiries or investigations, and/or the results of regulatory examinations or reviews; our ongoing relations with our various federal and state regulators, including the SEC, FDIC and California DBO; our success at managing the risks involved in the foregoing items and all other factors set forth in the Company s public reports including its Annual Report on Form 10-K for the year ended December 31, 2015, and particularly the discussion of risk factors within that document. 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. Any statements about future operating results, such as those concerning accretion and dilution to the Company s earnings or shareholders, are for illustrative purposes only, are not forecasts, and actual results may differ.*

Table of Contents

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 108,145	$ 102,772
Interest-earning balances due from Federal Reserve and federal funds sold	131,441	3,325
Total cash and cash equivalents	239,586	106,097
Interest-earning balances due from depository institutions	90,718	32,691
Investment securities available-for-sale, at fair value (with amortized cost of $2,235,684 at March 31, 2016, and $2,337,715 at December 31, 2015)	2,294,659	2,368,646
Investment securities held-to-maturity (with fair value of $825,928 at March 31, 2016, and $853,039 at December 31, 2015)	812,893	850,989
Investment in stock of Federal Home Loan Bank (FHLB)	18,501	17,588
Loans and lease finance receivables	4,173,409	4,016,937
Allowance for loan losses	(59,336)	(59,156)
Net loans and lease finance receivables	4,114,073	3,957,781
Premises and equipment, net	39,922	31,382
Bank owned life insurance	131,594	130,956
Accrued interest receivable	23,067	22,732
Intangibles	5,882	2,265
Goodwill	88,174	74,244
Other real estate owned	6,545	6,993
Income taxes	23,029	47,251
Other assets	32,193	21,585
Total assets	$ 7,920,836	$ 7,671,200
Liabilities and Stockholders Equity		
Deposits:		
Noninterest-bearing	$ 3,352,128	$ 3,250,174
Interest-bearing	2,864,150	2,667,086
Total deposits	6,216,278	5,917,260
Customer repurchase agreements	626,860	690,704
FHLB advances	5,000	-

Other borrowings	-	46,000
Accrued interest payable	275	264
Deferred compensation	11,809	11,269
Junior subordinated debentures	25,774	25,774
Payable for securities purchased	4,152	1,696
Other liabilities	58,826	54,834
Total liabilities	6,948,974	6,747,801
Commitments and Contingencies		
Stockholders Equity		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 107,786,175 at March 31, 2016, and 106,384,982 at December 31, 2015	524,760	502,571
Retained earnings	410,376	399,919
Accumulated other comprehensive income, net of tax	36,726	20,909
Total stockholders equity	971,862	923,399
Total liabilities and stockholders equity	$ 7,920,836	$ 7,671,200

See accompanying notes to the unaudited condensed consolidated financial statements.

4

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, 2016	2015
Interest income:		
Loans and leases, including fees	$ 45,770	$ 45,542
Investment securities:		
Investment securities available-for-sale	12,799	17,934
Investment securities held-to-maturity	5,348	38
Total investment income	18,147	17,972
Dividends from FHLB stock	368	469
Federal funds sold	105	142
Interest-earning deposits with other institutions	110	55
Total interest income	64,500	64,180
Interest expense:		
Deposits	1,437	1,293
Borrowings	423	1,773
Junior subordinated debentures	124	105
Total interest expense	1,984	3,171
Net interest income before provision for loan losses	62,516	61,009
Provision for loan losses	-	-
Net interest income after provision for loan losses	62,516	61,009
Noninterest income:		
Service charges on deposit accounts	3,747	3,961
Trust and investment services	2,203	2,151
Bankcard services	555	733
BOLI income	547	649
Gain on sale of loans	1,101	-
Other	530	517
Total noninterest income	8,683	8,011

Noninterest expense:				
Salaries and employee benefits		21,253		19,295
Occupancy and equipment		3,713		3,652
Professional services		1,366		1,153
Software licenses and maintenance		909		1,030
Promotion		1,427		1,327
Recapture of provision for unfunded loan commitments		-		(500)
Debt termination expense		-		13,870
Acquisition related expenses		849		-
Other		4,847		4,645
Total noninterest expense		34,364		44,472
Earnings before income taxes		36,835		24,548
Income taxes		13,444		8,715
Net earnings	$	23,391	$	15,833
Other comprehensive income:				
Unrealized gain on securities arising during the period, before tax	$	27,270	$	20,270
Less: Income tax expense related to items of other comprehensive income		(11,453)		(8,514)
Other comprehensive income, net of tax		15,817		11,756
Comprehensive income	$	39,208	$	27,589
Basic earnings per common share	$	0.22	$	0.15
Diluted earnings per common share	$	0.22	$	0.15
Cash dividends declared per common share	$	0.12	$	0.12

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Three months ended March 31, 2016 and 2015

(Dollars and shares in thousands)

(Unaudited)

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2015	105,893	$ 495,220	$ 351,814	$ 31,075	$ 878,109
Repurchase of common stock	(32)	(497)	-	-	(497)
Exercise of stock options	306	3,313	-	-	3,313
Tax benefit from exercise of stock options	-	614	-	-	614
Shares issued pursuant to stock-based compensation plan	80	732	-	-	732
Cash dividends declared on common stock ($0.12 per share)	-	-	(12,742)	-	(12,742)
Net earnings	-	-	15,833	-	15,833
Other comprehensive loss	-	-	-	11,756	11,756
Balance, March 31, 2015	106,247	$ 499,382	$ 354,905	$ 42,831	$ 897,118
Balance, January 1, 2016	106,385	$ 502,571	$ 399,919	$ 20,909	$ 923,399
Repurchase of common stock	(31)	(392)	-	-	(392)
Issuance of common stock for acquisition of County Commerce Bank	1,394	21,642	-	-	21,642
Exercise of stock options	25	285	-	-	285
Tax benefit from exercise of stock options	-	-	-	-	-
Shares issued pursuant to stock-based compensation plan	13	654	-	-	654
Cash dividends declared on common stock ($0.12 per share)	-	-	(12,934)	-	(12,934)
Net earnings	-	-	23,391	-	23,391
Other comprehensive income	-	-	-	15,817	15,817
Balance, March 31, 2016	107,786	$ 524,760	$ 410,376	$ 36,726	$ 971,862

See accompanying notes to the unaudited 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, 2016	2015
Cash Flows from Operating Activities		
Interest and dividends received	$ 68,927	$ 68,591
Service charges and other fees received	8,081	6,848
Interest paid	(1,980)	(3,981)
Net cash paid to vendors, employees and others	(43,524)	(43,608)
Income taxes paid	-	-
(Payments to) proceeds from FDIC, loss share agreement	(174)	265
Net cash provided by operating activities	31,330	28,115
Cash Flows from Investing Activities		
Proceeds from redemption of FHLB stock	610	-
Proceeds from maturity of interest-earning balances from depository institutions	4,309	1,245
Proceeds from repayment of investment securities available-for-sale	95,004	94,479
Proceeds from maturity of investment securities available-for-sale	16,505	34,014
Purchases of investment securities available-for-sale	(9,888)	(1,967)
Proceeds from repayment of investment securities held-to-maturity	12,236	-
Proceeds from maturity of investment securities held-to-maturity	24,796	-
Net decrease in loan and lease finance receivables	8,331	101,774
Proceeds from sale of loans	6,417	-
Purchase of premises and equipment	(911)	(157)
Proceeds from sales of other real estate owned	200	1,418
Cash paid for County Commerce Bank (CCB) acquisition, net of cash acquired	(7,504)	-
Net cash provided by investing activities	150,105	230,806
Cash Flows from Financing Activities		
Net increase in other deposits	101,042	322,642
Net decrease in time deposits	(26,271)	(29,524)
Repayment of FHLB advances	-	(200,000)
Net decrease in other borrowings	(46,000)	(46,000)
Net decrease in customer repurchase agreements	(63,844)	(3,275)
Cash dividends on common stock	(12,766)	(10,590)

Repurchase of common stock		(392)		(497)
Proceeds from exercise of stock options		285		3,313
Tax benefit related to exercise of stock options		-		614
Net cash (used in) provided by financing activities		(47,946)		36,683
Net increase in cash and cash equivalents		133,489		295,604
Cash and cash equivalents, beginning of period		106,097		105,768
Cash and cash equivalents, end of period	$	239,586	$	401,372

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2016	**2015**
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities		
Net earnings	$ 23,391	$ 15,833
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of loans	(1,101)	-
Gain on sale of premises and equipment, net	-	(1)
Gain on sale of other real estate owned	-	(112)
Amortization of capitalized prepayment penalty on borrowings	-	521
Increase in bank owned life insurance	(638)	(630)
Net amortization of premiums and discounts on investment securities	5,177	5,025
Accretion of PCI discount	(800)	(980)
Provision for unfunded loan commitments	-	(500)
Valuation adjustment on other real estate owned	248	33
Change in FDIC loss share liability/asset	53	299
(Payments to) proceeds from FDIC, loss share agreement	(174)	265
Stock-based compensation	654	732
Depreciation and amortization, net	137	(271)
Change in accrued interest receivable	160	322
Change in accrued interest payable	3	(855)
Change in other assets and liabilities	4,220	8,434
Total adjustments	7,939	12,282
Net cash provided by operating activities	$ 31,330	$ 28,115
Supplemental Disclosure of Non-cash Investing Activities		
Securities purchased and not settled	$ 4,152	$ 2,350
Transfer of loans to other real estate owned	$ -	$ 2,824
Issuance of common stock for CCB acquistion	$ 21,642	$ -

See accompanying notes to the unaudited condensed consolidated financial statements.

8

CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BUSINESS

The condensed consolidated financial statements include the accounts of CVB Financial Corp. (referred to herein on an unconsolidated basis as CVB and on a consolidated basis as we, our or the Company) and its wholly owned subsidiary: Citizens Business Bank (the Bank or CBB) after elimination of all intercompany transactions and balances. The Company has one inactive subsidiary, Chino Valley Bancorp. The Company is also the common stockholder of CVB Statutory Trust III. 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation*, this trust does not meet the criteria for consolidation.

The Company s primary operations are related to traditional banking activities. This includes the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank also provides 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, Los Angeles County, Orange County, San Diego County, Ventura County, Santa Barbara, and the Central Valley area of California. The Bank operates 44 Business Financial Centers, eight Commercial Banking Centers, and three trust offices. The Company is headquartered in the city of Ontario, California.

On February 29, 2016, we announced the completion of our acquisition of County Commerce Bank (CCB), headquartered in Ventura County with four branch locations in Ventura County with total assets of approximately $253 million. This acquisition extends our geographic footprint northward into the central coast of California. Our condensed consolidated financial statements for the first quarter include 31 days of CCB operations, post-merger. See Note 4 Business Combinations, included herein.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated 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 accompanying unaudited condensed consolidated 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. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results for the full year. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated 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, 2015, filed with the SEC. 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 unaudited condensed consolidated 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

Except as discussed below, our accounting policies are described in Note 3 *Summary of Significant Accounting Policies,* of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the SEC (Form 10-K).

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 loan losses. Other significant estimates which may be subject to change include fair value determinations and disclosures, impairment of investments, goodwill, loans, as well as valuation of deferred tax assets.

Table of Contents

Recent Accounting Pronouncements In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities . ASU 2016-01 amends the guidance in U.S. GAAP on the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842) . ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of adoption of this ASU on its consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting . This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the following: Accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities and classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. ASU 2016-09 is effective for the fiscal years beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. The Company is currently evaluating the impact of adoption of this ASU on its consolidated financial statements.

4. BUSINESS COMBINATIONS

County Commerce Bank Acquisition

On February 29, 2016, the Bank acquired all of the assets and assumed all of the liabilities of CCB for $20.6 million in cash and $21.6 million in stock. As a result, CCB was merged with the Bank, the principal subsidiary of CVB. The Company believes this transaction serves to further expand its footprint northward into and along the central coast of California. At close, CCB had four branches located in the communities of: Ventura, Oxnard, Camarillo, and Westlake Village. The integration of CCB and CBB was completed in April 2016. This included personnel decisions and system conversions.

Goodwill of $13.9 million from the acquisition represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

The total fair value of assets acquired approximated $252.4 million, which included $54.8 million in cash and balances due from depository institutions, $1.5 million in FHLB stock, $168.0 million in loans and lease finance receivables, $8.6 million in fixed assets, $3.9 million in core deposit intangible assets acquired and $1.7 million in other assets. The total fair value of liabilities assumed was $230.8 million, which included $224.2 million in deposits, $5.0 million in FHLB advances and $1.6 million in other liabilities. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of February 29, 2016. The assets acquired and liabilities assumed have been accounted for under the acquisition method accounting. These fair values are estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier.

We have included the financial results of the business combination in the condensed consolidated statement of earnings and comprehensive income beginning on the acquisition date.

For the three months ended March 31, 2016, the Company incurred non-recurring merger related expenses associated with the CCB acquisition of $849,000.

Table of Contents

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, 2016				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				
Investment securities available-for-sale:					
Government agency/GSEs	$ 5,750	$ 10	$ -	$ 5,760	0.25%
Residential mortgage-backed securities	1,710,383	48,667	-	1,759,050	76.66%
CMOs/REMICs - residential	360,790	7,745	-	368,535	16.06%
Municipal bonds	153,761	2,523	(59)	156,225	6.81%
Other securities	5,000	89	-	5,089	0.22%
Total available-for-sale securities	$ 2,235,684	$ 59,034	$ (59)	$ 2,294,659	100.00%
Investment securities held-to-maturity (1):					
Government agency/GSEs	$ 272,934	$ 5,687	$ -	$ 278,621	33.58%
Residential mortgage-backed securities	225,079	3,085	-	228,164	27.69%
CMO	1,226	499	-	1,725	0.15%
Municipal bonds	313,654	4,788	(1,024)	317,418	38.58%
Total held-to-maturity securities	$ 812,893	$ 14,059	$ (1,024)	$ 825,928	100.00%

	December 31, 2015				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				

Investment securities available-for-sale:					
Government agency/GSEs	$ 5,752	$ -	$ (7)	$ 5,745	0.24%
Residential mortgage-backed securities	1,788,857	26,001	(1,761)	1,813,097	76.55%
CMOs/REMICs - residential	380,166	4,689	(1,074)	383,781	16.20%
Municipal bonds	157,940	3,036	(3)	160,973	6.80%
Other securities	5,000	50	-	5,050	0.21%
Total available-for-sale securities	$ 2,337,715	$ 33,776	$ (2,845)	$ 2,368,646	100.00%
Investment securities held-to-maturity (1):					
Government agency/GSEs	$ 293,338	$ 1,176	$ (734)	$ 293,780	34.47%
Residential mortgage-backed securities	232,053	-	(1,293)	230,760	27.27%
CMO	1,284	569	-	1,853	0.15%
Municipal bonds	324,314	3,051	(719)	326,646	38.11%
Total held-to-maturity securities	$ 850,989	$ 4,796	$ (2,746)	$ 853,039	100.00%

(1) Securities held-to-maturity are presented in the condensed consolidated balance sheets at amortized cost. During the quarter ended September 30, 2015, investment securities were transferred from the available-for-sale security portfolio to the held-to-maturity security portfolio. Transfers of securities into the held-to-maturity category from the available-for-sale category are transferred at fair value at the date of transfer. The fair value of these securities at the date of transfer was $898.6 million. The unrealized holding gain or loss at the date of transfer is retained in accumulated other comprehensive income (AOCI) and in the carrying value of the held-to-maturity securities. The net unrealized holding gain at the date of transfer was $3.9 million after-tax and will continue to be reported in AOCI and amortized over the remaining life of the securities as a yield adjustment. At March 31, 2016, investment securities HTM totaled $812.9 million. The after-tax unrealized gain reported in AOCI on investment securities HTM was $2.5 million at March 31, 2016.

Table of Contents

The following table provides information about the amount of interest income earned on investment securities which is fully taxable and which is exempt from regular federal income tax.

	For the Three Months Ended March 31, 2016	For the Three Months Ended March 31, 2015
	(Dollars in thousands)	
Investment securities available-for-sale:		
Taxable	$ 11,380	$ 12,923
Tax-advantaged	1,419	5,011
Investment securities held-to-maturity:		
Taxable	2,620	38
Tax-advantaged	2,728	-
Total interest income from investment securities	$ 18,147	$ 17,972

Approximately 85% of the total investment securities portfolio at March 31, 2016 represents securities issued by the U.S government or U.S. government-sponsored enterprises, with the implied guarantee of payment of principal and interest. All non-agency available-for-sale Collateralized Mortgage Obligations (CMO)/Real Estate Mortgage Investment Conduit (REMIC) issues held are rated investment grade or better by either Standard & Poor s or Moody s, as of March 31, 2016 and December 31, 2015. At March 31, 2016, the Bank had $1.4 million in CMOs backed by whole loans issued by private-label companies (nongovernment sponsored).

The tables below 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, 2016 and December 31, 2015. Management has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary.

	March 31, 2016					
	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)			
nt securities -for-sale:						
ent agency/GSEs	$ -	$ -	$ -	$ -	$ -	$ -
ial mortgage-backed securities	-	-	-	-	-	-
EMICs - residential	-	-	-	-	-	-
l bonds	3,656	(58)	5,966	(1)	9,622	(59)
curities	-	-	-	-	-	-
ilable-for-sale securities	$ 3,656	$ (58)	$ 5,966	$ (1)	$ 9,622	$ (59)

nt securities held-to-maturity:												
nent agency/GSEs	$	-	$	-	$	-	$	-	$	-	$	-
ial mortgage-backed securities		-		-		-		-		-		-
		-		-		-		-		-		-
al bonds		92,467		(1,024)		-		-		92,467		(1,024)
curities		-		-		-		-		-		-
d-to-maturity securities	$	92,467	$	(1,024)	$	-	$	-	$	92,467	$	(1,024)

12

Table of Contents

	December 31, 2015					
	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)					
Investment securities available-for-sale:						
Government agency/GSEs	$ 5,745	$ (7)	$ -	$ -	$ 5,745	$ (7)
Residential mortgage-backed securities	437,699	(1,761)	-	-	437,699	(1,761)
CMOs/REMICs - residential	171,923	(1,074)	-	-	171,923	(1,074)
Municipal bonds	398	(2)	5,961	(1)	6,359	(3)
Other securities	-	-	-	-	-	-
Total available-for-sale securities	$ 615,765	$ (2,844)	$ 5,961	$ (1)	$ 621,726	$ (2,845)
Investment securities held-to-maturity:						
Government agency/GSEs	$ 84,495	$ (734)	$ -	$ -	$ 84,495	$ (734)
Residential mortgage-backed securities	230,760	(1,293)	-	-	230,760	(1,293)
CMO	-	-	-	-	-	-
Municipal bonds	110,119	(719)	-	-	110,119	(719)
Other securities	-	-	-	-	-	-
Total held-to-maturity securities	$ 425,374	$ (2,746)	$ -	$ -	$ 425,374	$ (2,746)

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.

Government Agency & Government-Sponsored Enterprise (GSE) The government agency bonds are backed by the full faith and credit of agencies of the U.S. Government. While the Government-Sponsored Enterprise bonds are not expressly guaranteed by the U.S. Government, they are currently being supported by the U.S. Government under a conservatorship arrangement. As of March 31, 2016, approximately $201.1 million in U.S. government agency bonds were 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. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the bonds.

Mortgage-Backed Securities (MBS) and CMOs/REMICs Most of the Company s mortgage-backed and CMOs/REMICs securities are issued by Government Agencies or 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 3.8 years. Of the total MBS/CMO, 99.94% have the implied guarantee of U.S. Government-Sponsored Agencies and Enterprises. The remaining 0.06% are issued by banks. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the bonds. There were no credit-related Other-Than-Temporary Impairment (OTTI) recognized in earnings for the three months ended March 31, 2016 and December 31, 2015.

Municipal Bonds The majority of the municipal bonds, with maturities of approximately 8.5 years, are insured by the largest U.S. bond insurance companies. 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. The decline in fair value is attributable to the changes in interest rates and not credit quality. Since 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. These investments are not considered other than temporarily impaired at March 31, 2016.

Table of Contents

On an ongoing basis, we monitor 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.

At March 31, 2016 and December 31, 2015, investment securities having a carrying value of approximately $2.76 billion and $2.81 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, 2016, by contractual maturity, are shown in the table below. Although mortgage-backed securities and CMOs/REMICs have contractual maturities through 2043, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed securities and CMOs/REMICs are included in maturity categories based upon estimated prepayment speeds.

	March 31, 2016			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$ 15,931	$ 16,125	$ -	$ -
Due after one year through five years	1,789,155	1,837,957	149,171	150,627
Due after five years through ten years	145,732	148,847	366,305	370,388
Due after ten years	284,866	291,730	297,417	304,913
Total investment securities	$ 2,235,684	$ 2,294,659	$ 812,893	$ 825,928

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, 2016.

6. ACQUIRED SJB ASSETS AND FDIC LOSS SHARING ASSET

FDIC Assisted Acquisition

On October 16, 2009, the Bank acquired San Joaquin Bank (SJB) and entered into loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC) that is more fully discussed in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2015. The acquisition has been accounted for under the purchase method of accounting. The assets and liabilities were recorded at their estimated fair values as of the October 16, 2009 acquisition date. The acquired loans were accounted for as Purchase Credit Impaired (PCI) loans. The application of the purchase method of accounting resulted in an after-tax gain of $12.3 million which was included in 2009 earnings. The gain is the negative goodwill resulting from the acquired assets and liabilities recognized at fair value.

At March 31, 2016, the remaining discount associated with the PCI loans approximated $3.1 million. Based on the Company s regular forecast of expected cash flows from these loans, approximately $1.6 million of the related discount is expected to accrete into interest income over the remaining average lives of the respective pools, which approximates 3 years. The loss sharing agreement for commercial loans expired October 16, 2014.

Table of Contents

The following table provides a summary of PCI loans and lease finance receivables by type and their credit quality indicators for the periods indicated.

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Commercial and industrial	$ 7,147	$ 7,473
SBA	370	393
Real estate:		
Commercial real estate	74,598	81,786
Construction	-	-
SFR mortgage	190	193
Dairy & livestock and agribusiness	255	1,429
Municipal lease finance receivables	-	-
Consumer and other loans	2,400	2,438
Gross PCI loans	84,960	93,712
Less: Purchase accounting discount	(3,110)	(3,872)
Gross PCI loans, net of discount	81,850	89,840
Less: Allowance for PCI loan losses	-	-
Net PCI loans	$ 81,850	$ 89,840

Credit Quality Indicators

The following table summarizes PCI loans by internal risk ratings for the periods indicated.

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Pass	$ 68,474	$ 76,401
Special mention	10,842	11,142
Substandard	5,644	6,169
Doubtful & loss	-	-
Total PCI gross loans	$ 84,960	$ 93,712

Allowance for Loan Losses (ALLL)

The Company s Credit Management Division is responsible for regularly reviewing the ALLL methodology for PCI loans. The ALLL for PCI loans is determined separately from total loans, and is based on expectations of future cash flows from the underlying pools of loans or individual loans in accordance with ASC 310-30, as more fully described in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2015. As of March 31, 2016 and December 31, 2015, there were no allowances for loan losses recorded for PCI loans.

Table of Contents

7. LOANS AND LEASE FINANCE RECEIVABLES AND ALLOWANCE FOR LOAN LOSSES

The following table provides a summary of total loans and lease finance receivables, excluding PCI loans, by type.

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Commercial and industrial	$ 466,961	$ 434,099
SBA	113,703	106,867
Real estate:		
Commercial real estate	2,819,119	2,643,184
Construction	89,648	68,563
SFR mortgage	232,965	233,754
Dairy & livestock and agribusiness	227,710	305,509
Municipal lease finance receivables	73,098	74,135
Consumer and other loans	76,103	69,278
Gross loans, excluding PCI loans	4,099,307	3,935,389
Less: Deferred loan fees, net	(7,748)	(8,292)
Gross loans, excluding PCI loans, net of deferred loan fees	4,091,559	3,927,097
Less: Allowance for loan losses	(59,336)	(59,156)
Net loans, excluding PCI loans	4,032,223	3,867,941
PCI Loans	84,960	93,712
Discount on PCI loans	(3,110)	(3,872)
PCI loans, net	81,850	89,840
Total loans and lease finance receivables	$ 4,114,073	$ 3,957,781

As of March 31, 2016, 68.77% of the total gross loan portfolio (excluding PCI loans) consisted of commercial real estate loans and 2.19% of the total loan portfolio consisted of construction loans. Substantially all of the Company s real estate loans and construction loans are secured by real properties located in California. As of March 31, 2016, $178.9 million, or 6.35% of the total commercial real estate loans included loans secured by farmland, compared to $173.0 million, or 6.54%, at December 31, 2015. The loans secured by farmland included $135.1 million for loans secured by dairy & livestock land and $43.8 million for loans secured by agricultural land at March 31, 2016, compared to $128.4 million for loans secured by dairy & livestock land and $44.6 million for loans secured by agricultural land at December 31, 2015. As of March 31, 2016, dairy & livestock and agribusiness loans of $227.7 million were comprised of $210.2 million for dairy & livestock loans and $17.5 million for agribusiness loans, compared to $287.0 million for dairy & livestock loans and $18.5 million for agribusiness loans at December 31, 2015.

At March 31, 2016, the Company held approximately $2.03 billion of total fixed rate loans, including PCI loans.

At March 31, 2016 and December 31, 2015, loans totaling $3.02 billion and $2.91 billion, respectively, were pledged to secure the borrowings and available lines of credit from the FHLB and the Federal Reserve Bank.

Table of Contents

Credit Quality Indicators

Central to our credit risk management is our loan risk rating system. The originating officer assigns each loan an initial risk rating, which is reviewed and confirmed or changed, as appropriate, by credit management. 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, 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, including loans on the Bank s internal watch list, range from minimal credit risk to lower than average, but still acceptable, credit risk. Watch list loans usually require more than normal management attention. Loans on the watch list may involve borrowers with adverse financial trends, higher debt/equity ratios, or weaker liquidity positions, but not to the degree of being considered a defined weakness or problem loan where risk of loss may be apparent.

Special Mention Loans assigned to this category have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company s credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard Loans classified as substandard are inadequately protected by current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Company will sustain some loss if deficiencies are not corrected.

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

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

Table of Contents

The following table summarizes each type of loans, excluding PCI loans, according to our internal risk ratings for the periods presented.

	March 31, 2016				
	Pass	Special Mention	Substandard	Doubtful & Loss	Total
	(Dollars in thousands)				
Commercial and industrial	$ 428,824	$ 30,887	$ 7,211	$ 39	$ 466,961
SBA	94,609	12,729	6,127	238	113,703
Real estate:					
Commercial real estate					
Owner occupied	810,362	80,555	10,831	-	901,748
Non-owner occupied	1,861,506	22,715	33,150	-	1,917,371
Construction					
Speculative	48,091	-	7,651	-	55,742
Non-speculative	33,906	-	-	-	33,906
SFR mortgage	226,444	3,535	2,986	-	232,965
Dairy & livestock and agribusiness	173,056	48,009	6,645	-	227,710
Municipal lease finance receivables	68,157	4,941	-	-	73,098
Consumer and other loans	71,424	1,839	2,753	87	76,103
Total gross loans, excluding PCI loans	$ 3,816,379	$ 205,210	$ 77,354	$ 364	$ 4,099,307

	December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful & Loss	Total
	(Dollars in thousands)				
Commercial and industrial	$ 398,651	$ 33,000	$ 2,403	$ 45	$ 434,099
SBA	87,441	13,169	4,854	1,403	106,867
Real estate:					
Commercial real estate					
Owner occupied	772,114	54,758	11,481	-	838,353
Non-owner occupied	1,741,615	26,170	37,046	-	1,804,831
Construction					
Speculative	38,186	-	7,651	-	45,837
Non-speculative	22,726	-	-	-	22,726
SFR mortgage	227,207	3,556	2,991	-	233,754
Dairy & livestock and agribusiness	285,647	19,862	-	-	305,509
Municipal lease finance receivables	69,194	4,941	-	-	74,135

Consumer and other loans	64,844	1,618	2,708	108	69,278
Total gross loans, excluding PCI loans	$ 3,707,625	$ 157,074	$ 69,134	$ 1,556	$ 3,935,389

Allowance for Loan Losses

The Company s Credit Management Division is responsible for regularly reviewing the 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. Refer to Note 3 *Summary of Significant Accounting Policies* of the 2015 Annual Report on Form 10-K for the year ended December 31, 2015 for a more detailed discussion concerning the allowance for loan losses.

Management believes that the ALLL was appropriate at March 31, 2016 and December 31, 2015. 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 loan losses in the future.

Table of Contents

The following tables present the balance and activity related to the allowance for loan losses for held-for-investment loans, excluding PCI loans, by portfolio segment for the periods presented.

	For the Three Months Ended March 31, 2016				
	Ending Balance December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance March 31, 2016
	(Dollars in thousands)				
Commercial and industrial	$ 8,588	$ (61)	$ 63	$ 141	$ 8,731
SBA	993	-	1	242	1,236
Real estate:					
Commercial real estate	36,995	-	139	1,152	38,286
Construction	2,389	-	9	(1,247)	1,151
SFR mortgage	2,103	(102)	-	201	2,202
Dairy & livestock and agribusiness	6,029	-	99	(952)	5,176
Municipal lease finance receivables	1,153	-	-	12	1,165
Consumer and other loans	906	-	32	451	1,389
Unallocated (1)	-	-	-	-	-
Total allowance for loan losses	$ 59,156	$ (163)	$ 343	$ -	$ 59,336

	For the Three Months Ended March 31, 2015				
	Ending Balance December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance March 31, 2015
	(Dollars in thousands)				
Commercial and industrial	$ 7,074	$ (134)	$ 35	$ 527	$ 7,502
SBA	2,557	(33)	34	(362)	2,196
Real estate:					
Commercial real estate	33,373	-	857	618	34,848
Construction	988	-	9	46	1,043
SFR mortgage	2,344	-	185	(104)	2,425
Dairy & livestock and agribusiness	5,479	-	99	(1,832)	3,746
Municipal lease finance receivables	1,412	-	-	(382)	1,030
Consumer and other loans	1,262	(177)	9	(269)	825
Unallocated (1)	5,336	-	-	1,758	7,094
Total allowance for loan losses	$ 59,825	$ (344)	$ 1,228	$ -	$ 60,709

(1) Based upon changes to our ALLL methodology, as described in Note 3 *Summary of Significant Accounting Policies* of the 2015 Annual Report on Form 10-K for the year ended December 31, 2015,

beginning with the fourth quarter of 2015 and coinciding with the implementation of the new ALLL methodology, the Bank s previous unallocated reserve was absorbed into the qualitative component of the allowance.

Table of Contents

The following tables present the recorded investment in loans held-for-investment, excluding PCI loans, and the related allowance for loan losses by portfolio segment, based on the Company s methodology for determining the allowance for loan losses for the periods presented.

	March 31, 2016			
	Recorded Investment in Loans		Allowance for Loan Losses	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
	(Dollars in thousands)			
Commercial and industrial	$ 1,477	$ 465,484	$ 575	$ 8,156
SBA	3,304	110,399	55	1,181
Real estate:				
Commercial real estate	35,577	2,783,542	-	38,286
Construction	7,651	81,997	48	1,103
SFR mortgage	5,874	227,091	16	2,186
Dairy & livestock and agribusiness	714	226,996	-	5,176
Municipal lease finance receivables	-	73,098	-	1,165
Consumer and other loans	868	75,235	-	1,389
Unallocated (1)	-	-	-	-
Total	$ 55,465	$ 4,043,842	$ 694	$ 58,642

	March 31, 2015			
	Recorded Investment in Loans		Allowance for Loan Losses	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
	(Dollars in thousands)			
Commercial and industrial	$ 1,611	$ 401,989	$ 592	$ 6,910
SBA	3,158	123,227	42	2,154
Real estate:				
Commercial real estate	41,886	2,457,297	154	34,694
Construction	7,651	47,695	-	1,043
SFR mortgage	5,913	199,219	-	2,425
Dairy & livestock and agribusiness	7,277	166,164	-	3,746
Municipal lease finance receivables	-	76,220	-	1,030
Consumer and other loans	881	69,868	6	819
Unallocated (1)	-	-	-	7,094
Total	$ 68,377	$ 3,541,679	$ 794	$ 59,915

(1) Based upon changes to our ALLL methodology, as described in Note 3 *Summary of Significant Accounting Policies* of the 2015 Annual Report on Form 10-K for the year ended December 31, 2015, beginning with the fourth quarter of 2015 and coinciding with the implementation of the new ALLL methodology, the Bank s previous unallocated reserve was absorbed into the qualitative component of the allowance.

Table of Contents

Past Due and Nonperforming Loans

We seek to manage asset quality and control credit risk through diversification of the 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 loans and larger credits, designed to identify potential charges to the allowance for loan 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. Refer to Note 3 *Summary of Significant Accounting Policies,* included in our Annual Report on Form 10-K for the year ended December 31, 2015, for additional discussion concerning the Bank s policy for past due and nonperforming loans.

A loan is reported as a Troubled Debt Restructured (TDR) 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 losses.

Generally, when loans are identified as impaired they are moved to our Special Assets Department. When we identify a loan as impaired, we measure the loan for potential impairment using discounted cash flows, unless the loan is determined to be collateral dependent. In these cases, we use the current fair value of collateral, less selling costs. Generally, the determination of fair value is established through obtaining external appraisals of the collateral.

Table of Contents

The following tables present the recorded investment in, and the aging of, past due and nonaccrual loans, excluding PCI loans, by type of loans for the periods presented.

March 31, 2016

	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Financing Receivables
			(Dollars in thousands)			
Commercial and industrial	$ 111	$ -	$ 111	$ 622	$ 466,228	466,961
SBA	-	-	-	2,435	111,268	113,703
Real estate:						
Commercial real estate						
Owner occupied	-	-	-	2,086	899,662	901,748
Non-owner occupied	-	-	-	9,996	1,907,375	1,917,371
Construction						
Speculative (2)	-	-	-	-	55,742	55,742
Non-speculative	-	-	-	-	33,906	33,906
SFR mortgage	625	-	625	2,549	229,791	232,965
Dairy & livestock and agribusiness	-	-	-	-	227,710	227,710
Municipal lease finance receivables	-	-	-	-	73,098	73,098
Consumer and other loans	47	117	164	456	75,483	76,103
Total gross loans, excluding PCI Loans	$ 783	$ 117	$ 900	$ 18,144	$ 4,080,263	$ 4,099,307

(1) As of March 31, 2016, $16.1 million of nonaccruing loans were current, $20,000 were 30-59 days past due, $836,000 were 60-89 days past due and $1.2 million were 90+ days past due.
(2) Speculative construction loans are generally for properties where there is no identified buyer or renter.

December 31, 2015

	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Financing Receivables
			(Dollars in thousands)			
Commercial and industrial	$ -	$ -	$ -	$ 704	$ 433,395	$ 434,099

SBA	-	-	-	2,567	104,300	106,867
Real estate:						
Commercial real estate						
Owner occupied	-	-	-	4,174	834,179	838,353
Non-owner occupied	354	-	354	10,367	1,794,110	1,804,831
Construction						
Speculative (2)	-	-	-	-	45,837	45,837
Non-speculative	-	-	-	-	22,726	22,726
SFR mortgage	1,082	-	1,082	2,688	229,984	233,754
Dairy & livestock and agribusiness	-	-	-	-	305,509	305,509
Municipal lease finance receivables	-	-	-	-	74,135	74,135
Consumer and other loans	-	-	-	519	68,759	69,278
Total gross loans, excluding PCI Loans	$ 1,436	$ -	$ 1,436	$ 21,019	$ 3,912,934	$ 3,935,389

(1) As of December 31, 2015, $7.9 million of nonaccruing loans were current, $456,000 were 30-59 days past due, $9.1 million were 60-89 days past due and $3.5 million were 90+ days past due.
(2) Speculative construction loans are generally for properties where there is no identified buyer or renter.

22

Table of Contents

Impaired Loans

At March 31, 2016, the Company had impaired loans, excluding PCI loans, of $55.5 million. Of this amount, there was $12.1 million of nonaccrual commercial real estate loans, $2.5 million of nonaccrual single-family residential (SFR) mortgage loans, $2.4 million of nonaccrual SBA loans, $622,000 of nonaccrual commercial and industrial loans, and $456,000 of nonaccrual consumer and other loans. These impaired loans included $49.7 million of loans whose terms were modified in a troubled debt restructuring, of which $12.4 million were classified as nonaccrual. The remaining balance of $37.3 million consisted of 35 loans performing according to the restructured terms. The impaired loans had a specific allowance of $694,000 at March 31, 2016. At December 31, 2015, the Company had classified as impaired, loans, excluding PCI loans, with a balance of $63.7 million with a related allowance of $669,000.

The following tables present information for held-for-investment loans, excluding PCI loans, individually evaluated for impairment by type of loans, as and for the periods presented.

	As of and For the Three Months Ended March 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 805	$ 1,677	$ -	$ 831	$ 7
SBA	3,050	3,765	-	3,089	13
Real estate:					
Commercial real estate					
Owner occupied	5,315	6,507	-	5,095	51
Non-owner occupied	30,262	33,368	-	30,400	343
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SFR mortgage	5,499	6,406	-	5,512	27
Dairy & livestock and agribusiness	714	714	-	710	8
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	868	1,420	-	888	4
Total	46,513	53,857	-	46,525	453
With a related allowance recorded:					
Commercial and industrial	672	741	575	687	3
SBA	254	274	55	254	2
Real estate:					
Commercial real estate					
Owner occupied	-	-	-	-	-
Non-owner occupied	-	-	-	-	-
Construction					
Speculative	7,651	7,651	48	7,651	97

Non-speculative	-	-	-	-	-
SFR mortgage	375	426	16	515	2
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	8,952	9,092	694	9,107	104
Total impaired loans	$ 55,465	$ 62,949	$ 694	$ 55,632	$ 557

23

Table of Contents

	As of and For the Three Months Ended March 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 1,004	$ 1,819	$ -	$ 1,017	$ 8
SBA	3,117	3,667	-	3,177	13
Real estate:					
Commercial real estate					
Owner occupied	6,117	7,167	-	6,185	64
Non-owner occupied	34,808	42,718	-	35,194	350
Construction					
Speculative	7,651	7,651	-	7,651	96
Non-speculative	-	-	-	-	-
SFR mortgage	5,913	6,642	-	5,940	27
Dairy & livestock and agribusiness	7,277	8,991	-	7,533	85
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	783	1,289	-	836	4
Total	66,670	79,944	-	67,533	647
With a related allowance recorded:					
Commercial and industrial	607	680	592	617	-
SBA	41	54	42	45	-
Real estate:					
Commercial real estate					
Owner occupied	-	-	-	-	-
Non-owner occupied	961	1,278	154	973	-
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SFR mortgage	-	-	-	-	-
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	98	107	6	99	-
Total	1,707	2,119	794	1,734	-
Total impaired loans	$ 68,377	$ 82,063	$ 794	$ 69,267	$ 647

Table of Contents

	As of December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$ 1,017	$ 1,894	$ -
SBA	3,207	3,877	-
Real estate:			
Commercial real estate			
Owner occupied	6,252	7,445	-
Non-owner occupied	34,041	37,177	-
Construction			
Speculative	-	-	-
Non-speculative	-	-	-
SFR mortgage	5,665	6,453	-
Dairy & livestock and agribusiness	3,685	3,684	-
Municipal lease finance receivables	-	-	-
Consumer and other loans	890	1,454	-
Total	54,757	61,984	-
With a related allowance recorded:			
Commercial and industrial	626	695	626
SBA	41	47	10
Real estate:			
Commercial real estate			
Owner occupied	-	-	-
Non-owner occupied	-	-	-
Construction			
Speculative	7,651	7,651	13
Non-speculative	-	-	-
SFR mortgage	588	640	20
Dairy & livestock and agribusiness	-	-	-
Municipal lease finance receivables	-	-	-
Consumer and other loans	43	45	-
Total	8,949	9,078	669
Total impaired loans	$ 63,706	$ 71,062	$ 669

The Company recognizes the charge-off of the impairment allowance on impaired loans in the period in which a loss is identified for collateral dependent loans. Therefore, the majority of the nonaccrual loans as of March 31, 2016 and December 31, 2015 have already been written down to the estimated net realizable value. The impaired loans with a related allowance recorded are on nonaccrual loans where a charge-off is not yet processed, on nonaccrual SFR loans where there is a potential modification in process, or on smaller balance non-collateral dependent loans.

25

Table of Contents

Reserve for Unfunded Loan Commitments

The allowance for off-balance sheet credit exposure relates to commitments to extend credit, letters of credit and undisbursed funds on lines of credit. The Company evaluates credit risk associated with the off-balance sheet loan commitments at the same time it evaluates credit risk associated with the loan and lease portfolio. There was no provision or recapture of provision for unfunded loan commitments for the three months ended March 31, 2016, compared with a recapture of provision for unfunded loan commitments of $500,000 for the same period of 2015. As of March 31, 2016 and December 31, 2015, the balance in this reserve was $7.2 million and was included in other liabilities.

Troubled Debt Restructurings (TDRs)

Loans that are reported as TDRs are considered impaired and charge-off amounts are taken on an individual loan basis, as deemed appropriate. The majority of restructured loans are loans for which the terms of repayment have been renegotiated, resulting in a reduction in interest rate or deferral of principal. Refer to Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2015 for a more detailed discussion regarding TDRs.

As of March 31, 2016, there were $49.7 million of loans classified as a TDR, of which $12.4 million were nonperforming and $37.3 million were performing. TDRs on accrual status are comprised of loans that were accruing interest at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. At March 31, 2016, performing TDRs were comprised of 14 commercial real estate loans of $23.5 million, one construction loan of $7.7 million, one dairy & livestock and agribusiness loan of $714,000, 11 SFR mortgage loans of $3.3 million, five commercial and industrial loans of $855,000, one consumer loan of $412,000 and two SBA loans of $869,000. There were no loans removed from TDR classification during the three months ended March 31, 2016 and 2015.

The majority of TDRs have no specific allowance allocated as any impairment amount is normally charged off at the time a probable loss is determined. We have allocated $642,000 and $607,000 of specific allowance to TDRs as of March 31, 2016 and December 31, 2015, respectively.

The following table provides a summary of the activity related to TDRs for the periods presented.

	For the Three Months Ended March 31,	
	2016	**2015**
	(Dollars in thousands)	
Performing TDRs:		
Beginning balance	$ 42,687	$ 53,589
New modifications	1,006	-
Payoffs and payments, net	(6,372)	(8,729)
TDRs returned to accrual status	-	516
TDRs placed on nonaccrual status	-	-
Ending balance	$ 37,321	$ 45,376

Nonperforming TDRs:		
Beginning balance	$ 12,622	$ 20,285
New modifications	82	-
Charge-offs	(38)	-
Payoffs and payments, net	(306)	(2,995)
TDRs returned to accrual status	-	(516)
TDRs placed on nonaccrual status	-	-
Ending balance	$ 12,360	$ 16,774
Total TDRs	$ 49,681	$ 62,150

26

Table of Contents

The following tables summarize loans modified as troubled debt restructurings for the periods presented.

Modifications (1)

	For the Three Months Ended March 31, 2016				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at March 31, 2016	Financial Effect Resulting From Modifications (2)
	(Dollars in thousands)				
SBA:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	1	194	194	193	28
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	2	812	812	778	-
Non-owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Consumer:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	2	82	82	75	-
Total loans	5	$ 1,088	$ 1,088	$ 1,046	$ 28

	For the Three Months Ended March 31, 2015				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at March 31, 2015	Financial Effect Resulting From Modifications (2)
	(Dollars in thousands)				
SBA:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Non-owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-

Consumer:									
Interest rate reduction	-		-		-		-		-
Change in amortization period or maturity	-		-		-		-		-
Total loans	-	$	-	$	-	$	-	$	-

(1) The tables above exclude modified loans that were paid off prior to the end of the period.
(2) Financial effects resulting from modifications represent charge-offs and specific allowance recorded at modification date.

As of March 31, 2016, there were no loans that were previously modified as a TDR within the previous 12 months that subsequently defaulted during the three months ended March 31, 2016.

Table of Contents

8. EARNINGS PER SHARE RECONCILIATION

Basic earnings per common share are computed by dividing income allocated to common stockholders by the weighted-average number of common shares outstanding during each period. The computation of diluted earnings per common share considers the number of tax-effected shares issuable upon the assumed exercise of outstanding common stock options. Antidilutive common shares are not included in the calculation of diluted earnings per common share. For the three months ended March 31, 2016 and 2015, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were 262,000 and 235,000, respectively.

The table below shows earnings per common share and diluted earnings per common share, and reconciles the numerator and denominator of both earnings per common share calculations.

	For the Three Months Ended March 31,	
	2016	**2015**
	(In thousands, except per share amounts)	
Earnings per common share:		
Net earnings	$ 23,391	$ 15,833
Less: Net earnings allocated to restricted stock	104	81
Net earnings allocated to common shareholders	$ 23,287	$ 15,752
Weighted average shares outstanding	106,392	105,523
Basic earnings per common share	$ 0.22	$ 0.15
Diluted earnings per common share:		
Net income allocated to common shareholders	$ 23,287	$ 15,752
Weighted average shares outstanding	106,392	105,523
Incremental shares from assumed exercise of outstanding options	392	436
Diluted weighted average shares outstanding	106,784	105,959
Diluted earnings per common share	$ 0.22	$ 0.15

Table of Contents

9. FAIR VALUE INFORMATION

Fair Value Hierarchy

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

The following disclosure provides the fair value information for financial assets and liabilities as of March 31, 2016. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2 and Level 3).

Level 1- includes assets and liabilities that have an active market that provides an objective quoted value for each unit. Here the active market quoted value is used to measure the fair value. Level 1 has the most objective measurement of fair value. Level 2 is less objective and Level 3 is the least objective (most subjective) in estimating fair value.

Level 2- assets and liabilities are ones where there is no active market in the same assets, but where there are parallel markets or alternative means to estimate fair value using observable information inputs such as the value placed on similar assets or liability that were recently traded.

Level 3 -fair values are based on information from the entity that reports these values in their financial statements. Such data are referred to as unobservable, in that the valuations are not based on data available to parties outside the entity.

Observable and unobservable inputs are the key elements that separate the levels in the fair value hierarchy. Inputs here refer explicitly to the types of information used to obtain the fair value of the asset or liability.

Observable inputs include data sources and market prices available and visible outside of the entity. While there will continue to be judgments required when an active market price is not available, these inputs are external to the entity and observable outside the entity; they are consequently considered more objective than internal unobservable inputs used for Level 3 fair value.

Unobservable inputs are data and analyses that are developed within the entity to assess the fair value, such as management estimates of future benefits from use of assets.

There were no transfers in and out of Level 1 and Level 2 during the three months ended March 31, 2016 and 2015.

Determination of Fair Value

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

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

Interest-Bearing Balances Due from Depository Institutions The carrying value of due from depository institutions is considered to approximate fair value due to the short-term nature of these deposits.

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

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

Table of Contents

Investment Securities Held to-Maturity   Investment securities held-to-maturity are generally valued based upon quotes obtained from an independent third-party pricing service, which uses evaluated pricing applications and model processes. Observable market inputs, such as, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data are considered as part of the evaluation. The inputs are related directly to the security being evaluated, or indirectly to a similarly situated security. Market assumptions and market data are utilized in the valuation models. The Company reviews the market prices provided by the third-party pricing service for reasonableness based on the Company s understanding of the market place and credit issues related to the securities. The Company has not made any adjustments to the market quotes provided by them and, accordingly, the Company categorized its investment portfolio within Level 2 of the fair value hierarchy. The held-to-maturity CMO investment is valued based upon quotes obtained from an independent third-party pricing service. The Company categorized its held-to-maturity CMO investment as Level 3.

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

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

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

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

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

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

Table of Contents

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis for the periods presented.

	Carrying Value at March 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Description of assets				
Investment securities - AFS:				
Government agency/GSEs	$ 5,760	$ -	$ 5,760	$ -
Residential mortgage-backed securities	1,759,050	-	1,759,050	-
CMOs/REMICs - residential	368,535	-	368,535	-
Municipal bonds	156,225	-	156,225	-
Other securities	5,089	-	5,089	-
Total investment securities - AFS	2,294,659	-	2,294,659	-
Interest rate swaps	13,132	-	13,132	-
Total assets	$ 2,307,791	$ -	$ 2,307,791	$ -
Description of liability				
Interest rate swaps	$ 13,132	$ -	$ 13,132	$ -
Total liabilities	$ 13,132	$ -	$ 13,132	$ -

	Carrying Value at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Description of assets				
Investment securities - AFS:				
Government agency/GSEs	$ 5,745	$ -	$ 5,745	$ -
Residential mortgage-backed securities	1,813,097	-	1,813,097	-
CMOs/REMICs - residential	383,781	-	383,781	-
Municipal bonds	160,973	-	160,973	-

Other securities		5,050		-		5,050		-
Total investment securities - AFS		2,368,646		-		2,368,646		-
Interest rate swaps		9,344		-		9,344		-
Total assets	$	2,377,990	$	-	$	2,377,990	$	-
Description of liability								
Interest rate swaps	$	9,344	$	-	$	9,344	$	-
Total liabilities	$	9,344	$	-	$	9,344	$	-

31

Table of Contents

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

We may be required to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or fair value accounting or write-downs of individual assets. For assets measured at fair value on a non-recurring basis that were held on the balance sheet at March 31, 2016 and December 31, 2015, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets that had losses during the period.

	Carrying Value at March 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Three Months Ended March 31, 2016
			(Dollars in thousands)		
Description of assets					
Impaired loans, excluding PCI Loans:					
Commercial and industrial	$ 110	$ -	$ -	$ 110	$ 13
SBA	213	-	-	213	48
Real estate:					
Commercial real estate	-	-	-	-	-
Construction	7,651	-	-	7,651	35
SFR mortgage	504	-	-	504	102
Dairy & livestock and agribusiness	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Other real estate owned	1,611	-	-	1,611	248
Total assets	$ 10,089	$ -	$ -	$ 10,089	$ 446

	Carrying Value at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Year Ended December 31, 2015
			(Dollars in thousands)		
Description of assets					
Impaired loans, excluding PCI					

Loans:					
Commercial and industrial	$ 228	$ -	$ -	$ 228	$ 228
SBA	41	-	-	41	15
Real estate:					
Commercial real estate	-	-	-	-	-
Construction	7,651	-	-	7,651	13
SFR mortgage	588	-	-	588	20
Dairy & livestock and agribusiness	-	-	-	-	-
Consumer and other loans	258	-	-	258	101
Other real estate owned	948	-	-	948	162
Total assets	$ 9,714	$ -	$ -	$ 9,714	$ 539

Table of Contents

Fair Value of Financial Instruments

The following disclosure presents estimated fair value of our financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company may realize in a current market exchange as of March 31, 2016 and December 31, 2015, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	March 31, 2016				
		Estimated Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
			(Dollars in thousands)		
Assets					
Total cash and cash equivalents	$ 239,586	$ 239,586	$ -	$ -	$ 239,586
Interest-earning balances due from depository institutions	90,718	-	90,718	-	90,718
FHLB stock	18,501	-	18,501	-	18,501
Investment securities available-for-sale	2,294,659	-	2,294,659	-	2,294,659
Investment securities held-to-maturity	812,893	-	824,203	1,725	825,928
Total loans, net of allowance for loan losses	4,114,073	-	-	4,166,203	4,166,203
Swaps	13,132	-	13,132	-	13,132
Liabilities					
Deposits:					
Noninterest-bearing	$ 3,352,128	3,352,128	-	-	$ 3,352,128
Interest-bearing	2,864,150	-	2,863,784	-	2,863,784
Borrowings	631,860	-	631,749	-	631,749
Junior subordinated debentures	25,774	-	27,284	-	27,284
Swaps	13,132	-	13,132	-	13,132

	December 31, 2015				
		Estimated Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total

	(Dollars in thousands)				
Assets					
Total cash and cash equivalents	$ 106,097	$ 106,097	$ -	$ -	$ 106,097
Interest-earning balances due from depository institutions	32,691	-	32,691	-	32,691
FHLB stock	17,588	-	17,588	-	17,588
Investment securities available-for-sale	2,368,646	-	2,368,646	-	2,368,646
Investment securities held-to-maturity	850,989	-	851,186	1,853	853,039
Total loans, net of allowance for loan losses	3,957,781	-	-	3,971,329	3,971,329
Swaps	9,344	-	9,344	-	9,344
Liabilities					
Deposits:					
Noninterest-bearing	$ 3,250,174	3,250,174	-	-	$ 3,250,174
Interest-bearing	2,667,086	-	2,666,186	-	2,666,186
Borrowings	736,704	-	736,575	-	736,575
Junior subordinated debentures	25,774	-	27,210	-	27,210
Swaps	9,344	-	9,344	-	9,344

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2016 and December 31, 2015. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented above.

10. BUSINESS SEGMENTS

The Company has identified two principal reportable segments: Business Financial and Commercial Banking Centers (Centers) and the Treasury Department. The Bank has 44 Business Financial Centers and eight Commercial Banking Centers organized in geographic regions, which are the focal points for customer sales and services. The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank which is the basis for determining the Bank s reportable segments. The chief operating decision maker (currently our CEO) regularly reviews the financial information of these segments in deciding how to allocate resources and to assess performance. Centers are considered one operating segment as their products and services are similar and are sold to similar types of customers, have similar production and distribution processes, have similar economic characteristics, and have similar reporting and organizational structures. The Treasury Department s primary focus is managing the Bank s investments, liquidity and interest rate risk. Information related to the Company s remaining operating segments, which include construction lending, dairy & livestock and agribusiness lending, leasing, CitizensTrust, and centralized functions have been aggregated and included in Other. In addition, the Company allocates internal funds transfer pricing to the segments using a methodology that charges users of funds interest expense and credits providers of funds interest income with the net effect of this allocation being recorded in administration.

The following tables represent the selected financial information for these two business segments. GAAP does not have an authoritative body of knowledge regarding the management accounting used in presenting segment financial information. The accounting policies for each of the business units is the same as those policies identified for the consolidated Company and disclosed in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2015. The income numbers represent the actual income and expenses of each business unit. In addition, each segment has allocated income and expenses based on management s internal reporting system, which allows management to determine the performance of each of its business units. Loan fees included in the Centers category are the actual loan fees paid to the Company by its customers. These fees are eliminated and deferred in the Other category, resulting in deferred loan fees for the condensed consolidated financial statements. All income and expense items not directly associated with the two business segments are grouped in the Other category. Future changes in the Company s management structure or reporting methodologies may result in changes in the measurement of operating segment results.

Table of Contents

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

	For the Three Months Ended March 31, 2016				
	Centers	Treasury	Other	Eliminations	Total
	(Dollars in thousands)				
Interest income, including loan fees	$ 36,504	$ 18,757	$ 9,239	$ -	$ 64,500
Credit for funds provided (1)	8,697	-	13,681	(22,378)	-
Total interest income	45,201	18,757	22,920	(22,378)	64,500
Interest expense	1,680	184	120	-	1,984
Charge for funds used (1)	1,287	15,349	5,742	(22,378)	-
Total interest expense	2,967	15,533	5,862	(22,378)	1,984
Net interest income	42,234	3,224	17,058	-	62,516
Provision for loan losses	-	-	-	-	-
Net interest income after provision for loan losses	42,234	3,224	17,058	-	62,516
Noninterest income	4,827	-	3,856	-	8,683
Noninterest expense	12,610	216	21,538	-	34,364
Debt termination expense	-	-	-	-	-
Segment pre-tax profit (loss)	$ 34,451	$ 3,008	$ (624)	$ -	$ 36,835
Segment assets as of March 31, 2016	$ 6,602,994	$ 3,417,737	$ 976,032	$ (3,075,927)	$ 7,920,836

(1) Credit for funds provided and charges for funds used are eliminated in the condensed consolidated presentation.

	For the Three Months Ended March 31, 2015				
	Centers	Treasury	Other	Eliminations	Total
	(Dollars in thousands)				
Interest income, including loan fees	$ 35,368	$ 18,655	$ 10,157	$ -	$ 64,180
Credit for funds provided (1)	8,211	-	12,641	(20,852)	-

Total interest income	43,579	18,655	22,798	(20,852)	64,180
Interest expense	1,663	1,431	77	-	3,171
Charge for funds used (1)	1,067	14,806	4,979	(20,852)	-
Total interest expense	2,730	16,237	5,056	(20,852)	3,171
Net interest income	40,849	2,418	17,742	-	61,009
Provision for loan losses	-	-	-	-	-
Net interest income after provision for loan losses	40,849	2,418	17,742	-	61,009
Noninterest income	5,067	-	2,944	-	8,011
Noninterest expense	11,849	213	18,540	-	30,602
Debt termination expense	-	13,870	-	-	13,870
Segment pre-tax profit (loss)	$ 34,067	$ (11,665)	$ 2,146	$ -	$ 24,548
Segment assets as of March 31, 2015	$ 6,216,028	$ 3,450,529	$ 898,554	$ (3,122,160)	$ 7,442,951

(1) Credit for funds provided and charges for funds used are eliminated in the condensed consolidated presentation.

35

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank is exposed to certain risks relating to its ongoing business operations and utilizes interest rate swap agreements (swaps) as part of its asset/liability management strategy to help manage its interest rate risk position. As of March 31, 2016, the Bank has entered into 77 interest-rate swap agreements with customers. The Bank then entered into identical offsetting swaps with a counterparty bank. The swap agreements are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and to provide the customer the financial effects of a fixed-rate loan without creating significant volatility in the Bank s earnings.

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

We believe our risk of loss associated with our counterparty borrowers related to interest rate swaps is mitigated as the loans with swaps are underwritten to take into account potential additional exposure, although there can be no assurances in this regard since the performance of our swaps is subject to market and counterparty risk.

Balance Sheet Classification of Derivative Financial Instruments

As of March 31, 2016 and December 31, 2015, the total notional amount of the Company s swaps was $188.5 million, and $189.0 million, respectively. The location of the asset and liability, and their respective fair values are summarized in the tables below.

	March 31, 2016			
	Asset Derivatives		**Liability Derivatives**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
	(Dollars in thousands)			
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 13,132	Other liabilities	$ 13,132
Total derivatives		$ 13,132		$ 13,132

	December 31, 2015			
	Asset Derivatives		**Liability Derivatives**	

	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
		(Dollars in thousands)		
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 9,344	Other liabilities	$ 9,344
Total derivatives		$ 9,344		$ 9,344

Table of Contents

The Effect of Derivative Financial Instruments on the Condensed Consolidated Statements of Earnings

The following table summarizes the effect of derivative financial instruments on the condensed consolidated statement of earnings for the periods presented.

Derivatives Not Designated as Hedging Instruments	**Location of Gain Recognized in Income on Derivative Instruments**	**Amount of Gain Recognized in Income on Derivative Instruments For the Three Months Ended March 31, 2016**	**2015**
		(Dollars in thousands)	
Interest rate swaps	Other income	$ 58	$ -
Total		$ 58	$ -

12. OTHER COMPREHENSIVE INCOME

The tables below provide a summary of the components of other comprehensive income (OCI) for the periods presented.

	For the Three Months Ended March 31, 2016			**2015**		
	Before-tax	**Tax effect**	**After-tax**	**Before-tax**	**Tax effect**	**After-tax**
			(Dollars in thousands)			
Investment securities:						
Net change in fair value recorded in accumulated OCI	$ 28,044	$ 11,778	$ 16,266	$ 20,270	$ 8,514	$ 11,756
Cumulative-effect adjustment for unrealized gains on securities transferred from available-for-sale to held-to-maturity	-	-	-	-	-	-
Amortization of unrealized gains on securities transferred from available-for-sale to held-to-maturity	(774)	(325)	(449)	-	-	-
	-	-	-	-	-	-

Net realized loss reclassified into earnings						
Net change	$ 27,270	$ 11,453	$ 15,817	$ 20,270	$ 8,514	$ 11,756

The following tables provide a summary of the change in accumulated other comprehensive income for the periods presented.

	Investment Securities
	(Dollars in thousands)
Balance, January 1, 2016	$ 20,909
Net change in fair value recorded in accumulated OCI	15,817
Net realized loss reclassified into earnings	-
Balance, March 31, 2016	$ 36,726

	Investment Securities
	(Dollars in thousands)
Balance, January 1, 2015	$ 31,075
Net change in fair value recorded in accumulated OCI	11,756
Net realized loss reclassified into earnings	-
Balance, March 31, 2015	$ 42,831

Table of Contents

13. BALANCE SHEET OFFSETTING

Assets and liabilities relating to certain financial instruments, including, derivatives and securities sold under repurchase agreements (repurchase agreements), may be eligible for offset in the condensed consolidated balance sheets as permitted under accounting guidance. As noted above, our interest rate swap derivatives are subject to a master netting arrangement with one counterparty bank. Our interest rate swap derivatives require the Company to pledge investment securities as collateral based on certain risk thresholds. Investment securities that have been pledged by the Company to the counterparty bank continue to be reported in the Company s condensed consolidated balance sheets unless the Company defaults. We offer a repurchase agreement product to our customers, which include master netting agreements that allow for the netting of collateral positions. This product, known as Citizens Sweep Manager, sells certain of our securities overnight to our customers under an agreement to repurchase them the next day. The repurchase agreements are not offset in the condensed consolidated balances.

	Gross Amounts Recognized in the Condensed Consolidated Balance Sheets	Gross Amounts offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Collateral Pledged	Net Amount
	(Dollars in thousands)					
March 31, 2016						
Financial assets:						
Derivatives not designated as hedging instruments	$ 13,132	$ -	$ -	$ 13,132	$ -	$ 13,132
Total	$ 13,132	$ -	$ -	$ 13,132	$ -	$ 13,132
Financial liabilities:						
Derivatives not designated as hedging instruments	$ 13,132	$ -	$ 13,132	$ -	$ (14,291)	$ (1,159)
Repurchase agreements	626,860	-	626,860	-	(734,711)	(107,851)
Total	$ 639,992	$ -	$ 639,992	$ -	$ (749,002)	$ (109,010)
December 31, 2015						
Financial assets:						
Derivatives not designated as hedging instruments	$ 9,344	$ -	$ -	$ 9,344	$ -	$ 9,344
Total	$ 9,344	$ -	$ -	$ 9,344	$ -	$ 9,344
Financial liabilities:						
	$ 9,348	$ (4)	$ 9,344	$ 4	$ (16,572)	$ (7,224)

Derivatives not designated as hedging instruments						
Repurchase agreements	690,704	-	690,704	-	(721,102)	(30,398)
Total	$ 700,052	$ (4)	$ 700,048	$ 4	$ (737,674)	$ (37,622)

38

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

The following discussion provides information about the results of operations, financial condition, liquidity and capital resources of CVB Financial Corp. and its wholly owned subsidiary. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015, and the unaudited condensed consolidated financial statements and accompanying notes presented elsewhere in this report.

CRITICAL ACCOUNTING POLICIES

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

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

- Allowance for Loan Losses (ALLL)
- Troubled Debt Restructurings (TDRs)
- Investment Securities
- Goodwill Impairment
- Acquired Loans
- Purchase Credit Impaired (PCI) Loans
- Other Real Estate Owned (OREO)
- Fair Value of Financial Instruments
- Income Taxes
- Stock-Based Compensation

Our significant accounting policies are described in greater detail in our 2015 Annual Report on Form 10-K in the Critical Accounting Policies section of Management s Discussion and Analysis of Financial Condition and Results of Operations and in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2015, which are essential to understanding Management s Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

On February 29, 2016, we announced the completion of our acquisition of County Commerce Bank (CCB). Our financial statements for the first quarter include 31 days of CCB operations, post-merger. At close, Citizens Business Bank acquired $168.0 million of loans, assumed $80.6 million of noninterest-bearing deposits, and $224.2 million of total deposits. This acquisition adds approximately $253 million in assets to our balance sheet and four new center locations, extending our geographic footprint northward into and along the central coast of California.

For the first quarter of 2016, we reported net earnings of $23.4 million, compared with $15.8 million for the first quarter of 2015, an increase of $7.6 million, or 47.74%. Diluted earnings per share were $0.22 per share for the first quarter of 2016, compared to $0.15 for the same period of 2015. Earnings for the first quarter of 2015 included pre-tax debt termination expense of $13.9 million related to the redemption of $200.0 million of fixed rate debt from the Federal Home Loan Bank (FHLB). Net interest income for the first quarter of 2016 was positively impacted by a decrease of $1.3 million in interest expense for borrowings as a result of the repayment of the FHLB fixed rate debt when compared to the same period of 2015.

At March 31, 2016, total assets of $7.92 billion increased $249.6 million, or 3.25%, from total assets of $7.67 billion at December 31, 2015. Interest-earning assets of $7.52 billion at March 31, 2016 increased $231.4 million, or 3.17%, when compared with $7.29 billion at December 31, 2015. The increase in interest-earning assets was primarily due to a $156.5 million increase in total loans, a $128.1 million increase in total interest-earning balances due from the Federal Reserve and federal funds sold, and a $58.0 million increase in interest-earning balances due from depository institutions. This was partially offset by a $112.1 million decrease in total investment securities.

Total investment securities were $3.11 billion at March 31, 2016, a decrease of $112.1 million from $3.22 billion at December 31, 2015.

During the third quarter of 2015, we transferred investment securities from our available-for-sale (AFS) security portfolio to held-to-maturity (HTM). Transfers of securities into the HTM category from the AFS category are transferred at fair value at the date of transfer. The fair value of these securities at the date of transfer was $898.6 million. The unrealized holding gain or loss at the date of transfer is retained in accumulated other comprehensive income and in the carrying value of the held-to-maturity securities. The net unrealized holding gain at the date of transfer was $3.9 million after-tax and will continue to be reported in accumulated other comprehensive income (AOCI) and amortized over the remaining life of the securities as a yield adjustment. At March 31, 2016, investment securities HTM totaled $812.9 million. The after-tax unrealized gain reported in AOCI on investment securities HTM was $2.5 million at March 31, 2016.

At March 31, 2016, investment securities AFS totaled $2.29 billion, inclusive of a pre-tax unrealized gain of $59.0 million.

Total loans and leases, net of deferred fees and discount, of $4.17 billion at March 31, 2016, increased by $156.5 million, or 3.90%, from $4.02 billion at December 31, 2015. The increase in total loans included $167.3 million of loans acquired from CCB. The $156.5 million quarter-over-quarter increase was principally due to increases of approximately $168.7 million in commercial real estate loans, $32.5 million in commercial and industrial loans, $21.1 million in construction loans, $7.3 million in consumer loans, and $6.8 million in Small Business Administration (SBA) loans. Dairy & livestock and agribusiness loans decreased by $79.0 million, primarily due to seasonal paydowns. Excluding the acquired CCB loans and the decrease in dairy and agribusiness loans, overall loan growth was $66.9 million, or about 1.80%, for the quarter.

Noninterest-bearing deposits were $3.35 billion at March 31, 2016, an increase of $102.0 million, or 3.14%, compared to $3.25 billion at December 31, 2015 and an increase of $225.2 million or 7.20%, when compared to March 31, 2015. At March 31, 2016, noninterest-bearing deposits were 53.93% of total deposits, compared to 54.93% at December 31, 2015 and 53.02% at March 31, 2015.

Our average cost of total deposits was 0.10% for the quarter ended March 31, 2016, compared to 0.09% for the same period last year. Our cost of total deposits including customer repurchase agreements was 0.11% for the quarters ended March 31, 2016 and March 31, 2015.

As a result of the acquisition of CCB on February 29, 2016, we assumed $5.0 million in FHLB advances. We repaid these advances in April 2016.

At March 31, 2016, we had no short-term borrowings, compared to $46.0 million at December 31, 2015 and zero at March 31, 2015.

At March 31, 2016, we had $25.8 million of junior subordinated debentures, unchanged from December 31, 2015 and March 31, 2015.

The allowance for loan losses totaled $59.3 million at March 31, 2016, compared to $59.2 million at December 31, 2015. The allowance for loan losses was increased by net recoveries of $180,000 for the first quarter of 2016. The allowance for loan losses was 1.42%, 1.47%, and 1.63% of total loans and leases outstanding, at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory standards. As of March 31, 2016, the Company s Tier 1 leverage capital ratio totaled 11.39%, our common equity Tier 1 ratio totaled 16.27%, our Tier 1 risk-based capital ratio totaled 16.74%, and our total risk-based capital ratio totaled 18.00%. Refer to our *Analysis of Financial Condition Capital Resources* for further discussion on regulatory capital ratios.

Table of Contents

ANALYSIS OF THE RESULTS OF OPERATIONS

Financial Performance

	For the Three Months Ended March 31,			Variance	
	2016	2015		$	%
	(Dollars in thousands, except per share amounts)				
Net interest income	$ 62,516	$ 61,009		$ 1,507	2.47%
Provision for loan losses	-	-		-	-
Noninterest income	8,683	8,011		672	8.39%
Noninterest expense	(34,364)	(44,472)	**(1)**	10,108	22.73%
Income taxes	(13,444)	(8,715)		(4,729)	-54.26%
Net earnings	$ 23,391	$ 15,833		$ 7,558	47.74%
Earnings per common share:					
Basic	$ 0.22	$ 0.15		$ 0.07	
Diluted	$ 0.22	$ 0.15		$ 0.07	
Return on average assets	1.22%	0.86%	**(1)**	0.36%	
Return on average shareholders equity	9.96%	7.22%	**(1)**	2.74%	
Efficiency ratio	48.26%	64.43%	**(1)**	-16.17%	
Noninterest expense to average assets	1.79%	2.42%	**(1)**	-0.63%	

(1) Includes $13.9 million debt termination expense.

Noninterest Expense and Efficiency Ratio Reconciliation (Non-GAAP)

We use certain non-GAAP financial measures to provide supplemental information regarding our performance. Noninterest expense for the quarter ended March 31, 2015 included a debt termination expense of $13.9 million. We believe that presenting the efficiency ratio, and the ratio of noninterest expense to average assets, excluding the impact of debt termination expense, provides additional clarity to the users of financial statements regarding core financial performance. The Company did not incur debt termination expense for the quarter ended March 31, 2016.

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Net interest income	$ 62,516	$ 61,009
Noninterest income	8,683	8,011

Noninterest expense		34,364		44,472
Less: debt termination expense		-		(13,870)
Adjusted noninterest expense	$	34,364	$	30,602
Efficiency ratio		48.26%		64.43%
Adjusted efficiency ratio		48.26%		44.34%
Adjusted noninterest expense	$	34,364	$	30,602
Average assets	$	7,742,803	$	7,449,297
Adjusted noninterest expense to average assets [1]		1.79%		1.67%

[1] Annualized

41

Table of Contents

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 (interest-earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). Net interest margin is the taxable-equivalent (TE) of net interest income as a percentage of average interest-earning assets for the period. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average interest earning assets minus the cost of average interest-bearing liabilities. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the international, national and state economies, in general, and more specifically, the local economies in which we conduct business. Our ability to manage net interest income during changing interest rate environments will have a significant impact on our overall performance. We manage net interest income through affecting changes in the mix of interest-earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to interest-earning assets, and in the growth and maturity of earning assets. See Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Asset/Liability and Market Risk Management Interest Rate Sensitivity Management included herein.

Table of Contents

The table below 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.

Interest-Earning Assets and Interest-Bearing Liabilities

	For the Three Months Ended March 31,					
	2016			2015		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
INTEREST-EARNING ASSETS						
Investment securities (1)						
Available-for-sale securities:						
Taxable	$ 2,142,119	$ 11,380	2.12%	$ 2,492,491	$ 12,923	2.07%
Tax-advantaged	157,893	1,419	5.12%	562,461	5,011	4.87%
Held-to-maturity securities:						
Taxable	510,323	2,620	2.06%	1,482	38	10.26%
Tax-advantaged	317,525	2,728	4.63%	-	-	-
Investment in FHLB stock	18,013	368	8.17%	25,338	469	7.40%
Federal funds sold and interest-earning deposits with other institutions	137,278	215	0.63%	253,375	197	0.31%
Loans (2)	4,031,234	44,970	4.49%	3,735,430	44,562	4.84%
Yield adjustment to interest income from discount accretion on PCI loans	(3,657)	800		(7,237)	980	
Total interest-earning assets	7,310,728	64,500	3.63%	7,063,340	64,180	3.77%
Total noninterest-earning assets	432,075			385,957		
Total assets	$ 7,742,803			$ 7,449,297		
INTEREST-BEARING LIABILITIES						

Savings deposits (3)	$ 2,029,289	977	0.19%	$ 2,006,864	964	0.19%
Time deposits	704,928	460	0.26%	752,129	329	0.18%
Total interest-bearing deposits	2,734,217	1,437	0.21%	2,758,993	1,293	0.19%
FHLB advances and other borrowings	720,874	547	0.31%	774,463	1,878	0.97%
Interest-bearing liabilities	3,455,091	1,984	0.23%	3,533,456	3,171	0.36%
Noninterest-bearing deposits	3,283,931			2,970,933		
Other liabilities	59,488			55,088		
Stockholders equity	944,293			889,820		
Total liabilities and stockholders equity	$ 7,742,803			$ 7,449,297		
Net interest income		$ 62,516			$ 61,009	
Net interest income excluding discount on PCI loans		$ 61,716			$ 60,029	
Net interest spread - tax equivalent			3.40%			3.41%
Net interest spread - tax equivalent excluding PCI discount			3.35%			3.35%
Net interest margin			3.43%			3.49%
Net interest margin - tax equivalent			3.52%			3.59%
Net interest margin - tax equivalent excluding PCI discount			3.47%			3.53%
Net interest margin excluding loan fees			3.38%			3.43%
Net interest margin excluding loan fees - tax equivalent			3.46%			3.53%

(1) Non tax-equivalent (TE) rate was 2.32% and 2.35% for the three months ended March 31, 2016 and 2015, respectively.

(2) Includes loan fees of $909 and $936 for the three months ended March 31, 2016 and 2015, respectively. Prepayment penalty fees of $919 and $1,382 are included in interest income for the three months ended March 31, 2016 and 2015, respectively.

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

Table of Contents

Net Interest Income and Net Interest Margin Reconciliations (Non-GAAP)

We use certain non-GAAP financial measures to provide supplemental information regarding our performance. Net interest income for the three months ended March 31, 2016 and 2015 include a yield adjustment of $800,000 and $980,000, respectively. These yield adjustments relate to discount accretion on PCI loans, and are reflected in the Company s net interest margin. We believe that presenting net interest income and the net interest margin excluding these yield adjustments provides additional clarity to the users of financial statements regarding core net interest income and net interest margin.

	Three Months Ended March 31,					
	2016			2015		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
	(Dollars in thousands)					
Total interest-earning assets (TE)	$ 7,310,728	$ 66,036	3.63%	$ 7,063,340	$ 66,017	3.77%
Discount on acquired PCI loans	3,657	(800)		7,237	(980)	
Total interest-earning assets, excluding PCI loan discount and yield adjustment	$ 7,314,385	$ 65,236	3.58%	$ 7,070,577	$ 65,037	3.71%
Net interest income and net interest margin (TE)		$ 64,052	3.52%		$ 62,846	3.59%
Yield adjustment to interest income from discount accretion on acquired PCI loans		(800)			(980)	
Net interest income and net interest margin (TE), excluding yield adjustment		$ 63,252	3.47%		$ 61,866	3.53%

Table of Contents

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

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

	Comparision of Three Months Ended March 31, 2016 Compared to 2015 Increase (Decrease) Due to			
	Volume	**Rate**	**Rate/ Volume**	**Total**
	(Dollars in thousands)			
Interest income:				
Available-for-sale securities:				
Taxable investment securities	$ (1,816)	$ 318	$ (45)	$ (1,543)
Tax-advantaged investment securities	(3,665)	258	(185)	(3,592)
Held-to-maturity securities:				
Taxable investment securities	12,993	(30)	(10,381)	2,582
Tax-advantaged investment securities	2,728	-	-	2,728
Investment in FHLB stock	(136)	49	(14)	(101)
Fed funds sold & interest-earning deposits with other institutions	(90)	199	(91)	18
Loans	3,536	(2,899)	(229)	408
Yield adjustment from discount accretion on PCI loans	(485)	603	(298)	(180)
Total interest income	13,065	(1,502)	(11,243)	320
Interest expense:				
Savings deposits	11	2	-	13
Time deposits	(21)	162	(10)	131
FHLB advances and other borrowings	(130)	(1,290)	89	(1,331)
Total interest expense	(140)	(1,126)	79	(1,187)
Net interest income	$ 13,205	$ (376)	$ (11,322)	$ 1,507

45

Table of Contents

Net interest income, before the provision for loan losses of $62.5 million for the first quarter of 2016 increased $1.5 million, or 2.47%, compared to $61.0 million for the first quarter of 2015. Interest income and fees on loans for the first quarter of 2016 totaled $45.8 million, which included $800,000 of discount accretion from principal reductions, payoffs and improved credit loss experienced on PCI loans acquired from San Joaquin Bank (SJB). This represents a $228.0 million, or 0.50%, increase when compared to interest income and fees on loans of $45.5 million for the first quarter of 2015, which included $980,000 of discount accretion on PCI loans. Net interest income for the first quarter of 2016 was also positively impacted by a $1.2 million decrease in interest expense, primarily due to the $200.0 million redemption of fixed rate debt from the FHLB in the first quarter of 2015.

Our net interest margin tax equivalent (TE) was 3.52% for the first quarter of 2016, compared to 3.52% for the fourth quarter of 2015 and 3.59% for the first quarter of 2015. Total average interest-earning asset yields (TE) were 3.63% for the first quarter of 2016, compared to 3.62% for the fourth quarter of 2015 and 3.77% for the first quarter of 2015. Total cost of funds was 0.12% for the first quarter of 2016, compared to 0.11% for the fourth quarter of 2015 and 0.20% for the first quarter of 2015.

The average balance of total loans (excluding PCI discount) increased $295.8 million to $4.0 billion for the first quarter of 2016, compared to $3.74 billion for the first quarter of 2015. The increase in total average loans included $57.0 million of acquired loans. Approximately 6.39% of our year-over-year growth was organic. The average yield on loans (excluding discount on PCI loans) was 4.49% for the first quarter of 2016, compared to 4.84% for the first quarter of 2015. We also earned $919,000 in loan prepayment penalty fees for the first quarter of 2016, compared with $547,000 for the fourth quarter of 2015 and $1.4 million for the first quarter of 2015.

Total average interest-earning assets of $7.31 billion increased $247.4 million, or 3.50%, from $7.06 billion for the first quarter of 2015. This increase was principally due to a $299.4 million increase in average total loans, net of deferred fees and discounts to $4.03 billion, compared to $3.73 billion for the first quarter of 2015. Total average investment securities increased $71.4 million to $3.13 billion for the first quarter of 2016. Average interest-earning deposits with other institutions also increased $26.1 million to $52.3 million for the first quarter of 2016, compared to $26.3 million for the first quarter of 2015. These increases were partially offset by a $142.2 million decrease in interest-earning balances due from the Federal Reserve and federal funds sold, and a $7.3 million decrease in investment of FHLB stock. The increase in total average interest-earning assets for the first quarter of 2016 included $57.0 of acquired loans and $20.6 million of acquired interest-earning deposits with other institutions.

In general, we stop accruing interest on a loan after its principal or interest becomes 90 days or more past due. When a loan is placed on nonaccrual, all interest previously accrued but not collected is charged against earnings. There was no interest income that was accrued and not reversed on nonaccrual loans at March 31, 2016 and 2015. As of March 31, 2016 and 2015, we had $18.1 million and $23.0 million of nonaccrual loans (excluding PCI loans), 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 or purchase 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 $909,000 for the first quarter of 2016, compared to $936,000 for the first quarter of 2015.

Interest income on total investments of $18.1 million for the first quarter of 2016 increased $175,000, or 0.97%, from $18.0 million for the first quarter of 2015. Total TE yield on investments was 2.52% for the first quarter of 2016, compared to 2.59% for the first quarter of 2015. During the first quarter of 2016, we purchased $12.3 million of municipal securities with an average tax-equivalent yield of approximately 3.14%. We did not purchase any MBS or CMOs during the first quarter of 2016.

Interest expense of $2.0 million for the first quarter of 2016, decreased $1.2 million, or 37.43%, compared to $3.2 million for the first quarter of 2015. The average rate paid on interest-bearing liabilities decreased 13 basis points, to 0.23% for the first quarter of 2016, from 0.36% for the first quarter of 2015, primarily as a result of the repayment of $200.0 million of FHLB fixed rate debt in the first quarter of 2015.

Table of Contents

Provision for Loan Losses

We maintain an allowance for loan losses that is increased (decreased) by a provision (recapture) for loan losses charged against operating results. The provision for loan losses is determined by management as the amount to be added to (subtracted from) the allowance for loan 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 loan losses within the existing loan portfolio.

The allowance for loan losses totaled $59.3 million at March 31, 2016, compared to $59.2 million at December 31, 2015. The allowance for loan losses was increased by net recoveries of $180,000. No loan loss provision was recorded for the quarters ended March 31, 2016 and 2015. We believe the allowance is appropriate at March 31, 2016. We periodically assess the quality of our portfolio to determine whether additional provisions for loan losses are necessary. The ratio of the allowance for loan losses to total loans and leases outstanding, net of deferred fees and discount, as of March 31, 2016 and December 31, 2015 was 1.42% and 1.47%, respectively. Refer to the discussion of Allowance for Loan Losses in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein for discussion concerning observed changes in the credit quality of various components of our loan portfolio as well as changes and refinements to our methodology.

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 loan losses in the future, as the nature of this process requires considerable judgment. Net recoveries totaled $180,000 for the quarter ended March 31, 2016, compared to net recoveries of $884,000 for the same period of 2015. See Allowance for Loan Losses under *Analysis of Financial Condition* herein.

PCI loans acquired in the FDIC-assisted transaction were initially recorded at their fair value and were covered by a loss sharing agreement with the FDIC, which expired in October 2014 for commercial loans. Due to the timing of the acquisition and the October 16, 2009 fair value estimate, there was no provision for loan losses on the PCI loans in 2009. Refer to Note 3 *Summary of Significant Accounting Policies* included in our Annual Report on Form 10-K for the year ended December 31, 2015 for a more detailed discussion about the FDIC loss sharing asset/liability. For the three months ended March 31, 2016 and 2015 there was zero in net charge-offs or recoveries for loans in excess of the amount originally expected in the fair value of the loans at acquisition.