CVB FINANCIAL CORP
Form 10-Q
August 10, 2015
**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 June 30, 2015**

**or**

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

**For the transition period from __________ to __________**

**Commission File Number: 0-10140**

**CVB FINANCIAL CORP.**

**(Exact name of registrant as specified in its charter)**

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

| | |
|---|---|
| **701 North Haven Ave., Suite 350** | |
| **Ontario, California** | **91764** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(909) 980-4030**

**(Registrant s telephone number, including area code)**

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

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

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

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

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

Number of shares of common stock of the registrant: 106,340,143 outstanding as of July 30, 2015.

## TABLE OF CONTENTS


| | | |
|---|---|---|
| PART I | FINANCIAL INFORMATION (UNAUDITED) | 3 |
| ITEM 1. | CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) | 4 |
| | NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) | 9 |
| ITEM 2. | MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 37 |
| | CRITICAL ACCOUNTING POLICIES | 37 |
| | OVERVIEW | 37 |
| | ANALYSIS OF THE RESULTS OF OPERATIONS | 39 |
| | RESULTS BY BUSINESS SEGMENTS | 49 |
| | ANALYSIS OF FINANCIAL CONDITION | 51 |
| | ASSET/LIABILITY AND MARKET RISK MANAGEMENT | 68 |
| ITEM 3. | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 70 |
| ITEM 4. | CONTROLS AND PROCEDURES | 70 |
| PART II | OTHER INFORMATION | 70 |
| ITEM 1. | LEGAL PROCEEDINGS | 70 |
| ITEM 1A. | RISK FACTORS | 71 |
| ITEM 2. | UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | 71 |
| ITEM 3. | DEFAULTS UPON SENIOR SECURITIES | 72 |
| ITEM 4. | MINE SAFETY DISCLOSURES | 72 |
| ITEM 5. | OTHER INFORMATION | 72 |
| ITEM 6. | EXHIBITS | 72 |
| SIGNATURES | | 73 |

Table of Contents

## PART I FINANCIAL INFORMATION (UNAUDITED)

## GENERAL

### *Forward Looking Statements*

Certain statements in this Report on Form 10-Q, including, but not limited to, statements under the heading Management Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995, including but not limited to, statements about anticipated future operating and financial performance and results, financial position and liquidity, business prospects, strategic alternatives, business strategies, technology initiatives and cyber security, regulatory and compliance policies, competitive outlook, capital and financing needs and availability, acquisition and divestiture opportunities, investment and expenditure plans, plans and objectives of management for legacy and future operations, legal proceedings or investigations, board and management hiring and retention and other similar forecasts and statements of expectations or assumptions underlying any of the foregoing. Words such as will likely result, aims , anticipates , believes , could , estimates , expects , hopes , intends , may , plans , projects , seeks , should , will words and similar expressions are intended to identify these forward looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, local, regional, national and international economic and market conditions and events and the impact they may have on the Company, our customers and/or our assets and liabilities; our ability to attract and maintain deposits, borrowings and other sources of funding or liquidity, and the pricing and rates applicable thereto; supply and demand for real estate and renewed fluctuations or periodic deterioration in the market values of real estate in California or other jurisdictions where we lend, whether involving residential or commercial property; a prolonged slowdown or decline in real estate sales or construction activity; changes in the financial performance and/or condition of our loan and deposit customers or key vendors or counterparties; changes in the levels of performing and nonperforming bank assets and charge-offs; the cost or effect of acquisitions or divestitures we may make; the effect of changes in laws and regulations (including laws, regulations and judicial decisions concerning financial reform, taxes, bank or holding company capital levels, securities, employment, executive compensation, insurance, compliance, vendor management and information security) with which we and our subsidiaries must comply (or believe we must comply); changes in the applicability or costs of deposit insurance or other regulatory fees; changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant legal, regulatory and accounting requirements; inflation, interest rate, securities market and monetary fluctuations; internal and external fraud and cyber-security threats, including theft or loss of Company or customer funds, loss of system functionality or access, or theft or loss of Company or customer information; political instability; acts of war or terrorism, or natural disasters, such as earthquakes, droughts or pandemic diseases; the timely development and acceptance of new banking products and services (including technology-based services and products) and the perceived 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 key internal or external systems and applications; changes in consumer spending, borrowing and savings preferences or habits; the effects of technological changes, the expanding use of technology in banking (including the adoption of mobile banking applications) and product innovation or contraction; the ability to retain or increase market share, retain or grow customers and control expenses; changes in the risk or competitive environment among financial and bank holding companies, banks and other financial service providers; volatility in the credit and equity markets and its effects on the general economy or local or regional business conditions; market fluctuations in the prices of the Company s common stock or other securities; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other national or international accounting standard setters; changes in our organization, management, compensation and benefit plans, and our ability to retain or expand our management team and our board of directors; the costs and effects of legal, regulatory and compliance changes or developments; the initiation and the favorable or unfavorable resolution of legal proceedings or regulatory or other governmental inquiries involving the Company, including, but not limited to, any consumer or employment class action litigation, and the current investigation by the Securities and Exchange Commission and the related federal class-action and state law derivative action lawsuits filed against us; the results of regulatory examinations or reviews or other government actions; and our ongoing relationships with our various federal and state regulators, including the SEC, FDIC and California DBO.

The Company cautions that the foregoing factors are not exclusive. For additional information concerning these factors and other factors which may cause actual results to differ from the results discussed in our forward-looking statements, see the periodic filings the Company makes with the Securities and Exchange Commission, and, in particular, the information set forth in Item 1A herein and in Item 1A. Risk Factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2014. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by law.

Table of Contents

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(Dollars in thousands, except share data)*

*(Unaudited)*

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 125,431 | $ 95,030 |
| Interest-earning balances due from Federal Reserve | 321,015 | 10,738 |
| Total cash and cash equivalents | 446,446 | 105,768 |
| Interest-earning balances due from depository institutions | 24,378 | 27,118 |
| Investment securities available-for-sale, at fair value (with amortized cost of $3,113,339 at June 30, 2015, and $3,083,582 at December 31, 2014) | 3,154,217 | 3,137,158 |
| Investment securities held-to-maturity | 1,400 | 1,528 |
| Investment in stock of Federal Home Loan Bank (FHLB) | 17,588 | 25,338 |
| Loans and lease finance receivables | 3,784,219 | 3,817,067 |
| Allowance for loan losses | (59,554) | (59,825) |
| Net loans and lease finance receivables | 3,724,665 | 3,757,242 |
| Premises and equipment, net | 31,894 | 33,591 |
| Bank owned life insurance | 129,597 | 126,927 |
| Accrued interest receivable | 22,173 | 23,194 |
| Intangibles | 2,707 | 3,214 |
| Goodwill | 74,244 | 74,244 |
| Other real estate owned | 7,835 | 5,637 |
| Income taxes | 40,756 | 31,461 |
| Other assets | 19,458 | 25,500 |
| **Total assets** | $ 7,697,358 | $ 7,377,920 |
| **Liabilities and Stockholders Equity** | | |
| Deposits: | | |
| Noninterest-bearing | $ 3,250,574 | $ 2,866,365 |
| Interest-bearing | 2,743,306 | 2,738,293 |
| Total deposits | 5,993,880 | 5,604,658 |
| Customer repurchase agreements | 662,326 | 563,627 |
| FHLB advances | | 199,479 |

| | | |
|---|---|---|
| Other borrowings | | 46,000 |
| Accrued interest payable | 321 | 1,161 |
| Deferred compensation | 11,093 | 10,291 |
| Junior subordinated debentures | 25,774 | 25,774 |
| Payable for securities purchased | 59,693 | |
| Other liabilities | 50,280 | 48,821 |
| **Total liabilities** | 6,803,367 | 6,499,811 |
| **Commitments and Contingencies** | | |
| **Stockholders Equity** | | |
| Common stock, authorized, 225,000,000 shares without par; issued and outstanding 106,337,106 at June 30, 2015, and 105,893,216 at December 31, 2014 | 501,322 | 495,220 |
| Retained earnings | 368,960 | 351,814 |
| Accumulated other comprehensive income, net of tax | 23,709 | 31,075 |
| **Total stockholders equity** | 893,991 | 878,109 |
| **Total liabilities and stockholders equity** | $ 7,697,358 | $ 7,377,920 |

See accompanying notes to the unaudited condensed consolidated financial statements.

**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 June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Interest income: | | | | |
| **Loans and leases, including fees** | $ 45,322 | $ 43,558 | $ 90,864 | $ 88,214 |
| Investment securities: | | | | |
| Taxable | 12,820 | 11,686 | 25,781 | 21,965 |
| Tax-advantaged | 4,719 | 5,186 | 9,730 | 10,464 |
| **Total investment income** | 17,539 | 16,872 | 35,511 | 32,429 |
| Dividends from FHLB stock | 1,414 | 526 | 1,883 | 1,130 |
| Federal funds sold | 187 | 127 | 329 | 251 |
| Interest-earning deposits with other institutions | 53 | 133 | 108 | 254 |
| **Total interest income** | 64,515 | 61,216 | 128,695 | 122,278 |
| Interest expense: | | | | |
| Deposits | 1,307 | 1,222 | 2,600 | 2,408 |
| Borrowings | 342 | 2,729 | 2,115 | 5,559 |
| Junior subordinated debentures | 108 | 106 | 213 | 210 |
| **Total interest expense** | 1,757 | 4,057 | 4,928 | 8,177 |
| Net interest income before recapture of provision for loan losses | 62,758 | 57,159 | 123,767 | 114,101 |
| Recapture of provision for loan losses | (2,000) | (7,600) | (2,000) | (15,100) |
| **Net interest income after recapture of provision for loan losses** | 64,758 | 64,759 | 125,767 | 129,201 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 3,952 | 3,905 | 7,913 | 7,733 |
| Trust and investment services | 2,181 | 2,133 | 4,332 | 4,058 |
| Bankcard services | 842 | 923 | 1,575 | 1,701 |
| BOLI income | 808 | 601 | 1,457 | 1,239 |
| Gain on sale of loans held-for-sale | | | | 5,330 |
| Decrease in FDIC loss sharing asset, net | (413) | (1,467) | (803) | (3,174) |
| Gain on OREO, net | 132 | 130 | 256 | 135 |

| | | | | |
|---|---|---|---|---|
| Other | 843 | 825 | 1,626 | 1,526 |
| **Total noninterest income** | 8,345 | 7,050 | 16,356 | 18,548 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 19,648 | 18,387 | 38,943 | 37,804 |
| Occupancy and equipment | 3,713 | 3,676 | 7,365 | 7,401 |
| Professional services | 1,527 | 1,646 | 2,680 | 3,010 |
| Software licenses and maintenance | 993 | 1,010 | 2,023 | 2,075 |
| Promotion | 1,201 | 1,341 | 2,528 | 2,607 |
| Recapture of provision for unfunded loan commitments | | | (500) | |
| Amortization of intangible assets | 239 | 193 | 507 | 315 |
| Debt termination expense | | | 13,870 | |
| OREO expense | 251 | 113 | 335 | 138 |
| Acquisition related expenses | | 865 | | 1,292 |
| Other | 3,961 | 4,093 | 8,254 | 7,839 |
| **Total noninterest expense** | 31,533 | 31,324 | 76,005 | 62,481 |
| Earnings before income taxes | 41,570 | 40,485 | 66,118 | 85,268 |
| Income taxes | 14,757 | 15,001 | 23,472 | 31,123 |
| **Net earnings** | $ 26,813 | $ 25,484 | $ 42,646 | $ 54,145 |
| Other comprehensive income: | | | | |
| Unrealized gain on securities arising during the period | $ (32,968) | $ 32,782 | $ (12,698) | $ 57,563 |
| Less: Reclassification adjustment for net gain on securities included in net income | | | | |
| Other comprehensive income, before tax | (32,968) | 32,782 | (12,698) | 57,563 |
| Less: Income tax expense related to items of other comprehensive income | 13,846 | (13,769) | 5,332 | (24,176) |
| Other comprehensive income, net of tax | (19,122) | 19,013 | (7,366) | 33,387 |
| Comprehensive income | $ 7,691 | $ 44,497 | $ 35,280 | $ 87,532 |
| Basic earnings per common share | $ 0.25 | $ 0.24 | $ 0.40 | $ 0.51 |
| Diluted earnings per common share | $ 0.25 | $ 0.24 | $ 0.40 | $ 0.51 |
| Cash dividends declared per common share | $ 0.12 | $ 0.10 | $ 0.24 | $ 0.20 |

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**Six months ended June 30, 2015 and 2014**

*(Dollars and shares in thousands)*

*(Unaudited)*

| | Common Shares Outstanding | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|
| **Balance January 1, 2014** | 105,370 | $ 491,068 | $ 290,149 | $ (9,330) | $ 771,887 |
| Repurchase of common stock | (346) | (4,908) | | | (4,908) |
| Exercise of stock options | 469 | 5,109 | | | 5,109 |
| Tax benefit from exercise of stock options | | 796 | | | 796 |
| Shares issued pursuant to stock-based compensation plan | 306 | 1,531 | | | 1,531 |
| Cash dividends declared on common stock ($0.20 per share) | | | (21,188) | | (21,188) |
| Net earnings | | | 54,145 | | 54,145 |
| Other comprehensive income | | | | 33,387 | 33,387 |
| **Balance June 30, 2014** | 105,799 | $ 493,596 | $ 323,106 | $ 24,057 | $ 840,759 |
| **Balance January 1, 2015** | 105,893 | $ 495,220 | $ 351,814 | $ 31,075 | $ 878,109 |
| Repurchase of common stock | (33) | (511) | | | (511) |
| Exercise of stock options | 397 | 4,500 | | | 4,500 |
| Tax benefit from exercise of stock options | | 742 | | | 742 |
| Shares issued pursuant to stock-based compensation plan | 80 | 1,371 | | | 1,371 |
| Cash dividends declared on common stock ($0.24 per share) | | | (25,500) | | (25,500) |
| Net earnings | | | 42,646 | | 42,646 |
| Other comprehensive income | | | | (7,366) | (7,366) |
| **Balance June 30, 2015** | 106,337 | $ 501,322 | $ 368,960 | $ 23,709 | $ 893,991 |

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 Six Months Ended June 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash Flows from Operating Activities** | | |
| Interest and dividends received | $ 137,747 | $ 125,583 |
| Service charges and other fees received | 13,840 | 15,036 |
| Interest paid | (5,768) | (7,984) |
| Net cash paid to vendors, employees and others | (68,710) | (63,504) |
| Income taxes paid | (27,000) | (35,500) |
| Payments to FDIC, loss share agreement | (460) | (1,372) |
| Net cash provided by operating activities | 49,649 | 32,259 |
| **Cash Flows from Investing Activities** | | |
| Proceeds from redemption of FHLB stock | 7,750 | 8,899 |
| Proceeds from maturity of interest-earning balances from depository institutions | 2,740 | 1,494 |
| Proceeds from sale of investment securities | | 14,271 |
| Proceeds from repayment of investment securities | 202,162 | 143,151 |
| Proceeds from maturity of investment securities | 54,601 | 47,199 |
| Purchases of investment securities | (236,451) | (413,458) |
| Net decrease in loan and lease finance receivables | 35,862 | 184,031 |
| Proceeds from sales of premises and equipment | | 663 |
| Purchase of premises and equipment | (485) | (964) |
| Proceeds from sales of other real estate owned | 1,538 | 2,254 |
| Cash acquired on purchase of American Security Bank, net of cash paid | | 50,038 |
| Net cash provided by investing activities | 67,717 | 37,578 |
| **Cash Flows from Financing Activities** | | |
| Net increase in transaction deposits | 430,912 | 392,737 |
| Net decrease in time deposits | (41,690) | (32,172) |
| Repayment of FHLB advances | (200,000) | |
| Net decrease in other borrowings | (46,000) | (69,000) |
| Net increase (decrease) in customer repurchase agreements | 98,699 | (31,792) |
| Cash dividends on common stock | (23,340) | (21,117) |
| Repurchase of common stock | (511) | (4,908) |
| Proceeds from exercise of stock options | 4,500 | 5,109 |

| | | |
|---|---|---|
| Tax benefit related to exercise of stock options | 742 | 796 |
| Net cash provided by financing activities | 223,312 | 239,653 |
| **Net increase in cash and cash equivalents** | 340,678 | 309,490 |
| **Cash and cash equivalents, beginning of period** | 105,768 | 94,693 |
| **Cash and cash equivalents, end of period** | $ 446,446 | $ 404,183 |

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 Six Months Ended June 30, 2015 | For the Six Months Ended June 30, 2014 |
|---|---|---|
| **Reconciliation of Net Earnings to Net Cash Provided by Operating Activities** | | |
| Net earnings | $ 42,646 | $ 54,145 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Gain on sale of loans held-for-sale | | (5,330) |
| Loss on sale of premises and equipment, net | 52 | 71 |
| Gain on sale of other real estate owned | (232) | (117) |
| Amortization of capitalized prepayment penalty on borrowings | 521 | 136 |
| Increase in bank owned life insurance | (2,670) | (1,161) |
| Net amortization of premiums and discounts on investment securities | 9,749 | 10,044 |
| Accretion of SJB discount | (2,012) | (3,174) |
| Recapture of provision for loan losses | (2,000) | (15,100) |
| Recapture of provision for unfunded loan commitments | (500) | |
| Valuation adjustment on other real estate owned | 162 | |
| Change in FDIC loss share asset | 299 | 3,174 |
| Payments to FDIC, loss share agreement | (460) | (1,372) |
| Stock-based compensation | 1,371 | 1,531 |
| Depreciation and amortization, net | (229) | 858 |
| Change in accrued interest receivable | 1,021 | 331 |
| Change in accrued interest payable | (840) | 12 |
| Change in other assets and liabilities | 2,771 | (11,789) |
| Total adjustments | 7,003 | (21,886) |
| Net cash provided by operating activities | $ 49,649 | $ 32,259 |
| **Supplemental Disclosure of Non-cash Investing Activities** | | |
| Securities purchased and not settled | $ 59,693 | $ 56,430 |
| Transfer of loans to other real estate owned | $ 3,666 | $ 478 |

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

**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 subsidiaries: 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 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 automobile and equipment leasing to customers through its Citizens Equipment Financing Group and trust and investment-related services to customers through its CitizensTrust Division. The Bank s customers consist primarily of small to mid-sized businesses and individuals located in San Bernardino County, Riverside County, Los Angeles County, Orange County, Ventura County, San Diego County, Madera County, Fresno County, Tulare County, and Kern County, California. The Bank operates 40 Business Financial Centers, seven Commercial Banking Centers, and three trust offices. The Company is headquartered in the city of Ontario, California.

## 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 and six months ended June 30, 2015 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, 2014, 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 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, 2014 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, other intangibles and OREO.

***Recent Accounting Pronouncements*** In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis . The new guidance reduces the number of consolidation models from four to two as well as simplifies the FASB Accounting Standards Codification and improves GAAP by placing more of an emphasis on risk of loss when

Table of Contents

determining a controlling financial interest, reducing the frequency of the application of related party guidance when determining a controlling financial interest in a variable interest entity (VIE) and changing the consolidation conclusions for public and private companies in several industries that typically make use of VIEs. ASU 2015-02 will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

## 4. 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.

| | June 30, 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 | $ 358,052 | $ 16 | $ (6,785) | $ 351,283 | 11.14% |
| Residential mortgage-backed securities | 1,830,381 | 30,770 | (4,661) | 1,856,490 | 58.86% |
| CMOs/REMICs - residential | 403,108 | 7,265 | (626) | 409,747 | 12.99% |
| Municipal bonds | 516,798 | 16,488 | (1,671) | 531,615 | 16.85% |
| Other securities | 5,000 | 82 | | 5,082 | 0.16% |
| Total | $ 3,113,339 | $ 54,621 | $ (13,743) | $ 3,154,217 | 100.00% |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 339,071 | $ | $ (8,228) | $ 330,843 | 10.55% |
| Residential mortgage-backed securities | 1,884,370 | 36,154 | (3,028) | 1,917,496 | 61.12% |
| CMOs/REMICs - residential | 297,318 | 7,050 | (277) | 304,091 | 9.69% |
| Municipal bonds | 557,823 | 22,463 | (645) | 579,641 | 18.48% |
| Other securities | 5,000 | 87 | | 5,087 | 0.16% |
| Total | $ 3,083,582 | $ 65,754 | $ (12,178) | $ 3,137,158 | 100.00% |

Approximately 83% of the available-for-sale portfolio at June 30, 2015 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 June 30, 2015 and December 31, 2014. The Bank had $234,000 in CMOs/REMICs 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 June 30, 2015 and December 31, 2014. Management has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary.

Table of Contents

| | June 30, 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) | | | | | |
| Available-for-sale: | | | | | | |
| Government agency/GSEs | $ 45,332 | $ 119 | $ 284,011 | $ 6,666 | $ 329,343 | $ 6,785 |
| Residential mortgage-backed securities | 212,143 | 1,128 | 122,027 | 3,533 | 334,170 | 4,661 |
| CMOs/REMICs - residential | 114,943 | 458 | 6,315 | 168 | 121,258 | 626 |
| Municipal bonds | 52,881 | 813 | 24,599 | 858 | 77,480 | 1,671 |
| Other securities | | | | | | |
| Total | $ 425,299 | $ 2,518 | $ 436,952 | $ 11,225 | $ 862,251 | $ 13,743 |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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) | | | | | |
| Available-for-sale: | | | | | | |
| Government agency/GSEs | $ 22,224 | $ 28 | $ 307,873 | $ 8,200 | $ 330,097 | $ 8,228 |
| Residential mortgage-backed securities | 19,636 | 4 | 145,681 | 3,024 | 165,317 | 3,028 |
| CMOs/REMICs - residential | | | 31,143 | 277 | 31,143 | 277 |
| Municipal bonds | 1,953 | 23 | 24,812 | 622 | 26,765 | 645 |
| Other securities | | | | | | |
| Total | $ 43,813 | $ 55 | $ 509,509 | $ 12,123 | $ 553,322 | $ 12,178 |

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

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

This Alt-A bond, with a book value of $1.4 million as of June 30, 2015 and has $1.9 million in net impairment losses to date. These losses have been recorded as a reduction to noninterest income. The security is rated non-investment grade. We evaluated the security for an other-than-temporary decline in fair value as of June 30, 2015. The key assumptions include default rates, loss severities and prepayment rates. There were no changes in credit related other-than-temporary impairment ( OTTI ) recognized in earnings for the three and six months ended June 30, 2015 and 2014.

*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 with the

Table of Contents

Government-Sponsored Enterprises. As of June 30, 2015, approximately $240.1 million in U.S. government agency bonds are callable. These securities are bullet securities, that is, they have a defined maturity date on which the principal is due to be paid. The contractual terms of these investments provide 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 and CMOs/REMICs* Almost all of the Company s available-for-sale 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 4.3 years. Of the total MBS/CMO, 99.99% have the implied guarantee of U.S. Government-Sponsored Agencies and Enterprises. The remaining 0.01% 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.

*Municipal Bonds* The majority of the Company s municipal bonds, with a weighted-average life of approximately 8.5 years, are insured by the largest 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 June 30, 2015.

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. Based on our monitoring of the municipal marketplace, to our knowledge, none of the municipalities are exhibiting financial problems that would lead us to believe that there is OTTI for any given security.

At June 30, 2015 and December 31, 2014, investment securities having a carrying value of approximately $2.92 billion and $3.11 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 June 30, 2015, 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.

| | **June 30, 2015** | |
|---|---|---|
| | **Amortized Cost** | **Fair Value** |
| | *(Dollars in thousands)* | |
| Available-for-sale: | | |

| | | |
|---|---|---|
| Due in one year or less | $ 177,307 | $ 180,332 |
| Due after one year through five years | 2,063,160 | 2,104,524 |
| Due after five years through ten years | 659,129 | 652,414 |
| Due after ten years | 213,743 | 216,947 |
| Total | $ 3,113,339 | $ 3,154,217 |

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 June 30, 2015.

Table of Contents

## 5. 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, 2014. 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 June 30, 2015, the remaining discount associated with the PCI loans approximated $5.7 million. Based on the Company s regular forecast of expected cash flows from these loans, approximately $3.5 million of the related discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which approximates 3.4 years and 1.3 years, respectively. The loss sharing agreement for commercial loans expired October 16, 2014. The following table provides a summary of PCI loans and lease finance receivables by type and their credit quality indicators for the periods indicated.

| | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| | *(Dollars in thousands)* | |
| Commercial and industrial | $ 13,310 | $ 14,605 |
| SBA | 440 | 1,110 |
| Real estate: | | |
| Commercial real estate | 93,700 | 109,350 |
| Construction | | |
| SFR mortgage | 203 | 205 |
| Dairy & livestock and agribusiness | 276 | 4,890 |
| Municipal lease finance receivables | | |
| Consumer and other loans | 2,817 | 3,336 |
| Gross PCI loans | 110,746 | 133,496 |
| Less: Purchase accounting discount | (5,680) | (7,129) |
| Gross PCI loans, net of discount | 105,066 | 126,367 |
| Less: Allowance for PCI loans losses | | |
| Net PCI loans | $ 105,066 | $ 126,367 |

***Credit Quality Indicators***

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

| | **June 30, 2015** | **December 31, 2014** |
|---|---|---|

| | (Dollars in thousands) | |
|---|---|---|
| Pass | $ 21,863 | $ 26,706 |
| Watch list | 65,435 | 77,371 |
| Special mention | 6,909 | 8,203 |
| Substandard | 16,539 | 21,216 |
| Doubtful & loss | | |
| Total PCI gross loans | $ 110,746 | $ 133,496 |

***Allowance for Loan Losses***

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*

13

Table of Contents

*Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014. As of June 30, 2015 and December 31, 2014, there were no allowances for loan losses recorded for PCI loans.

## 6. 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.

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Commercial and industrial | $ 406,423 | $ 390,011 |
| SBA | 120,566 | 134,265 |
| Real estate: | | |
| Commercial real estate | 2,569,411 | 2,487,803 |
| Construction | 46,927 | 55,173 |
| SFR mortgage | 214,503 | 205,124 |
| Dairy & livestock and agribusiness | 183,984 | 279,173 |
| Municipal lease finance receivables | 74,691 | 77,834 |
| Consumer and other loans | 71,176 | 69,884 |
| Gross loans, excluding PCI loans | 3,687,681 | 3,699,267 |
| Less: Deferred loan fees, net | (8,528) | (8,567) |
| Gross loans, excluding PCI loans, net of deferred loan fees | 3,679,153 | 3,690,700 |
| Less: Allowance for loan losses | (59,554) | (59,825) |
| Net loans, excluding PCI loans | 3,619,599 | 3,630,875 |
| PCI Loans | 110,746 | 133,496 |
| Discount on PCI loans | (5,680) | (7,129) |
| PCI loans, net | 105,066 | 126,367 |
| Total loans and lease finance receivables | $ 3,724,665 | $ 3,757,242 |

As of June 30, 2015, 69.68% of the total gross loan portfolio (excluding PCI loans) consisted of commercial real estate loans and 1.27% 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 June 30, 2015, $157.2 million, or 6.12%, of the total commercial real estate loans included loans secured by farmland, compared to $165.6 million, or 6.66%, at December 31, 2014. The loans secured by farmland included $130.0 million for loans secured by dairy & livestock land and $27.2 million for loans secured by agricultural land at June 30, 2015, compared to $144.1 million for loans secured by dairy & livestock land and $21.5 million for loans secured by agricultural land at December 31, 2014. As of June 30, 2015, $184.0 million, or 4.99%, of the total gross loan portfolio (excluding PCI loans) consisted of dairy & livestock and agribusiness commercial loans, compared to $279.2 million, or 7.55%, at December 31, 2014. This was comprised of $171.8 million for dairy & livestock loans and $12.2 million for agribusiness loans at June 30, 2015, compared to $268.1 million for dairy & livestock loans and $11.1 million for agribusiness loans at December 31, 2014. At June 30, 2015, the Company held approximately $1.84 billion of total fixed rate loans.

At June 30, 2015 and December 31, 2014, loans totaling $2.80 billion and $2.78 billion, respectively, were pledged to secure 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 credit officer assigns borrowers 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, Pass Watch List, Special Mention, Substandard, Doubtful and Loss. Each of these groups is assessed for the proper amount to be used in determining the adequacy of our allowance for losses. These categories can be described as follows:

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

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

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

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

Doubtful  Loans classified doubtful have all the weaknesses inherent in those classified substandard with the added provision that the weaknesses make collection or the liquidation, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to the advantage and strengthening of the assets, their classifications as losses are deferred until their more exact status may be determined.

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

**Table of Contents**

The following tables summarize each class of loans, excluding PCI loans, according to our internal risk ratings for the periods presented.

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Pass** | **Watch List** | **Special Mention** | **Substandard** | **Doubtful & Loss** | **Total** |
| Commercial and industrial | $ 259,171 | $ 97,969 | $ 37,649 | $ 11,578 | $ 56 | $ 406,423 |
| SBA | 74,716 | 22,448 | 14,202 | 7,698 | 1,502 | 120,566 |
| Real estate: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | 581,824 | 146,611 | 49,507 | 13,456 | | 791,398 |
| Non-owner occupied | 1,445,175 | 250,818 | 28,789 | 53,231 | | 1,778,013 |
| Construction | | | | | | |
| Speculative | 26,741 | 2,172 | | 7,651 | | 36,564 |
| Non-speculative | 9,710 | 653 | | | | 10,363 |
| SFR mortgage | 185,302 | 21,230 | 4,261 | 3,710 | | 214,503 |
| Dairy & livestock and agribusiness | 105,341 | 75,217 | 3,426 | | | 183,984 |
| Municipal lease finance receivables | 41,726 | 27,766 | 5,199 | | | 74,691 |
| Consumer and other loans | 55,776 | 10,497 | 2,032 | 2,774 | 97 | 71,176 |
| Total gross loans, excluding PCI loans | $ 2,785,482 | $ 655,381 | $ 145,065 | $ 100,098 | $ 1,655 | $ 3,687,681 |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Pass** | **Watch List** | **Special Mention** | **Substandard** | **Doubtful & Loss** | **Total** |
| Commercial and industrial | $ 234,029 | $ 105,904 | $ 33,795 | $ 16,031 | $ 252 | $ 390,011 |
| SBA | 84,769 | 24,124 | 15,858 | 7,920 | 1,594 | 134,265 |
| Real estate: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | 552,072 | 159,908 | 46,248 | 32,139 | | 790,367 |
| Non-owner occupied | 1,347,006 | 241,809 | 56,353 | 52,268 | | 1,697,436 |
| Construction | | | | | | |
| Speculative | 28,310 | 613 | | 7,651 | | 36,574 |
| Non-speculative | 18,071 | 528 | | | | 18,599 |
| SFR mortgage | 174,311 | 20,218 | 2,442 | 8,153 | | 205,124 |
| Dairy & livestock and agribusiness | 174,783 | 85,660 | 8,612 | 10,015 | 103 | 279,173 |
| Municipal lease finance receivables | 35,463 | 22,349 | 20,022 | | | 77,834 |
| Consumer and other loans | 62,904 | 2,233 | 1,789 | 2,763 | 195 | 69,884 |
| | $ 2,711,718 | $ 663,346 | $ 185,119 | $ 136,940 | $ 2,144 | $ 3,699,267 |

Total gross loans, excluding
PCI loans

***Allowance for Loan Losses***

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

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers the Bank s overall loan portfolio. Refer to Note 3 Summary of Significant Accounting Policies of the 2014 Annual Report on Form 10-K for a more detailed discussion concerning the allowance for loan losses.

Management believes that the ALLL was appropriate at June 30, 2015 and December 31, 2014. 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.

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

Table of Contents

| | For the Three Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Ending Balance March 31, 2015 | Charge-offs | Recoveries | (Recapture of) Provision for Loan Losses | Ending Balance June 30, 2015 |
| | *(Dollars in thousands)* | | | | |
| Commercial and industrial | $ 7,502 | $ | $ 197 | $ (514) | $ 7,185 |
| SBA | 2,196 | | 3 | (114) | 2,085 |
| Real estate: | | | | | |
| Commercial real estate | 34,848 | (107) | 783 | (110) | 35,414 |
| Construction | 1,043 | | 41 | (338) | 746 |
| SFR mortgage | 2,425 | (215) | | 354 | 2,564 |
| Dairy & livestock and agribusiness | 3,746 | | 111 | 117 | 3,974 |
| Municipal lease finance receivables | 1,030 | | | (16) | 1,014 |
| Consumer and other loans | 825 | (20) | 52 | (23) | 834 |
| Unallocated | 7,094 | | | (1,356) | 5,738 |
| Total allowance for loan losses | $ 60,709 | $ (342) | $ 1,187 | $ (2,000) | $ 59,554 |

| | For the Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Ending Balance March 31, 2014 | Charge-offs | Recoveries | (Recapture of) Provision for Loan Losses | Ending Balance June 30, 2014 |
| | *(Dollars in thousands)* | | | | |
| Commercial and industrial | $ 6,368 | $ (100) | $ 43 | $ (274) | $ 6,037 |
| SBA | 2,468 | | 63 | (166) | 2,365 |
| Real estate: | | | | | |
| Commercial real estate | 39,400 | (352) | 70 | (3,200) | 35,918 |
| Construction | 458 | | 19 | 128 | 605 |
| SFR mortgage | 2,282 | | | (68) | 2,214 |
| Dairy & livestock and agribusiness | 9,267 | | 98 | (3,937) | 5,428 |
| Municipal lease finance receivables | 1,519 | | | (55) | 1,464 |
| Consumer and other loans | 950 | (6) | 14 | (28) | 930 |
| Unallocated | 6,013 | | | | 6,013 |
| Total allowance for loan losses | $ 68,725 | $ (458) | $ 307 | $ (7,600) | $ 60,974 |

| | For the Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Ending Balance December 31, 2014 | Charge-offs | Recoveries | (Recapture of) Provision for Loan Losses | Ending Balance June 30, 2015 |
| | *(Dollars in thousands)* | | | | |
| Commercial and industrial | $ 7,074 | $ (134) | $ 232 | $ 13 | $ 7,185 |

| | | | | | |
|---|---|---|---|---|---|
| SBA | 2,557 | (33) | 37 | (476) | 2,085 |
| Real estate: | | | | | |
| Commercial real estate | 33,373 | (107) | 1,640 | 508 | 35,414 |
| Construction | 988 | | 50 | (292) | 746 |
| SFR mortgage | 2,344 | (215) | 185 | 250 | 2,564 |
| Dairy & livestock and agribusiness | 5,479 | | 210 | (1,715) | 3,974 |
| Municipal lease finance receivables | 1,412 | | | (398) | 1,014 |
| Consumer and other loans | 1,262 | (197) | 61 | (292) | 834 |
| Unallocated | 5,336 | | | 402 | 5,738 |
| Total allowance for loan losses | $ 59,825 | $ (686) | $ 2,415 | $ (2,000) | $ 59,554 |

17

Table of Contents

| | For the Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Ending Balance December 31, 2013 | Charge-offs | Recoveries | (Recapture of) Provision for Loan Losses | Ending Balance June 30, 2014 |
| | *(Dollars in thousands)* | | | | |
| Commercial and industrial | $ 8,502 | $ (554) | $ 498 | $ (2,409) | $ 6,037 |
| SBA | 2,332 | | 63 | (30) | 2,365 |
| Real estate: | | | | | |
| Commercial real estate | 39,402 | (352) | 138 | (3,270) | 35,918 |
| Construction | 1,305 | | 797 | (1,497) | 605 |
| SFR mortgage | 2,718 | | | (504) | 2,214 |
| Dairy & livestock and agribusiness | 11,728 | | 242 | (6,542) | 5,428 |
| Municipal lease finance receivables | 2,335 | | | (871) | 1,464 |
| Consumer and other loans | 960 | (19) | 26 | (37) | 930 |
| Unallocated | 5,953 | | | 60 | 6,013 |
| Total allowance for loan losses | $ 75,235 | $ (925) | $ 1,764 | $ (15,100) | $ 60,974 |

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.

| | June 30, 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 | $ 1,562 | $ 404,861 | $ 435 | $ 6,750 |
| SBA | 3,146 | 117,420 | 12 | 2,073 |
| Real estate: | | | | |
| Commercial real estate | 39,981 | 2,529,430 | | 35,414 |
| Construction | 7,651 | 39,276 | 24 | 722 |
| SFR mortgage | 7,044 | 207,459 | 77 | 2,487 |
| Dairy & livestock and agribusiness | 7,091 | 176,893 | | 3,974 |
| Municipal lease finance receivables | | 74,691 | | 1,014 |
| Consumer and other loans | 915 | 70,261 | 2 | 832 |
| Unallocated | | | | 5,738 |
| Total | $ 67,390 | $ 3,620,291 | $ 550 | $ 59,004 |

| | June 30, 2014 | | | |
|---|---|---|---|---|
| | 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 | $ 5,904 | $ 379,661 | $ 643 | $ 5,394 |
| SBA | 2,138 | 126,706 | 64 | 2,301 |
| Real estate: | | | | |
| Commercial real estate | 36,873 | 2,363,991 | | 35,918 |
| Construction | 26,554 | 32,923 | | 605 |
| SFR mortgage | 10,554 | 176,370 | 44 | 2,170 |
| Dairy & livestock and agribusiness | 23,355 | 156,696 | 1,366 | 4,062 |
| Municipal lease finance receivables | | 78,934 | | 1,464 |
| Consumer and other loans | 470 | 70,527 | 96 | 834 |
| Unallocated | | | | 6,013 |
| Total | $ 105,848 | $ 3,385,808 | $ 2,213 | $ 58,761 |

***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 appropriateness 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, 2014 for additional discussion concerning the Bank s policy for past due and nonperforming loans.

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

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

Table of Contents

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

| | June 30, 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 | $ 246 | $ | $ 246 | $ 903 | $ 405,274 | $ 406,423 |
| SBA | | | | 2,456 | 118,110 | 120,566 |
| Real estate: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | | | | 2,290 | 789,109 | 791,399 |
| Non-owner occupied | 945 | 388 | 1,333 | 12,677 | 1,764,002 | 1,778,012 |
| Construction | | | | | | |
| Speculative | | | | | 36,564 | 36,564 |
| Non-speculative | | | | | 10,363 | 10,363 |
| SFR mortgage | | 355 | 355 | 3,400 | 210,748 | 214,503 |
| Dairy & livestock and agribusiness | | | | | 183,984 | 183,984 |
| Municipal lease finance receivables | | | | | 74,691 | 74,691 |
| Consumer and other loans | | 2 | 2 | 498 | 70,676 | 71,176 |
| Total gross loans, excluding PCI loans | $ 1,191 | $ 745 | $ 1,936 | $ 22,224 | $ 3,663,521 | $ 3,687,681 |

(1) As of June 30, 2015, $18.6 million of nonaccruing loans were current, $599,000 were 30-59 days past due, $668,000 were 60-89 days past due and $2.4 million were 90+ days past due.

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 943 | $ 35 | $ 978 | $ 2,308 | $ 386,725 | $ 390,011 |
| SBA | 75 | | 75 | 2,481 | 131,709 | 134,265 |
| Real estate: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | 36 | 86 | 122 | 4,072 | 786,173 | 790,367 |
| Non-owner occupied | | | | 19,246 | 1,678,190 | 1,697,436 |
| Construction | | | | | | |
| Speculative | | | | | 36,574 | 36,574 |
| Non-speculative | | | | | 18,599 | 18,599 |

| | | | | | | |
|---|---|---|---|---|---|---|
| SFR mortgage | 425 | | 425 | 3,240 | 201,459 | 205,124 |
| Dairy & livestock and agribusiness | | | | 103 | 279,070 | 279,173 |
| Municipal lease finance receivables | | | | | 77,834 | 77,834 |
| Consumer and other loans | 64 | 17 | 81 | 736 | 69,067 | 69,884 |
| Total gross loans, excluding PCI loans | $ 1,543 | $ 138 | $ 1,681 | $ 32,186 | $ 3,665,400 | $ 3,699,267 |

(1) As of December 31, 2014, $20.1 million of nonaccruing loans were current, $3.7 million were 30-59 days past due, $8.5 million were 90+ days.

***Impaired Loans***

At June 30, 2015, the Company had impaired loans, excluding PCI loans, of $67.4 million. Of this amount, there were $15.0 million of nonaccrual commercial real estate loans, $3.4 million of nonaccrual SFR mortgage loans, $2.5 million of nonaccrual SBA loans, $903,000 of nonaccrual commercial and industrial loans and $498,000 of nonaccrual consumer and other loans. These impaired loans included $60.3 million of loans whose terms were modified in a troubled debt restructuring, of which $15.2 million were classified as nonaccrual. The remaining balance of $45.1 million consisted of 33 loans performing according to the restructured terms.

Table of Contents

The impaired loans had a specific allowance of $550,000 at June 30, 2015. At December 31, 2014, the Company had classified as impaired loans, excluding PCI loans, with a balance of $85.8 million with a related allowance of $1.5 million.

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

| | As of and For the Six Months Ended June 30, 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 | $ 1,097 | $ 1,941 | $ | $ 1,172 | $ 15 |
| SBA | 3,087 | 3,688 | | 3,167 | 26 |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | 5,987 | 7,080 | | 5,865 | 127 |
| Non-owner occupied | 33,994 | 39,946 | | 34,567 | 838 |
| Construction | | | | | |
| Speculative | | | | | |
| Non-speculative | | | | | |
| SFR mortgage | 6,228 | 7,175 | | 6,102 | 50 |
| Dairy & livestock and agribusiness | 7,091 | 7,559 | | 7,269 | 167 |
| Municipal lease finance receivables | | | | | |
| Consumer and other loans | 906 | 1,426 | | 940 | 8 |
| Total | 58,390 | 68,815 | | 59,082 | 1,231 |
| **With a related allowance recorded:** | | | | | |
| Commercial and industrial | 465 | 536 | 435 | 478 | 1 |
| SBA | 59 | 59 | 12 | 63 | |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | | | | | |
| Non-owner occupied | | | | | |
| Construction | | | | | |
| Speculative | 7,651 | 7,651 | 24 | 7,651 | 192 |
| Non-speculative | | | | | |
| SFR mortgage | 816 | 824 | 77 | 826 | 3 |
| Dairy & livestock and agribusiness | | | | | |
| Municipal lease finance receivables | | | | | |
| Consumer and other loans | 9 | 14 | 2 | 10 | |

| | | | | | |
|---|---|---|---|---|---|
| Total | 9,000 | 9,084 | 550 | 9,028 | 196 |
| Total impaired loans | $ 67,390 | $ 77,899 | $ 550 | $ 68,110 | $ 1,427 |

Table of Contents

| | As of and For the Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| | *(Dollars in thousands)* | | | | |
| **With no related allowance recorded:** | | | | | |
| Commercial and industrial | $ 4,376 | $ 5,437 | $ | $ 4,396 | $ 30 |
| SBA | 2,074 | 2,516 | | 2,112 | |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | 11,822 | 12,910 | | 11,967 | 247 |
| Non-owner occupied | 25,051 | 31,676 | | 25,390 | 430 |
| Construction | | | | | |
| Speculative | 17,418 | 18,407 | | 17,484 | 154 |
| Non-speculative | 9,136 | 9,136 | | 9,158 | 308 |
| SFR mortgage | 10,078 | 11,719 | | 10,156 | 52 |
| Dairy & livestock and agribusiness | 20,015 | 20,714 | | 22,529 | 456 |
| Municipal lease finance receivables | | | | | |
| Consumer and other loans | 366 | 718 | | 368 | |
| Total | 100,336 | 113,233 | | 103,560 | 1,677 |
| **With a related allowance recorded:** | | | | | |
| Commercial and industrial | 1,528 | 1,852 | 643 | 1,531 | |
| SBA | 64 | 72 | 64 | 67 | |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | | | | | |
| Non-owner occupied | | | | | |
| Construction | | | | | |
| Speculative | | | | | |
| Non-speculative | | | | | |
| SFR mortgage | 476 | 486 | 44 | 478 | |
| Dairy & livestock and agribusiness | 3,340 | 3,340 | 1,366 | 3,408 | 25 |
| Municipal lease finance receivables | | | | | |
| Consumer and other loans | 104 | 165 | 96 | 105 | |
| Total | 5,512 | 5,915 | 2,213 | 5,589 | 25 |
| Total impaired loans | $ 105,848 | $ 119,148 | $ 2,213 | $ 109,149 | $ 1,702 |

Table of Contents

| | As of December 31, 2014 | | |
|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| | (Dollars in thousands) | | |
| **With no related allowance recorded:** | | | |
| Commercial and industrial | $ 2,391 | $ 3,624 | $ |
| SBA | 1,853 | 2,197 | |
| Real estate: | | | |
| Commercial real estate | | | |
| Owner occupied | 16,961 | 18,166 | |
| Non-owner occupied | 30,068 | 38,156 | |
| Construction | | | |
| Speculative | 7,651 | 7,651 | |
| Non-speculative | | | |
| SFR mortgage | 6,512 | 7,493 | |
| Dairy & livestock and agribusiness | 15,796 | 17,587 | |
| Municipal lease finance receivables | | | |
| Consumer and other loans | 673 | 1,094 | |
| Total | 81,905 | 95,968 | |
| **With a related allowance recorded:** | | | |
| Commercial and industrial | 629 | 698 | 615 |
| SBA | 1,327 | 1,591 | 296 |
| Real estate: | | | |
| Commercial real estate | | | |
| Owner occupied | | | |
| Non-owner occupied | 982 | 1,278 | 154 |
| Construction | | | |
| Speculative | | | |
| Non-speculative | | | |
| SFR mortgage | 467 | 484 | 35 |
| Dairy & livestock and agribusiness | | | |
| Municipal lease finance receivables | | | |
| Consumer and other loans | 482 | 508 | 449 |
| Total | 3,887 | 4,559 | 1,549 |
| Total impaired loans | $ 85,792 | $ 100,527 | $ 1,549 |

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 June 30, 2015 and December 31, 2014 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.

***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 commitments at the same time it evaluates credit risk associated with the loan and lease portfolio. The Company recorded zero provision for unfunded loan commitments for the three months ended June 30, 2015 and 2014. A $500,000 recapture of provision for unfunded loan commitments was recorded for the six months ended June 30, 2015, compared to no provision for unfunded commitments for the same period of 2014. At June 30, 2015 and December 31, 2014, the balance of the reserve was $7.2 million and $7.7 million, respectively, and was included in other liabilities.

Table of Contents

***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, 2014 for a more detailed discussion regarding TDRs.

As of June 30, 2015, there were $60.3 million of loans classified as TDRs, of which $15.2 million were nonperforming and $45.1 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 June 30, 2015, performing TDRs were comprised of 10 commercial real estate loans of $25.0 million, one construction loan of $7.7 million, five dairy & livestock and agribusiness loans of $7.1 million, 11 SFR mortgage loans of $3.6 million, four commercial and industrial loans of $659,000, one SBA loan of $691,000 and one consumer loan of $417,000. There were no loans removed from TDR classification during the three and six months ended June 30, 2015 and 2014.

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 $432,000 and $726,000 of specific allowance to TDRs as of June 30, 2015 and December 31, 2014, respectively.

The following tables provide a summary of the activity related to TDRs for the periods presented.

| | **For the Three Months June 30,** | | **For the Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | *(Dollars in thousands)* | | *(Dollars in thousands)* | |
| Performing TDRs: | | | | |
| Beginning balance | $ 45,376 | $ 66,394 | $ 53,589 | $ 66,955 |
| New modifications (1) | 30 | | 30 | 41 |
| Payoffs and payments, net | (240) | (4,516) | (8,969) | (5,118) |
| TDRs returned to accrual status | | | 516 | |
| TDRs placed on nonaccrual status | | | | |
| Ending balance | $ 45,166 | $ 61,878 | $ 45,166 | $ 61,878 |

| | **For the Three Months June 30,** | | **For the Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | *(Dollars in thousands)* | | *(Dollars in thousands)* | |

| | | | | |
|---|---|---|---|---|
| Nonperforming TDRs: | | | | |
| Beginning balance | $ 16,774 | $ 23,968 | $ 20,285 | $ 25,119 |
| New modifications (1) | 330 | 4,187 | 330 | 4,187 |
| Charge-offs | | | | |
| Transfer to OREO | (842) | | (842) | |
| Payoffs and payments, net | (1,095) | (758) | (4,090) | (1,909) |
| TDRs returned to accrual status | | | (516) | |
| TDRs placed on nonaccrual status | | | | |
| Ending balance | $ 15,167 | $ 27,397 | $ 15,167 | $ 27,397 |

(1) New modifications for the three and six months ended June 30, 2014 represent TDRs acquired from ASB.

Table of Contents

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

**Modifications (1)**

| | For the Three Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at June 30, 2015 | Financial Effect Resulting From Modifications (2) |
| | *(Dollars in thousands)* | | | | |
| **Commercial and industrial:** | | | | | |
| Interest rate reduction | | $ | $ | $ | $ |
| Change in amortization period or maturity | 1 | 30 | 30 | 30 | |
| Other | | | | | |
| **SBA** | | | | | |
| Interest rate reduction | | | | | |
| Change in amortization period or maturity | 1 | 330 | 330 | 330 | 12 |
| Other | | | | | |
| **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 | | | | | |
| **Dairy & livestock and agribusiness:** | | | | | |
| Interest rate reduction | | | | | |
| Change in amortization period or maturity | | | | | |
| **Consumer** | | | | | |
| Interest rate reduction | | | | | |
| Total loans | 2 | $ 360 | $ 360 | $ 360 | $ 12 |

| | For the Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at June 30, 2014 | Financial Effect Resulting From Modifications (2) |
| | *(Dollars in thousands)* | | | | |
| **Commercial and industrial:** | | | | | |
| Interest rate reduction | | $ | $ | $ | $ |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Change in amortization period or maturity | | | | | | | | | |
| **SBA:** | | | | | | | | | |
| Interest rate reduction | | | | | | | | | |
| Change in amortization period or maturity (3) | 1 | | 47 | | 47 | | 45 | | |
| **Real estate:** | | | | | | | | | |
| **Commercial real estate:** | | | | | | | | | |
| Owner occupied | | | | | | | | | |
| Interest rate reduction (3) | 2 | | 389 | | 389 | | 376 | | |
| Change in amortization period or maturity | | | | | | | | | |
| Non-owner occupied | | | | | | | | | |
| Interest rate reduction (3) | 4 | | 3,751 | | 3,751 | | 3,710 | | |
| Change in amortization period or maturity | | | | | | | | | |
| **Dairy & livestock and agribusiness:** | | | | | | | | | |
| Interest rate reduction | | | | | | | | | |
| Change in amortization period or maturity | | | | | | | | | |
| **Consumer** | | | | | | | | | |
| Interest rate reduction | | | | | | | | | |
| Total loans | 7 | $ | 4,187 | $ | 4,187 | $ | 4,131 | $ | |

Table of Contents

| | For the Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at June 30, 2015 | Financial Effect Resulting From Modifications (2) |
| | *(Dollars in thousands)* | | | | |
| **Commercial and industrial:** | | | | | |
| Interest rate reduction | | $ | $ | $ | $ |
| Change in amortization period or maturity | 1 | 30 | 30 | 30 | |
| Other | | | | | |
| **SBA** | | | | | |
| Interest rate reduction | | | | | |
| Change in amortization period or maturity | 1 | 330 | 330 | 330 | 12 |
| Other | | | | | |
| **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 | | | | | |
| **Dairy & livestock and agribusiness:** | | | | | |
| Interest rate reduction | | | | | |
| Change in amortization period or maturity | | | | | |
| **Consumer** | | | | | |
| Interest rate reduction | | | | | |
| Total loans | 2 | $ 360 | $ 360 | $ 360 | $ 12 |

| | For the Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at June 30, 2014 | Financial Effect Resulting From Modifications (2) |
| | *(Dollars in thousands)* | | | | |
| **Commercial and industrial:** | | | | | |
| Interest rate reduction | | $ | $ | $ | $ |
| Change in amortization period or maturity (3) | 1 | 41 | 41 | 39 | |
| Other | | | | | |
| **SBA** | | | | | |
| Interest rate reduction | | | | | |
| Change in amortization period or maturity (3) | 1 | 47 | 47 | 45 | |
| **Real estate:** | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Commercial real estate:** | | | | | | | | |
| Owner occupied | | | | | | | | |
| Interest rate reduction (3) | 2 | | 389 | | 389 | | 376 | |
| Change in amortization period or maturity | | | | | | | | |
| Non-owner occupied | | | | | | | | |
| Interest rate reduction (3) | 4 | | 3,751 | | 3,751 | | 3,710 | |
| Change in amortization period or maturity | | | | | | | | |
| **Dairy & livestock and agribusiness:** | | | | | | | | |
| Interest rate reduction | | | | | | | | |
| Change in amortization period or maturity | | | | | | | | |
| **Consumer** | | | | | | | | |
| Interest rate reduction | | | | | | | | |
| Total loans | 8 | $ | 4,228 | $ | 4,228 | $ | 4,170 | $ |

(1) The tables 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.
(3) New modifications for the three and six months ended June 30, 2014 represent TDRs acquired from ASB.

As of June 30, 2015, there were no loans that were previously modified as a TDRs within the previous 12 months that subsequently defaulted during the three and six months ended June 30, 2015.

Table of Contents

## 7. 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 and six months ended June 30, 2015, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were, 254,000 and 228,000, respectively. For the three and six months ended June 30, 2014, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share, were 222,000 and 186,000 shares, respectively.

The table below summarizes 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 June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | *(In thousands, except per share amounts)* | | | |
| **Earnings per common share:** | | | | |
| Net earnings | $ 26,813 | $ 25,484 | $ 42,646 | $ 54,145 |
| Less: Net earnings allocated to restricted stock | 143 | 145 | 223 | 274 |
| Net earnings allocated to common shareholders | $ 26,670 | $ 25,339 | $ 42,423 | $ 53,871 |
| Weighted average shares outstanding | 105,707 | 105,251 | 105,616 | 105,222 |
| Basic earnings per common share | $ 0.25 | $ 0.24 | $ 0.40 | $ 0.51 |
| **Diluted earnings per common share:** | | | | |
| Net income allocated to common shareholders | $ 26,670 | $ 25,339 | $ 42,423 | $ 53,871 |
| Weighted average shares outstanding | 105,707 | 105,251 | 105,616 | 105,222 |
| Incremental shares from assumed exercise of outstanding options | 451 | 504 | 445 | 552 |
| Diluted weighted average shares outstanding | 106,158 | 105,755 | 106,061 | 105,774 |
| Diluted earnings per common share | $ 0.25 | $ 0.24 | $ 0.40 | $ 0.51 |

## 8. 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 June 30, 2015. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2 and Level 3).

*Level 1* Valuation is based upon quoted prices for identical instruments traded in active markets.

*Level 2* Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

*Level 3* Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flows and similar techniques.

There were no transfers in and out of Level 1 and Level 2 measurements during the six months ended June 30, 2015 and 2014.

***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.

Table of Contents

*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 Held to- Maturity* Investment securities held-to-maturity are valued based upon quotes obtained from an independent third-party pricing service. The Company categorized its held-to-maturity investment as a Level 3 valuation.

*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.

*Loans Held-for-Sale* Loans held-for-sale are carried at the lower of cost or fair value. The fair value is derived from third party sale analysis, existing sale agreements, or appraisal reports on the loans underlying collateral.

*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 value 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, the 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 June 30, 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 | $ 351,283 | $ | $ 351,283 | $ |
| Residential mortgage-backed securities | 1,856,490 | | 1,856,490 | |
| CMO s/REMIC s - residential | 409,747 | | 409,747 | |
| Municipal bonds | 531,615 | | 531,615 | |
| Other securities | 5,082 | | 5,082 | |
| Total investment securities - AFS | 3,154,217 | | 3,154,217 | |
| Interest rate swaps | 8,861 | | 8,861 | |
| Total assets | $ 3,163,078 | $ | $ 3,163,078 | $ |
| **Description of liability** | | | | |
| Interest rate swaps | $ 8,861 | $ | $ 8,861 | $ |
| Total liabilities | $ 8,861 | $ | $ 8,861 | $ |

| | Carrying Value at December 31, 2014 | 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 | $ 330,843 | $ | $ 330,843 | $ |
| Residential mortgage-backed securities | 1,917,496 | | 1,917,496 | |
| CMO s/REMIC s - residential | 304,091 | | 304,091 | |
| Municipal bonds | 579,641 | | 579,641 | |
| Other securities | 5,087 | | 5,087 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total investment securities - AFS | | 3,137,158 | | | | 3,137,158 | |
| Interest rate swaps | | 10,080 | | | | 10,080 | |
| Total assets | $ | 3,147,238 | $ | | $ | 3,147,238 | $ |
| **Description of liability** | | | | | | | |
| Interest rate swaps | $ | 10,080 | $ | | $ | 10,080 | $ |
| Total liabilities | $ | 10,080 | $ | | $ | 10,080 | $ |

29

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 still held on the balance sheet at June 30, 2015 and December 31, 2014, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets for investments that experienced losses during the period.

| | Carrying Value at June 30, 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 Six Months Ended June 30, 2015 |
|---|---|---|---|---|---|
| | *(Dollars in thousands)* | | | | |
| **Description of assets** | | | | | |
| Impaired loans, excluding PCI Loans: | | | | | |
| Commercial and industrial | $ 37 | $ | $ | $ 37 | $ 22 |
| SBA | 59 | | | 59 | 12 |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Construction | 7,651 | | | 7,651 | 24 |
| SFR mortgage | 1,389 | | | 1,389 | 292 |
| Dairy & livestock and agribusiness | | | | | |
| Consumer and other loans | 206 | | | 206 | 77 |
| Other real estate owned | 948 | | | 948 | 162 |
| Total assets | $ 10,290 | $ | $ | $ 10,290 | $ 589 |

| | Carrying Value at December 31, 2014 | 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, 2014 |
|---|---|---|---|---|---|
| | *(Dollars in thousands)* | | | | |
| **Description of assets** | | | | | |
| Impaired loans, excluding PCI Loans: | | | | | |
| Commercial and industrial | $ 1,911 | $ | $ | $ 1,911 | $ 771 |
| SBA | 1,327 | | | 1,327 | 296 |
| Real estate: | | | | | |
| Commercial real estate | 2,500 | | | 2,500 | 271 |

| | | | | | |
|---|---|---|---|---|---|
| Construction | | | | | |
| SFR mortgage | | | | | |
| Dairy & livestock and agribusiness | 103 | | | 103 | 1,061 |
| Consumer and other loans | 482 | | | 482 | 447 |
| Other real estate owned | | | | | |
| Total assets | $ 6,323 | $ | $ | $ 6,323 | $ 2,846 |

Table of Contents

***Fair Value of Financial Instruments***

The following disclosure presents estimated fair value of financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company may realize in a current market exchange as of June 30, 2015 and December 31, 2014, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | | Estimated Fair Value | | | |
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| | (Dollars in thousands) | | | | |
| **Assets** | | | | | |
| Total cash and cash equivalents | $ 446,446 | $ 446,446 | $ | $ | $ 446,446 |
| Interest-earning balances due from depository institutions | 24,378 | | 24,378 | | 24,378 |
| FHLB stock | 17,588 | | 17,588 | | 17,588 |
| Investment securities available-for-sale | 3,154,217 | | 3,154,217 | | 3,154,217 |
| Investment securities held-to-maturity | 1,400 | | | 2,066 | 2,066 |
| Loans held-for-sale | | | | | |
| Total loans, net of allowance for loan losses | 3,724,665 | | | 3,747,468 | 3,747,468 |
| Swaps | 8,861 | | 8,861 | | 8,861 |
| **Liabilities** | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | $ 3,250,574 | $ 3,250,574 | $ | $ | $ 3,250,574 |
| Interest-bearing | 2,743,306 | | 2,743,129 | | 2,743,129 |
| Borrowings | 662,326 | | 662,254 | | 662,254 |
| Junior subordinated debentures | 25,774 | | 26,024 | | 26,024 |
| Swaps | 8,861 | | 8,861 | | 8,861 |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | | Estimated Fair Value | | | |
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| | (Dollars in thousands) | | | | |
| **Assets** | | | | | |
| Total cash and cash equivalents | $ 105,768 | $ 105,768 | $ | $ | $ 105,768 |
| Interest-earning balances due from depository institutions | 27,118 | | 27,118 | | 27,118 |
| FHLB stock | 25,338 | | 25,338 | | 25,338 |
| | 3,137,158 | | 3,137,158 | | 3,137,158 |

| | | | | | |
|---|---|---|---|---|---|
| Investment securities available-for-sale | | | | | |
| Investment securities held-to-maturity | 1,528 | | | 2,177 | 2,177 |
| Loans held-for-sale | | | | | |
| Total loans, net of allowance for loan losses | 3,757,242 | | | 3,794,454 | 3,794,454 |
| Swaps | 10,080 | | 10,080 | | 10,080 |
| **Liabilities** | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | $ 2,866,365 | $ 2,866,365 | $ | $ | $ 2,866,365 |
| Interest-bearing | 2,738,293 | | 2,739,221 | | 2,739,221 |
| Borrowings | 809,106 | | 822,607 | | 822,607 |
| Junior subordinated debentures | 25,774 | | 26,005 | | 26,005 |
| Swaps | 10,080 | | 10,080 | | 10,080 |

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2015 and December 31, 2014. 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.

Table of Contents

## 9. BUSINESS SEGMENTS

The Company has identified two principal reportable segments: Business Financial and Commercial Banking Centers ( Centers ) and the Treasury Department. The Company s subsidiary bank has 40 Business Financial Centers and seven 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 table represents 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, 2014. 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.

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 June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | **Centers** | **Treasury** | **Other** | **Eliminations** | **Total** |
| | *(Dollars in thousands)* | | | | |
| Interest income, including loan fees | $ 35,813 | $ 19,210 | $ 9,492 | $ | $ 64,515 |
| Credit for funds provided (1) | 8,530 | | 13,024 | (21,554) | |
| Total interest income | 44,343 | 19,210 | 22,516 | (21,554) | 64,515 |
| Interest expense | 1,628 | 31 | 98 | | 1,757 |
| Charge for funds used (1) | 1,052 | 15,441 | 5,061 | (21,554) | |
| Total interest expense | 2,680 | 15,472 | 5,159 | (21,554) | 1,757 |

| | | | | | |
|---|---|---|---|---|---|
| Net interest income | 41,663 | 3,738 | 17,357 | | 62,758 |
| Recapture of provision for loan losses | | | (2,000) | | (2,000) |
| Net interest income after recapture of provision for loan losses | 41,663 | 3,738 | 19,357 | | 64,758 |
| Noninterest income | 5,319 | | 3,026 | | 8,345 |
| Noninterest expense | 12,259 | 211 | 19,063 | | 31,533 |
| Debt termination expense | | | | | |
| Segment pre-tax profit | $ 34,723 | $ 3,527 | $ 3,320 | $ | $ 41,570 |
| Segment assets as of June 30, 2015 | $ 6,436,216 | $ 3,624,321 | $ 875,585 | $ (3,238,764) | $ 7,697,358 |

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

Table of Contents

| | For the Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Centers | Treasury | Other | Eliminations | Total |
| | (Dollars in thousands) | | | | |
| Interest income, including loan fees | $ 34,683 | $ 17,675 | $ 8,858 | $ | $ 61,216 |
| Credit for funds provided (1) | 7,660 | | 11,414 | (19,074) | |
| Total interest income | 42,343 | 17,675 | 20,272 | (19,074) | 61,216 |
| Interest expense | 1,561 | 2,390 | 106 | | 4,057 |
| Charge for funds used (1) | 953 | 13,436 | 4,685 | (19,074) | |
| Total interest expense | 2,514 | 15,826 | 4,791 | (19,074) | 4,057 |
| Net interest income | 39,829 | 1,849 | 15,481 | | 57,159 |
| Recapture of provision for loan losses | | | (7,600) | | (7,600) |
| Net interest income after recapture of provision for loan losses | 39,829 | 1,849 | 23,081 | | 64,759 |
| Noninterest income | 5,162 | | 1,888 | | 7,050 |
| Noninterest expense | 11,420 | 182 | 19,722 | | 31,324 |
| Debt termination expense | | | | | |
| Segment pre-tax profit | $ 33,571 | $ 1,667 | $ 5,247 | $ | $ 40,485 |
| Segment assets as of June 30, 2014 | $ 5,928,456 | $ 3,511,341 | $ 782,783 | $ (2,798,587) | $ 7,423,993 |

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

| | For the Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Centers | Treasury | Other | Eliminations | Total |
| | (Dollars in thousands) | | | | |
| Interest income, including loan fees | $ 71,181 | $ 37,865 | $ 19,649 | $ | $ 128,695 |
| Credit for funds provided (1) | 16,741 | | 25,665 | (42,406) | |
| Total interest income | 87,922 | 37,865 | 45,314 | (42,406) | 128,695 |
| Interest expense | 3,291 | 1,462 | 175 | | 4,928 |
| Charge for funds used (1) | 2,119 | 30,247 | 10,040 | (42,406) | |
| Total interest expense | 5,410 | 31,709 | 10,215 | (42,406) | 4,928 |
| Net interest income | 82,512 | 6,156 | 35,099 | | 123,767 |
| Recapture of provision for loan losses | | | (2,000) | | (2,000) |

| | | | | | |
|---|---|---|---|---|---|
| Net interest income after recapture of provision for loan losses | 82,512 | 6,156 | 37,099 | | 125,767 |
| Noninterest income | 10,386 | | 5,970 | | 16,356 |
| Noninterest expense | 24,108 | 424 | 37,603 | | 62,135 |
| Debt termination expense | | 13,870 | | | 13,870 |
| Segment pre-tax profit (loss) | $ 68,790 | $ (8,138) | $ 5,466 | $ | $ 66,118 |
| Segment assets as of June 30, 2015 | $ 6,436,216 | $ 3,624,321 | $ 875,585 | $ (3,238,764) | $ 7,697,358 |

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

| | For the Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Centers | Treasury | Other | Eliminations | Total |
| | (Dollars in thousands) | | | | |
| Interest income, including loan fees | $ 67,774 | $ 34,107 | $ 20,397 | $ | $ 122,278 |
| Credit for funds provided (1) | 14,734 | | 22,877 | (37,611) | |
| Total interest income | 82,508 | 34,107 | 43,274 | (37,611) | 122,278 |
| Interest expense | 3,198 | 4,763 | 216 | | 8,177 |
| Charge for funds used (1) | 1,917 | 26,233 | 9,461 | (37,611) | |
| Total interest expense | 5,115 | 30,996 | 9,677 | (37,611) | 8,177 |
| Net interest income | 77,393 | 3,111 | 33,597 | | 114,101 |
| Recapture of provision for loan losses | | | (15,100) | | (15,100) |
| Net interest income after recapture of provision for loan losses | 77,393 | 3,111 | 48,697 | | 129,201 |
| Noninterest income | 9,944 | | 8,604 | | 18,548 |
| Noninterest expense | 23,248 | 378 | 38,855 | | 62,481 |
| Debt termination expense | | | | | |
| Segment pre-tax profit | $ 64,089 | $ 2,733 | $ 18,446 | $ | $ 85,268 |
| Segment assets as of June 30, 2014 | $ 5,928,456 | $ 3,511,341 | $ 782,783 | $ (2,798,587) | $ 7,423,993 |

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

33

Table of Contents

## 10. 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 June 30, 2015, the Bank has entered into 75 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 June 30, 2015 and December 31, 2014, the total notional amount of the Company s swaps was $184.7 million, and $197.4 million, respectively. The location of the asset and liability, and their respective fair values are summarized in the table below.

| | June 30, 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 | $ 8,861 | Other liabilities | $ 8,861 |
| Total derivatives | | $ 8,861 | | $ 8,861 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | 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 | $ 10,080 | Other liabilities | $ 10,080 |
| Total derivatives | | $ 10,080 | | $ 10,080 |

34

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 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 June 30, | | For the Six Months Ended June 30, | |
| | | 2015 | 2014 | 2015 | 2014 |
| | | (Dollars in thousands) | | | |
| Interest rate swaps | Other income | $ 199 | $ | $ 199 | $ |
| Total | | $ 199 | $ | $ 199 | $ |

**11. OTHER COMPREHENSIVE INCOME (LOSS)**

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

| | For the Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Before-tax | Tax effect | After-tax | Before-tax | Tax effect | After-tax |
| | (Dollars in thousands) | | | | | |
| Investment securities available-for-sale: | | | | | | |
| Net change in fair value recorded in accumulated OCI | $ (32,968) | $ (13,846) | $ (19,122) | $ 32,782 | $ 13,769 | $ 19,013 |
| Net change | $ (32,968) | $ (13,846) | $ (19,122) | $ 32,782 | $ 13,769 | $ 19,013 |

| | For the Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Before-tax | Tax effect | After-tax | Before-tax | Tax effect | After-tax |
| | (Dollars in thousands) | | | | | |
| Investment securities available-for-sale: | | | | | | |
| | $ (12,698) | $ (5,332) | $ (7,366) | $ 57,563 | $ 24,176 | $ 33,387 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net change in fair value recorded in accumulated OCI | | | | | | |
| Net change | $ (12,698) | $ (5,332) | $ (7,366) | $ 57,563 | $ 24,176 | $ 33,387 |

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

| | **Investment Securities Available-for-Sale** *(Dollars in thousands)* |
|---|---|
| Balance, January 1, 2015 | $ 31,075 |
| Net change in fair value recorded in accumulated OCI | (7,366) |
| Net realized gains reclassified into earnings | |
| Balance, June 30, 2015 | $ 23,709 |

| | **Investment Securities Available-for-Sale** *(Dollars in thousands)* |
|---|---|
| Balance, January 1, 2014 | $ (9,330) |
| Net change in fair value recorded in accumulated OCI | 33,387 |
| Net realized gains reclassified into earnings | |
| Balance, June 30, 2014 | $ 24,057 |

Table of Contents

## 12. 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)* | | | | | |
| **June 30, 2015** | | | | | | |
| **Financial assets:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 8,861 | $ | $ | $ 8,861 | $ | $ 8,861 |
| Total | $ 8,861 | $ | $ | $ 8,861 | $ | $ 8,861 |
| **Financial liabilities:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 9,004 | $ (143) | $ 8,861 | $ 143 | $ (16,611) | $ (7,607) |
| Repurchase agreements | 662,326 | | 662,326 | | (714,663) | (52,337) |
| Total | $ 671,330 | $ (143) | $ 671,187 | $ 143 | $ (731,274) | $ (59,944) |
| **December 31, 2014** | | | | | | |
| **Financial assets:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 10,080 | $ | $ | $ 10,080 | $ | $ 10,080 |
| Total | $ 10,080 | $ | $ | $ 10,080 | $ | $ 10,080 |
| **Financial liabilities:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 10,200 | $ (120) | $ 10,080 | $ 120 | $ (16,734) | $ (6,534) |
| Repurchase agreements | 563,627 | | 563,627 | | (624,578) | (60,951) |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | $ | 573,827 | $ | (120) | $ | 573,707 | $ | 120 | $ | (641,312) | $ | (67,485) |

Table of Contents

## 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 subsidiaries. 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, 2014, 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
- Investment Securities
- Goodwill Impairment
- Acquired Loans
- Purchase Credit Impaired ( PCI ) Loans
- Other Real Estate Owned ( OREO )

Fair Value of Financial Instruments

Income Taxes

Share-Based Compensation

Our significant accounting policies are described in greater detail in our 2014 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, 2014, which are essential to understanding Management s Discussion and Analysis of Financial Condition and Results of Operations.

**OVERVIEW**

For the second quarter of 2015, we reported net income of $26.8 million, compared with $25.5 million for the second quarter of 2014. Diluted earnings per share were $0.25 per share for the second quarter of 2015, compared to $0.24 for the same period of 2014. Pre-tax net income for the second quarter of 2015 included a $2.0 million loan loss provision recapture, compared to $7.6 million for the same period of 2014. Net interest income for the second quarter of 2015 was also positively impacted by a decrease of $2.3 million in total interest expense from the year-ago quarter, primarily as a result of the $200.0 million repayment of fixed rate borrowings from the Federal Home Loan Bank ( FHLB ) in the first quarter of 2015.

At June 30, 2015, total assets were $7.70 billion. This represents an increase of $319.4 million, or 4.33%, from total assets of $7.38 billion at December 31, 2014. Earning assets of $7.30 billion at June 30, 2015 increased $283.9 million, or 4.04%, when compared with $7.02 billion at December 31, 2014. The increase in earning assets was primarily due to a $310.3 million increase in interest-earning balances due from the Federal Reserve and a $16.9 million increase in investment securities. This was partially offset by a $32.8 million decrease in total loans.

Table of Contents

Investment securities totaled $3.16 billion at June 30, 2015, an increase of $16.9 million from $3.14 billion at December 31, 2014. As of June 30, 2015, we had a pre-tax unrealized net gain of $40.9 million on our overall investment securities portfolio, compared to a pre-tax unrealized net gain of $53.6 million at December 31, 2014. During the second quarter of 2015, we purchased $109.4 million of MBS with an average yield of approximately 2.06%. Our new purchases of MBS have an average duration of approximately four years. We also purchased $144.4 million of CMOs with an average yield of approximately 2.10%. Our new purchases of CMOs have an average duration of approximately four years. During the second quarter, we purchased $9.1 million in municipal securities with an average tax-equivalent yield of approximately 3.63%.

Total loans and leases, net of deferred fees and discounts, was $3.78 billion at June 30, 2015, compared to $3.72 billion at March 31, 2015 and $3.82 billion at December 31, 2014. The quarter-over-quarter increase of $68.2 million, or 1.84%, was principally due to increases of approximately $61.5 million in commercial real estate loans, $10.5 million in dairy & livestock and agribusiness loans, and $9.4 million in SFR mortgage loans. The overall increase in loans and leases was partially offset by decreases of $8.4 million in construction real estate loans and $6.5 million in SBA loans. Total loans and leases, net of deferred fees and discounts decreased $32.8 million, or 0.86%, from December 31, 2014, principally due to a $99.8 million decline in dairy & livestock and agribusiness loans, which were seasonally high at year-end, as is customary. This decrease was partially offset by growth of $66.0 million in commercial real estate loans.

Noninterest-bearing deposits were $3.25 billion at June 30, 2015, an increase of $384.2 million, or 13.40%, compared to $2.87 billion at December 31, 2014, and an increase of $288.4 million, or 9.74%, when compared to June 30, 2014. At June 30, 2015, noninterest-bearing deposits were 54.23% of total deposits, compared to 51.14% at December 31, 2014 and 52.62% at June 30, 2014. Our average cost of total deposits for the quarter ended June 30, 2015 was 9 basis points, compared to 9 basis points for the same period of 2014.

On February 23, 2015 we repaid our last remaining FHLB advance which carried a fixed rate of 4.52%.

At June 30, 2015, we had no short-term borrowings, compared to $46.0 million at December 31, 2014 and zero at June 30, 2014.

At June 30, 2015, we had $25.8 million of junior subordinated debentures, unchanged from December 31, 2014 and June 30, 2014.

The allowance for loan losses totaled $59.6 million at June 30, 2015, compared to $60.7 million at March 31, 2015 and $59.8 million at December 31, 2014. The allowance for loan losses was reduced by $2.0 million in the second quarter of 2015, principally due to improved credit quality and net recoveries of $845,000. This compares to no provision for loan losses during the first quarter of 2015.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory standards. As of June 30, 2015, our Tier 1 leverage capital ratio totaled 11.12%, our common equity Tier 1 ratio totaled 16.68%, our Tier 1 risk-based capital ratio totaled 17.20%, and our total risk-based capital ratio totaled 18.45%. Refer to our *Analysis of Financial Condition-Capital Resources* for discussion of the new capital rules which were effective beginning with the first quarter ended March 31, 2015.

Table of Contents

## ANALYSIS OF THE RESULTS OF OPERATIONS

*Financial Performance*

| | For the Three Months Ended June 30, 2015 | For the Three Months Ended June 30, 2014 | Variance $ | Variance % | For the Six Months Ended June 30, 2015 | For the Six Months Ended June 30, 2014 | Variance $ | Variance % |
|---|---|---|---|---|---|---|---|---|
| | *(Dollars in thousands, except per share amounts)* | | | | | | | |
| Net interest income | $ 62,758 | $ 57,159 | $ 5,599 | 9.80% | $ 123,767 | $ 114,101 | $ 9,666 | 8.47% |
| Recapture of provision for loan losses | 2,000 | 7,600 | (5,600) | -73.68% | 2,000 | 15,100 | (13,100) | -86.75% |
| Noninterest income | 8,345 | 7,050 | 1,295 | 18.37% | 16,356 | 18,548 | (2,192) | -11.82% |
| Noninterest expense | (31,533) | (31,324) | (209) | -0.67% | (76,005)**(1)** | (62,481) | (13,524) | -21.64% |
| Income taxes | (14,757) | (15,001) | 244 | 1.63% | (23,472) | (31,123) | 7,651 | 24.58% |
| Net earnings | $ 26,813 | $ 25,484 | $ 1,329 | 5.22% | $ 42,646 | $ 54,145 | $ (11,499) | -21.24% |
| Earnings per common share: | | | | | | | | |
| Basic | $ 0.25 | $ 0.24 | $ 0.01 | | $ 0.40 | $ 0.51 | $ (0.11) | |
| Diluted | $ 0.25 | $ 0.24 | $ 0.01 | | $ 0.40 | $ 0.51 | $ (0.11) | |
| Return on average assets | 1.44% | 1.45% | -0.01% | | 1.15%**(1)** | 1.58% | -0.43% | |
| Return on average shareholders equity | 11.80% | 12.48% | -0.68% | | 9.55%**(1)** | 13.58% | -4.03% | |
| Efficiency ratio | 44.35% | 48.78% | -4.43% | | 54.24%**(1)** | 47.10% | 7.14% | |
| Non interest expense to average assets | 1.69% | 1.79% | -0.10% | | 2.05%**(1)** | 1.82% | 0.23% | |

**(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 six months ended June 30, 2015, includes 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 during the six months ended June 30, 2014.

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | *(Dollars in thousands)* | | | |
| Net interest income | $ 62,758 | $ 57,159 | $ 123,767 | $ 114,101 |
| Noninterest income | 8,345 | 7,050 | 16,356 | 18,548 |
| Noninterest expense | 31,533 | 31,324 | 76,005 | 62,481 |
| Less: debt termination expense | | | (13,870) | |
| Adjusted noninterest expense | $ 31,533 | $ 31,324 | $ 62,135 | $ 62,481 |
| Efficiency ratio | 44.35% | 48.78% | 54.24% | 47.10% |
| Adjusted efficiency ratio | 44.35% | 48.78% | 44.34% | 47.10% |
| Adjusted noninterest expense | $ 31,533 | $ 31,324 | $ 62,135 | $ 62,481 |
| Average assets | 7,487,788 | 7,035,374 | 7,468,649 | 6,904,737 |
| Adjusted noninterest expense to average assets [1] | 1.69% | 1.79% | 1.68% | 1.82% |

[1] Annualized

39

Table of Contents

***Income and Expense Related to Acquired SJB Assets***

The following table summarizes the components of income and expense related to SJB assets excluding normal accretion of interest income on PCI loans for the periods presented.

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (Dollars in thousands) | | | |
| Interest income | | | | |
| Interest income-accretion | $ 1,032 | $ 1,467 | $ 2,012 | $ 3,174 |
| Noninterest income | | | | |
| Decrease in FDIC loss sharing asset | (413) | (1,467) | (803) | (3,174) |
| Net gain on sale of OREO | | 19 | | 19 |
| Noninterest expense | | | | |
| Legal and professional | (39) | 57 | (70) | 65 |
| OREO expenses | (3) | (41) | (2) | (46) |
| Other expenses (appraisals, and etc.) | | (39) | 29 | (82) |
| Net income (loss) before income tax (expense) benefit related to SJB assets | $ 577 | $ (4) | $ 1,166 | $ (44) |

Income and expense related to PCI loans include accretion of the difference between the carrying amount of the PCI loans and their expected cash flows, net decrease in the FDIC loss sharing asset as well as the other noninterest income and noninterest expenses related to SJB assets.

The discount accretion of $1.0 million for the second quarter 2015, recognized as part of interest income from PCI loans, decreased $435,000, compared to $1.5 million for the second quarter of 2014. The net decrease in the FDIC loss sharing asset was $413,000 for the second quarter of 2015, compared to a net decrease of $1.5 million for the second quarter of 2014, as the loss sharing agreement for commercial loans expired in October 2014.

PCI loans decreased $37.4 million to $110.7 million at June 30, 2015 from $148.2 million at June 30, 2014. At June 30, 2015, the remaining discount associated with the PCI loans approximated $5.7 million. Based on the Company s regular forecast of expected cash flows from these loans, approximately $3.5 million of the discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which approximates 3.4 years and 1.3 years, respectively. The loss sharing agreement for commercial loans expired October 16, 2014. At June 30, 2015, there was a $476,000 liability for amounts owed to the FDIC as a result of recoveries of previously charged off loans or OREO assets. Refer to Note 5 Acquired SJB Assets and FDIC Loss Sharing Asset for total loans by type at June 30, 2015 and December 31, 2014, respectively. Refer to Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014 for a more detailed description of the FDIC loss sharing asset.

There were no gains on sale of OREO assets for the six months ended June 30, 2015, compared to $19,000 for the same period of 2014.

***Net Interest Income***

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). Net interest margin is the taxable-equivalent (TE) of net interest income as a percentage of average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average earning assets minus the cost of average interest-bearing liabilities. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the 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 earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to earning assets, and in the growth and maturity of earning assets. See Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operation Asset/Liability and Market Risk Management Interest Rate Sensitivity Management included herein.

**Table of Contents**

The tables below present 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.

| | For the Three Months Ended June 30, 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Average Balance** | **Interest** | **Yield/ Rate** | **Average Balance** | **Interest** | **Yield/ Rate** |
| | *(Dollars in thousands)* | | | | | |
| INTEREST-EARNING ASSETS | | | | | | |
| Investment securities (1) | | | | | | |
| Taxable | $ 2,496,341 | $ 12,820 | 2.06% | $ 2,272,756 | $ 11,686 | 2.05% |
| Tax-advantaged | 538,589 | 4,719 | 4.81% | 571,740 | 5,186 | 4.97% |
| Investment in FHLB stock | 21,590 | 1,414(4) | 25.91% | 26,264 | 526 | 8.03% |
| Federal funds sold and interest-earning deposits with other institutions | 320,720 | 240 | 0.30% | 288,103 | 260 | 0.36% |
| Loans held-for-sale | | | | | | |
| Loans (2) | 3,742,156 | 44,290 | 4.75% | 3,517,984 | 42,091 | 4.80% |
| Yield adjustment to interest income from discount accretion on PCI loans | (6,304) | 1,032 | | (10,801) | 1,467 | |
| Total interest-earning assets | 7,113,092 | 64,515 | 3.74% | 6,666,046 | 61,216 | 3.80% |
| Total noninterest-earning assets | 374,696 | | | 369,328 | | |
| Total assets | $ 7,487,788 | | | $ 7,035,374 | | |
| INTEREST-BEARING LIABILITIES | | | | | | |
| Savings deposits (3) | $ 1,996,273 | 965 | 0.19% | $ 1,867,228 | 877 | 0.19% |
| Time deposits | 748,915 | 342 | 0.18% | 691,188 | 345 | 0.20% |
| Total interest-bearing deposits | 2,745,188 | 1,307 | 0.19% | 2,558,416 | 1,222 | 0.19% |
| FHLB advances and other borrowings | 620,356 | 450 | 0.29% | 852,257 | 2,835 | 1.33% |
| Interest-bearing liabilities | 3,365,544 | 1,757 | 0.21% | 3,410,673 | 4,057 | 0.48% |
| Noninterest-bearing deposits | 3,120,021 | | | 2,735,042 | | |
| Other liabilities | 90,811 | | | 70,373 | | |
| Stockholders equity | 911,412 | | | 819,286 | | |
| Total liabilities and stockholders equity | $ 7,487,788 | | | $ 7,035,374 | | |
| Net interest income | | $ 62,758 | | | $ 57,159 | |
| Net interest income excluding discount on PCI loans | | $ 61,726 | | | $ 55,692 | |

| | | |
|---|---|---|
| Net interest spread - tax equivalent | 3.53% | 3.32% |
| Net interest spread -tax equivalent excluding PCI discount | 3.47% | 3.23% |
| Net interest margin | 3.55% | 3.44% |
| Net interest margin - tax equivalent | 3.65% | 3.55% |
| Net interest margin - tax equivalent excluding PCI discount | 3.58% | 3.46% |
| Net interest margin excluding loan fees | 3.50% | 3.39% |
| Net interest margin excluding loan fees - tax equivalent | 3.60% | 3.50% |

(1) Non tax-equivalent (TE) rate was 2.32% and 2.37% for the three months ended June 30, 2015 and 2014, respectively.

(2) Includes loan fees of $780 and $769 for the three months ended June 30, 2015 and 2014, respectively. Prepayment penalty fees of $1,078 and $791 are included in interest income for the three months ended June 30, 2015 and 2014, respectively.

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

(4) Includes a special dividend from the FHLB of $923,000.

Table of Contents

| | For the Six Months Ended June 30, 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| | | | (Dollars in thousands) | | | |
| INTEREST-EARNING ASSETS | | | | | | |
| Investment securities (1) | | | | | | |
| Taxable | $ 2,495,164 | $ 25,781 | 2.07% | $ 2,171,572 | $ 21,965 | 2.03% |
| Tax-advantaged | 550,458 | 9,730 | 4.84% | 571,476 | 10,464 | 5.01% |
| Investment in FHLB stock | 23,454 | 1,883(4) | 16.19% | 28,981 | 1,130 | 7.86% |
| Federal funds sold and interest-earning deposits with other institutions | 287,234 | 437 | 0.30% | 278,732 | 505 | 0.36% |
| Loans held-for-sale | | | | 182 | | |
| Loans (2) | 3,738,811 | 88,852 | 4.79% | 3,500,791 | 85,040 | 4.90% |
| Yield adjustment to interest income from discount accretion on PCI loans | (6,768) | 2,012 | | (11,744) | 3,174 | |
| Total interest-earning assets | 7,088,353 | 128,695 | 3.76% | 6,539,990 | 122,278 | 3.89% |
| Total noninterest-earning assets | 380,296 | | | 364,747 | | |
| Total assets | $ 7,468,649 | | | $ 6,904,737 | | |
| INTEREST-BEARING LIABILITIES | | | | | | |
| Savings deposits (3) | $ 2,001,539 | 1,929 | 0.19% | $ 1,786,445 | 1,756 | 0.20% |
| Time deposits | 750,513 | 671 | 0.18% | 681,535 | 652 | 0.19% |
| Total interest-bearing deposits | 2,752,052 | 2,600 | 0.19% | 2,467,980 | 2,408 | 0.20% |
| FHLB advances and other borrowings | 696,985 | 2,328 | 0.67% | 903,751 | 5,769 | 1.29% |
| Interest-bearing liabilities | 3,449,037 | 4,928 | 0.29% | 3,371,731 | 8,177 | 0.49% |
| Noninterest-bearing deposits | 3,045,889 | | | 2,657,203 | | |
| Other liabilities | 73,047 | | | 71,693 | | |
| Stockholders equity | 900,676 | | | 804,110 | | |
| Total liabilities and stockholders equity | $ 7,468,649 | | | $ 6,904,737 | | |
| Net interest income | | $ 123,767 | | | $ 114,101 | |
| Net interest income excluding discount on PCI loans | | $ 121,755 | | | $ 110,927 | |
| Net interest spread - tax equivalent | | | 3.47% | | | 3.40% |
| Net interest spread - tax equivalent excluding PCI discount | | | 3.41% | | | 3.29% |
| Net interest margin | | | 3.52% | | | 3.52% |
| Net interest margin - tax equivalent | | | 3.62% | | | 3.63% |

| | | |
|---|---|---|
| Net interest margin - tax equivalent excluding PCI discount | 3.56% | 3.53% |
| Net interest margin excluding loan fees | 3.46% | 3.46% |
| Net interest margin excluding loan fees - tax equivalent | 3.57% | 3.58% |

(1) Non tax-equivalent (TE) rate was 2.34% and 2.37% for the six months ended June 30, 2015 and 2014, respectively.

(2) Includes loan fees of $1,716 and $1,560 for the six months ended June 30, 2015 and 2014, respectively. Prepayment penalty fees of $2,460 and $1,376 are included in interest income for the six months ended June 30, 2015 and 2014, respectively.

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

(4) Includes a special dividend from the FHLB of $923,000.

**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 June 30, 2015 and 2014 include a yield adjustment of $1.0 million and $1.5 million, respectively. Net interest income for the six months ended June 30, 2015, and 2014 include a yield adjustment of $2.0 million and $3.2 million, 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 June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | *(Dollars in thousands)* | | | | | |
| | Average Balance | Interest | Yield | Average Balance | Interest | Yield |
| Total interest-earning assets (TE) | $ 7,113,092 | $ 66,261 | 3.74% | $ 6,666,046 | $ 63,122 | 3.80% |
| Discount on acquired PCI loans | 6,304 | (1,032) | | 10,801 | (1,467) | |
| Total interest-earning assets, excluding PCI loan discount and yield adjustment | $ 7,119,396 | $ 65,229 | 3.68% | $ 6,676,847 | $ 61,655 | 3.70% |
| Net interest income and net interest margin (TE) | | $ 64,504 | 3.65% | | $ 59,065 | 3.55% |
| Yield adjustment to interest income from discount accretion on acquired PCI loans | | (1,032) | | | (1,467) | |
| Net interest income and net interest margin (TE), excluding yield adjustment | | $ 63,472 | 3.58% | | $ 57,598 | 3.46% |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | *(Dollars in thousands)* | | | | | |
| | Average Balance | Interest | Yield | Average Balance | Interest | Yield |
| Total interest-earning assets (TE) | $ 7,088,353 | $ 132,278 | 3.76% | $ 6,539,990 | $ 126,114 | 3.89% |
| Discount on acquired PCI loans | 6,768 | (2,012) | | 11,744 | (3,174) | |
| Total interest-earning assets, excluding PCI loan discount and yield adjustment | $ 7,095,121 | $ 130,266 | 3.70% | $ 6,551,734 | $ 122,940 | 3.78% |
| Net interest income and net interest margin (TE) | | $ 127,350 | 3.62% | | $ 117,937 | 3.63% |
| Yield adjustment to interest income from discount accretion on acquired PCI loans | | (2,012) | | | (3,174) | |

| | | | | |
|---|---|---|---|---|
| Net interest income and net interest margin (TE), excluding yield adjustment | $ 125,338 | 3.56% | $ 114,763 | 3.53% |

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

Table of Contents

| | Comparision of Three Months Ended June 30, 2015 Compared to 2014 Increase (Decrease) Due to | | | |
|---|---|---|---|---|
| | Volume | Rate | Rate/ Volume | Total |
| | (Dollars in thousands) | | | |
| Interest income: | | | | |
| Taxable investment securities | $ 1,060 | $ 67 | $ 7 | $ 1,134 |
| Tax-advantaged investment securities | (306) | (171) | 10 | (467) |
| Investment in FHLB stock | (96) | 1,197 | (213) | 888 |
| Fed funds sold & interest-earning deposits with other institutions | 29 | (44) | (5) | (20) |
| Loans | 2,683 | (455) | (29) | 2,199 |
| Yield adjustment from discount accretion on PCI loans | (612) | 303 | (126) | (435) |
| Total interest income | 2,758 | 897 | (356) | 3,299 |
| Interest expense: | | | | |
| Savings deposits | 61 | 26 | 1 | 88 |
| Time deposits | 29 | (29) | (3) | (3) |
| FHLB advances and other borrowings | (771) | (2,217) | 603 | (2,385) |
| Total interest expense | (681) | (2,220) | 601 | (2,300) |
| Net interest income | $ 3,439 | $ 3,117 | $ (957) | $ 5,599 |

| | Comparision of Six Months Ended June 30, 2015 Compared to 2014 Increase (Decrease) Due to | | | |
|---|---|---|---|---|
| | Volume | Rate | Rate/ Volume | Total |
| | (Dollars in thousands) | | | |
| Interest income: | | | | |
| Taxable investment securities | $ 3,305 | $ 444 | $ 67 | $ 3,816 |
| Tax-advantaged investment securities | (392) | (355) | 13 | (734) |
| Investment in FHLB stock | (216) | 1,197 | (228) | 753 |
| Fed funds sold & interest-earning deposits with other institutions | 15 | (81) | (2) | (68) |
| Loans | 5,785 | (1,847) | (126) | 3,812 |
| Yield adjustment from discount accretion on PCI loans | (1,345) | 317 | (134) | (1,162) |
| Total interest income | 7,152 | (325) | (410) | 6,417 |
| Interest expense: | | | | |
| Savings deposits | 211 | (34) | (4) | 173 |
| Time deposits | 66 | (43) | (4) | 19 |
| FHLB advances and other borrowings | (1,320) | (2,750) | 629 | (3,441) |

| | | | | |
|---|---|---|---|---|
| Total interest expense | (1,043) | (2,827) | 621 | (3,249) |
| Net interest income | $ 8,195 | $ 2,502 | $ (1,031) | $ 9,666 |

Net interest income, before provision for loan losses, of $62.8 million for the second quarter of 2015 increased $5.6 million, or 9.80%, compared to the second quarter of 2014. Second quarter net interest income was positively impacted by both loan income and income from investment securities. Dividends from FHLB stock of $1.4 million also increased $888,000 over the second quarter of 2014, primarily due to a special dividend of $923,000 for the second quarter of 2015. Interest income and fees on loans for the second quarter of 2015 totaled $45.3 million, which included $1.0 million of discount accretion from principal reductions, payoffs and improved credit loss experienced on PCI loans acquired from SJB. This represented a $220,000, or 0.48%, decrease 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, and an increase of $1.8 million, or 4.05%, from the second quarter of 2014, which included $1.5 million of discount accretion on PCI loans. Our net interest income for the second quarter of 2015 was also positively impacted by a $1.4 million decrease in quarter-over-quarter interest expense primarily as a result of the $200.0 million repayment of fixed rate borrowings from the FHLB.

Our net interest margin, tax equivalent (TE), was 3.65% for the second quarter 2015, compared to 3.59% for the first quarter of 2015 and 3.55% for the second quarter of 2014. Total average earning asset yields (TE) were 3.74% for the second quarter of 2015, compared to 3.77% for the first quarter of 2015 and 3.80% for the second quarter of 2014. Total cost of funds was 0.11% for the second quarter of 2015, compared to 0.20% for the first quarter of 2015 and 0.26% for the second quarter of 2014.

The average balance of total loans (excluding PCI discount) increased $224.2 million to $3.74 billion for the second quarter of 2015, compared to $3.52 billion for the second quarter of 2014. The average yield on loans (excluding PCI discount) was 4.75% for the second quarter of 2015, compared to 4.80% for the second quarter of 2014. We earned $1.1 million in loan prepayment penalty fees for the second quarter of 2015, compared with $1.4 million for the first quarter of 2015 and $791,000 for the second quarter of 2014.

Total average earning assets of $7.11 billion increased $447.0 million, or 6.71%, from $6.67 billion for the second quarter of 2014. This increase was due to a $228.7 million increase in average loans, net of deferred fees and discounts to $3.74 billion for the second quarter of 2015, compared to $3.51 billion for the second quarter of 2014. Total investment securities, increased $190.4 million to $3.03 billion for the second quarter of 2015, compared to $2.84 billion for the second quarter of 2014. Average overnight funds sold to the Federal Reserve and average interest-earning deposits with other institutions also increased $32.6 million to $320.7 million for the second quarter of 2015, compared to $288.1 million for the second quarter of 2014. These increases were partially offset by a $4.7 million decrease our the average investment in FHLB stock.

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 June 30, 2015 and 2014. As of June 30, 2015 and 2014, we had $22.2 million and $44.0 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 $780,000 and $1.7 million for the three and six months ended June 30, 2015, respectively, compared to $769,000 and $1.6 million for the three and six months ended June 30, 2014, respectively.

Interest income on investments of $17.5 million for the second quarter of 2015, increased $667,000, or 3.95%, from $16.9 million for the second quarter of 2014. Total TE yield on investments was 2.56% for the second quarter of 2015, compared to 2.64% for the same period in 2014. During the second quarter of 2015, we purchased $109.4 million of MBS with an average yield of approximately 2.06%. Our new purchases of MBS have an average duration of approximately four years. We purchased $144.4 million of CMOs with an average yield of approximately 2.10%. Our new purchases of CMOs have an average duration of approximately four years. We also purchased $9.1 million in municipal securities with an average tax-equivalent yield of approximately 3.63%.

Interest expense of $1.8 million for the second quarter of 2015 decreased $2.3 million, or 56.69%, compared to $4.1 million for the second quarter of 2014. The average rate paid on interest-bearing liabilities decreased 27 basis points to

0.21% for the second quarter of 2015, from 0.48% for the second quarter of 2014, primarily as a result of the repayment of the $200 million FHLB advance during the first quarter of 2015, as well as the continued low interest rate environment experienced.

**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 credit losses within the existing loan portfolio.

The allowance for loan losses totaled $59.6 million at June 30, 2015, compared to $59.8 million at December 31, 2014. The allowance for loan losses was reduced by $2.0 million due to the improved credit quality, offset by net recoveries of $1.7 million for the six months ended June 30, 2015. We recorded a 2.0 million loan loss provision recapture for the second quarter of 2015, compared to a $7.6 million loan loss provision recapture for the same period of 2014. We believe the allowance is appropriate at June 30, 2015. 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, excluding PCI loans, as of June 30, 2015 and December 31, 2014 was 1.62%. 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 $1.7 million for the six months ended June 30, 2015, compared to $839,000 for the same period of 2014.

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 October 16, 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, 2014 for a more detailed discussion about the FDIC loss sharing asset. During the six months ended June 30, 2015 and 2014, there was zero in net charge-offs or recoveries and $39,000 in net charge-offs, respectively, for loans in excess of the amount originally expected in the fair value of the loans at acquisition.

Table of Contents

*Noninterest Income*

Noninterest income includes income derived from special services offered, such as CitizensTrust, BankCard services, international banking, and other business services. Also included in noninterest income are service charges and fees, primarily from deposit accounts, gains (net of losses) from the disposition of investment securities, loans, other real estate owned, and fixed assets, and other revenues not included as interest on earning assets.

The following table sets forth the various components of noninterest income for the periods presented.

| | For the Three Months Ended June 30, 2015 | For the Three Months Ended June 30, 2014 | Variance $ | Variance % | For the Six Months Ended June 30, 2015 | For the Six Months Ended June 30, 2014 | Variance $ | Variance % |
|---|---|---|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | | | | |
| Noninterest income: | | | | | | | | |
| Service charges on deposit accounts | $ 3,952 | $ 3,905 | $ 47 | 1.20% | $ 7,913 | $ 7,733 | $ 180 | 2.33% |
| Trust and investment services | 2,181 | 2,133 | 48 | 2.25% | 4,332 | 4,058 | 274 | 6.75% |
| Bankcard services | 842 | 923 | (81) | -8.78% | 1,575 | 1,701 | (126) | -7.41% |
| BOLI income | 808 | 601 | 207 | 34.44% | 1,457 | 1,239 | 218 | 17.59% |
| Decrease in FDIC loss sharing asset, net | (413) | (1,467) | 1,054 | 71.85% | (803) | (3,174) | 2,371 | 74.70% |
| Gain on OREO, net | 132 | 130 | 2 | 1.54% | 256 | 135 | 121 | 89.63% |
| Gain on sale of loans held-for-sale | | | | | | 5,330 | (5,330) | -100.00% |
| Other | 843 | 825 | 18 | 2.18% | 1,626 | 1,526 | 100 | 6.55% |
| Total noninterest income | $ 8,345 | $ 7,050 | $ 1,295 | 18.37% | $ 16,356 | $ 18,548 | $ (2,192) | -11.82% |

*Second Quarter of 2015 Compared to the Second Quarter of 2014*

Noninterest income of $8.3 million for the second quarter of 2015 increased $1.3 million, or 18.37%, over noninterest income of $7.1 million for the second quarter of 2014. The increase was primarily due to a $413,000 net decrease in the FDIC loss sharing asset during the second quarter of 2015, compared to a $1.5 million net decrease in the FDIC loss sharing asset for the second quarter of 2014.

CitizensTrust consists of Wealth Management and Investment Services income. The Wealth Management group provides a variety of services, which include asset management, financial planning, estate planning, retirement planning, private and corporate trustee services, and probate services. Investment Services provides self-directed brokerage, 401(k) plans, mutual funds, insurance and other non-insured investment products. At June 30, 2015, CitizensTrust had approximately $2.45 billion in assets under management and administration, including $1.90 billion in assets under management. CitizensTrust generated fees of $2.1 million for the second quarter of 2015, compared to $2.2 million for the second quarter of 2014.

The Bank invests in Bank-Owned Life Insurance (BOLI). BOLI involves the purchasing of life insurance by the Bank on a selected group of employees. The Bank is the owner and beneficiary of these policies. BOLI is recorded as an asset at its cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties. BOLI income of $808,000 for the second quarter of 2015 increased $207,000, or 34.44%, from the second quarter of 2014.

*Six Months of 2015 Compared to the Six Months of 2014*

The $2.2 million decrease in noninterest income for the six months of 2015 was primarily due to a $5.3 million pre-tax gain on the sale of one loan held-for-sale in the first quarter of 2014. This was partially offset by an $803,000 net decrease in the FDIC loss sharing asset for the six months ended June 2015, compared to a $3.2 million net decrease in the FDIC loss sharing asset for the same period of 2014.

***Noninterest Expense***

The following table summarizes the various components of noninterest expense for the periods presented.

| | For the Three Months Ended June 30, 2015 | For the Three Months Ended June 30, 2014 | Variance $ | Variance % | For the Six Months Ended June 30, 2015 | For the Six Months Ended June 30, 2014 | Variance $ | Variance % |
|---|---|---|---|---|---|---|---|---|
| | *(Dollars in thousands)* | | | | | | | |
| Noninterest expense: | | | | | | | | |
| Salaries and employee benefits | $ 19,648 | $ 18,387 | $ 1,261 | 6.86% | $ 38,943 | $ 37,804 | $ 1,139 | 3.01% |
| Occupancy | 2,810 | 2,704 | 106 | 3.92% | 5,480 | 5,521 | (41) | -0.74% |
| Equipment | 903 | 972 | (69) | -7.10% | 1,885 | 1,880 | 5 | 0.27% |
| Professional services | 1,527 | 1,646 | (119) | -7.23% | 2,680 | 3,010 | (330) | -10.96% |
| Software licenses and maintenance | 993 | 1,010 | (17) | -1.68% | 2,023 | 2,075 | (52) | -2.51% |
| Stationery and supplies | 347 | 337 | 10 | 2.97% | 686 | 769 | (83) | -10.79% |
| Telecommunications expense | 375 | 362 | 13 | 3.59% | 819 | 677 | 142 | 20.97% |
| Promotion | 1,201 | 1,341 | (140) | -10.44% | 2,528 | 2,607 | (79) | -3.03% |
| Amortization of intangible assets | 239 | 193 | 46 | 23.83% | 507 | 315 | 192 | 60.95% |
| Debt termination expense | | | | | 13,870 | | 13,870 | 100.00% |
| Regulatory assessments | 1,034 | 997 | 37 | 3.71% | 2,080 | 1,958 | 122 | 6.23% |
| Loan expense | 165 | 321 | (156) | -48.60% | 419 | 558 | (139) | -24.91% |
| OREO expense | 251 | 113 | 138 | 122.12% | 335 | 138 | 197 | 142.75% |
| Recapture of provision for unfunded loan commitments | | | | | (500) | | (500) | -100.00% |
| Acquisition related expenses | | 865 | (865) | -100.00% | | 1,292 | (1,292) | -100.00% |
| Other | 2,040 | 2,076 | (36) | -1.73% | 4,250 | 3,877 | 373 | 9.62% |
| Total noninterest expense | $ 31,533 | $ 31,324 | $ 209 | 0.67% | $ 76,005 | $ 62,481 | $ 13,524 | 21.64% |
| Noninterest expense to average assets, excluding debt termination expense | 1.69% | 1.79% | | | 1.68% | 1.82% | | |
| Efficiency ratio, excluding debt | 44.35% | 48.78% | | | 44.34% | 47.10% | | |

termination expense
(1)

(1) Noninterest expense divided by net interest income before provision for loan losses plus noninterest income.

*Second Quarter of 2015 Compared to the Second Quarter of 2014*

Our ability to control noninterest expenses in relation to asset growth can be measured in terms of total noninterest expense as a percentage of average assets. Excluding the impact of debt termination expense, noninterest expense measured as a percentage of average assets was 1.69% for the second quarter of 2015, compared to 1.79% for the second quarter of 2014.

Our ability to control noninterest expenses in relation to the level of total revenue (net interest income before provision for loan losses plus noninterest income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. For the second quarter of 2015, the efficiency ratio, excluding debt termination expense, was 44.35%, compared to 48.78% for the first quarter of 2014.

Noninterest expense for the second quarter of 2015 was $31.5 million, compared to $31.3 million for the second quarter of 2014. The $1.3 million increase in salaries and employee benefits expense was principally due to our growth and expansion efforts. As part of these growth efforts, we recently hired a new team of bankers to lead our expansion into the southern portion of California s Central Coast markets. Our newly hired six person team has come together to form our new Commercial Banking Center location in Oxnard, California. The Oxnard Commercial Banking Center represents an important and strategic expansion for the Bank into the Ventura County and Santa Barbara County markets.

We also hired a new team of bankers to continue to build out our downtown Los Angeles Commercial Banking Center with the objective of expanding our business activities.

*Six Months of 2015 Compared to the Six Months of 2014*

Noninterest expense for the six months ended June 30, 2015 increased $13.5 million, compared to the same period of 2014. The overall increase was primarily due to a one-time pre-tax debt termination expense of $13.9 million resulting from the repayment of a $200.0 million FHLB fixed rate advance in the first quarter of 2014. The $1.1 million increase in salaries and employee benefits expense was due to our growth and expansion efforts, as described above.

Table of Contents

***Income Taxes***

The Company s effective tax rate for the three and six months ended June 30, 2015 was 35.5%, compared to 37.05% and 36.50% for the three and six months ended June 30, 2014, respectively. Our estimated annual effective tax rate varies depending upon tax-advantaged income as well as available tax credits.

The effective tax rates are below the nominal combined Federal and State tax rate as a result of tax-advantaged income from certain investments and municipal loans and leases as a percentage of total income as well as available tax credits for each period. The majority of tax-advantaged income is derived from municipal securities.

**RESULTS BY BUSINESS SEGMENTS**

We have two reportable business segments: which are (i) Business Financial and Commercial Banking Centers ( Centers ) and (ii) Treasury. The results of these two segments are included in the reconciliation between business segment totals and our consolidated total. Our business segments do not include the results of administration units that do not meet the definition of an operating segment. There are no provisions for loan losses or taxes in the segments as these are accounted for at the corporate level.

Key measures we use to evaluate the segments performance are included in the following table for the three and six months ended June 30, 2015 and 2014. These tables also provide additional significant segment measures useful to understanding the performance of these segments.

***Business Financial and Commercial Banking Centers***

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | *(Dollars in thousands)* | | | |
| **Key Measures:** | | | | |
| *Statement of Operations* | | | | |
| Interest income (1) | $ 44,343 | $ 42,343 | $ 87,922 | $ 82,508 |
| Interest expense (1) | 2,680 | 2,514 | 5,410 | 5,115 |
| Net interest income | 41,663 | 39,829 | 82,512 | 77,393 |
| Noninterest income | 5,319 | 5,162 | 10,386 | 9,944 |
| Noninterest expense | 12,259 | 11,420 | 24,108 | 23,248 |
| Segment pre-tax profit | $ 34,723 | $ 33,571 | $ 68,790 | $ 64,089 |
| *Balance Sheet* | | | | |
| Average loans | $ 2,980,974 | $ 2,797,523 | $ 2,971,695 | $ 2,776,208 |
| Average interest-bearing deposits and customer repurchase agreements | $ 3,054,419 | $ 2,939,290 | $ 3,081,227 | $ 2,907,191 |
| Yield on loans (2) | 4.82% | 4.97% | 4.83% | 4.92% |

| | | | | |
|---|---|---|---|---|
| Rate paid on interest-bearing deposits and customer repurchases | 0.21% | 0.21% | 0.22% | 0.22% |

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

(2) Yield on loans excludes PCI discount accretion, and is accounted for at the Corporate level.

For the second quarter of 2015, the Centers segment pre-tax profit increased by $1.2 million, or 3.43%, primarily due to an increase in net interest income of $2.0 million, or 4.72%, compared to the second quarter of 2014. The $2.0 million increase in interest income for the second quarter of 2015 was principally due to a $183.5 million increase in average loans, partially offset by a 15 basis point drop in the loan yield to 4.82% for the second quarter of 2015, compared to 4.97% for the second quarter of 2014. The increase in interest income was offset by an $839,000 increase in noninterest expense for the three months ended June 30, 2015, compared to the same period of 2014.

Table of Contents

***Treasury***

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (Dollars in thousands) | | | |
| **Key Measures:** | | | | |
| *Statement of Operations* | | | | |
| Interest income (1) | $ 19,210 | $ 17,675 | $ 37,865 | $ 34,107 |
| Interest expense (1) | 15,472 | 15,826 | 31,709 | 30,996 |
| Net interest income | 3,738 | 1,849 | 6,156 | 3,111 |
| Noninterest income | | | | |
| Noninterest expense | 211 | 182 | 424 | 378 |
| Debt termination expense | | | 13,870 | |
| Segment pre-tax profit (loss) | $ 3,527 | $ 1,667 | $ (8,138) | $ 2,733 |
| *Balance Sheet* | | | | |
| Average investments | $ 3,034,930 | $ 2,844,496 | $ 3,045,622 | $ 2,743,048 |
| Average interest-bearing deposits | $ 279,671 | $ 238,352 | $ 279,835 | $ 239,172 |
| Average borrowings | $ 89 | $ 199,417 | $ 59,821 | $ 201,880 |
| Yield on investments-TE | 2.56% | 2.64% | 2.58% | 2.66% |
| Non-tax equivalent yield | 2.32% | 2.37% | 2.34% | 2.37% |
| Average cost of borrowings | 0.00% | 4.73% | 4.72% | 4.68% |

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

For the second quarter of 2015, the Company s Treasury Department reported a pre-tax profit of $3.5 million, compared to a pre-tax profit of $1.7 million for the second quarter of 2014. The $1.9 million increase in pre-tax profit was primarily due to a $1.5 million increase in interest income as a result of a $190.4 million increase in average investments, offset by an 8 basis point decrease in yield on investments (TE).

***Other***

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (Dollars in thousands) | | | |
| **Key Measures:** | | | | |

| | | | | |
|---|---|---|---|---|
| *Statement of Operations* | | | | |
| Interest income (1) | $ 22,516 | $ 20,272 | $ 45,314 | $ 43,274 |
| Interest expense (1) | 5,159 | 4,791 | 10,215 | 9,677 |
| Net interest income | 17,357 | 15,481 | 35,099 | 33,597 |
| Recapture of provision for loan losses | (2,000) | (7,600) | (2,000) | (15,100) |
| Noninterest income | 3,026 | 1,888 | 5,970 | 8,604 |
| Noninterest expense | 19,063 | 19,722 | 37,603 | 38,855 |
| Segment pre-tax profit | $ 3,320 | $ 5,247 | $ 5,466 | $ 18,446 |

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

The Company s administration and other operating departments reported pre-tax profit of $3.3 million for the second quarter of 2015, a decrease of $1.9 million, or 36.72%, from $5.2 million for the second quarter of 2014. The $1.9 million decrease was primarily due to a loan loss provision recapture of $2.0 million for the second quarter of 2015, compared to a $7.6 million loan loss provision recapture for the same period of 2014. This decrease was offset by a $2.2 million increase in interest income, a $1.1 million increase in noninterest income (FDIC loss sharing asset) and a $659,000 decrease in noninterest expense.

Table of Contents

## ANALYSIS OF FINANCIAL CONDITION

The Company reported total assets of $7.70 billion at June 30, 2015. This represented an increase of $319.4 million, or 4.33%, from total assets of $7.38 billion at December 31, 2014. Earning assets of $7.30 billion at June 30, 2015 increased $283.9 million, or 4.04%, when compared with $7.02 billion at December 31, 2014. The increase in earning assets during the first half of 2015 was primarily due to a $310.3 million increase in interest-earning balances due from the Federal Reserve and a $16.9 million increase in investment securities. This was partially offset by a $32.8 million decrease in total loans. Total liabilities were $6.80 billion at June 30, 2015, an increase of $303.6 million, or 4.67%, from total liabilities of $6.50 billion at December 31, 2014. Total deposits of $5.99 billion at June 30, 2015 increased $389.2 million, or 6.94%, from total deposits of $5.60 million at December 31, 2014. Total equity increased $15.9 million, or 1.81%, to $894.0 million at June 30, 2015, compared to total equity of $878.1 million at December 31, 2014.

### *Investment Securities*

The Company maintains a portfolio of investment securities to provide interest income and to serve as a source of liquidity for its ongoing operations. At June 30, 2015, we reported total investment securities of $3.16 billion. This represented an increase of $16.9 million, or 0.54%, from total investment securities of $3.14 billion at December 31, 2014. As of June 30, 2015, the Company had a pre-tax net unrealized holding gain on total investment securities of $40.9 million, compared to a pre-tax net unrealized holding gain of $53.6 million at December 31, 2014. The changes in the net unrealized holding gain resulted primarily from fluctuations in market interest rates from the previous respective quarters. For the six months ended June 30, 2015 and 2014, total repayments/maturities and proceeds from sales of investment securities totaled $256.8 million and $204.6 million, respectively. The Company purchased additional investment securities totaling $296.1 million for the six months ended June 30, 2015, which included $59.7 million of securities purchased but not settled at June 30, 2015. This compares to $469.9 million for the six months ended June 30, 2014, which included $56.4 million of securities purchased but not settled at June 30, 2014. No investment securities were sold during the first six months of 2015 and 2014, respectively.

The tables below set forth investment securities available-for-sale for the periods presented.

| | June 30, 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 | $ 358,052 | $ 16 | $ (6,785) | $ 351,283 | 11.14% |
| Residential mortgage-backed securities | 1,830,381 | 30,770 | (4,661) | 1,856,490 | 58.86% |
| CMOs/REMICs residential | 403,108 | 7,265 | (626) | 409,747 | 12.99% |
| Municipal bonds | 516,798 | 16,488 | (1,671) | 531,615 | 16.85% |
| Other securities | 5,000 | 82 | | 5,082 | 0.16% |
| Total | $ 3,113,339 | $ 54,621 | $ (13,743) | $ 3,154,217 | 100.00% |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 339,071 | $ | $ (8,228) | $ 330,843 | 10.55% |
| Residential mortgage-backed securities | 1,884,370 | 36,154 | (3,028) | 1,917,496 | 61.12% |
| CMOs/REMICs residential | 297,318 | 7,050 | (277) | 304,091 | 9.69% |
| Municipal bonds | 557,823 | 22,463 | (645) | 579,641 | 18.48% |
| Other securities | 5,000 | 87 | | 5,087 | 0.16% |
| Total | $ 3,083,582 | $ 65,754 | $ (12,178) | $ 3,137,158 | 100.00% |

Table of Contents

The weighted-average yield (TE) on the investment portfolio at June 30, 2015 was 2.58% with a weighted-average life of 4.1 years. This compares to a weighted-average yield of 2.58% at December 31, 2014 with a weighted-average life of 3.9 years and a yield of 2.48% at June 30, 2014 with a weighted-average life of 4.1 years.

Approximately 83% of the securities in the total investment portfolio, at June 30, 2015, are issued by the U.S government or U.S. government-sponsored agencies and enterprises, which have the implied guarantee payment of principal and interest. As of June 30, 2015, approximately $240.1 million in U.S. government agency bonds are callable.

The Agency CMO/REMICs are backed by agency-pooled collateral. All non-agency available-for-sale CMO/REMIC issues held are rated investment grade or better by either Standard & Poor s or Moody s, as of June 30, 2015 and December 31, 2014.

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 June 30, 2015 and December 31, 2014. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, evidenced any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired except for one investment security classified as held-to-maturity. A summary of our analysis of these securities and the unrealized losses is described more fully in Note 4 Investment Securities in the notes to the unaudited condensed consolidated financial statements. Economic trends may adversely affect the value of the portfolio of investment securities that we hold.

| | **June 30, 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)* | | | | | |
| Available-for-sale: | | | | | | |
| Government agency/GSEs | $ 45,332 | $ 119 | $ 284,011 | $ 6,666 | $ 329,343 | $ 6,785 |
| Residential mortgage-backed securities | 212,143 | 1,128 | 122,027 | 3,533 | 334,170 | 4,661 |
| CMOs/REMICs residential | 114,943 | 458 | 6,315 | 168 | 121,258 | 626 |
| Municipal bonds | 52,881 | 813 | 24,599 | 858 | 77,480 | 1,671 |
| Other securities | | | | | | |
| Total | $ 425,299 | $ 2,518 | $ 436,952 | $ 11,225 | $ 862,251 | $ 13,743 |

| | **December 31, 2014** | | | | | |
|---|---|---|---|---|---|---|
| | **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)* | | | |
| Available-for-sale: | | | | | | |
| Government agency/GSEs | $ 22,224 | $ 28 | $ 307,873 | $ 8,200 | $ 330,097 | $ 8,228 |
| Residential mortgage-backed securities | 19,636 | 4 | 145,681 | 3,024 | 165,317 | 3,028 |
| CMOs/REMICs residential | | | 31,143 | 277 | 31,143 | 277 |
| Municipal bonds | 1,953 | 23 | 24,812 | 622 | 26,765 | 645 |
| Other securities | | | | | | |
| Total | $ 43,813 | $ 55 | $ 509,509 | $ 12,123 | $ 553,322 | $ 12,178 |

During the six months ended June 30, 2015 and 2014, there were no other-than-temporary impairment recognized on the held-to-maturity investment security.

*Loans*

Total loans and leases, net of deferred fees and discounts was $3.78 billion at June 30, 2015, compared to $3.72 billion at March 31, 2015 and $3.82 billion at December 31, 2014. The quarter-over-quarter increase in loans principally due to increases of approximately $61.5 million in commercial real estate loans, $10.5 million in dairy & livestock and agribusiness loans, and $9.4 million in SFR mortgage loans. The overall increase in loans and leases was partially offset by decreases of $8.4 million in construction real estate loans and $6.5 million in SBA loans.

Total loans, net of deferred loan fees and discounts, comprise 51.82% of our total earning assets of June 30, 2015. The following table presents our total loan portfolio, excluding held-for-sale loans, by type for the periods presented.

**Distribution of Loan Portfolio by Type**

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Commercial and industrial | $ 406,423 | $ 390,011 |
| SBA | 120,566 | 134,265 |
| Real estate: | | |
| Commercial real estate | 2,569,411 | 2,487,803 |
| Construction | 46,927 | 55,173 |
| SFR mortgage | 214,503 | 205,124 |
| Dairy & livestock and agribusiness | 183,984 | 279,173 |
| Municipal lease finance receivables | 74,691 | 77,834 |
| Consumer and other loans | 71,176 | 69,884 |
| Gross loans, excluding PCI loans | 3,687,681 | 3,699,267 |
| Less: Deferred loan fees, net | (8,528) | (8,567) |
| Gross loans, excluding PCI loans, net of deferred loan fees | 3,679,153 | 3,690,700 |
| Less: Allowance for loan losses | (59,554) | (59,825) |
| Net loans, excluding PCI loans | 3,619,599 | 3,630,875 |
| PCI Loans | 110,746 | 133,496 |
| Discount on PCI loans | (5,680) | (7,129) |
| PCI loans, net | 105,066 | 126,367 |
| Total loans and lease finance receivables | $ 3,724,665 | $ 3,757,242 |

As of June 30, 2015, $157.2 million, or 6.12%, of the total commercial real estate loans included loans secured by farmland, compared to $165.6 million, or 6.66%, at December 31, 2014. The loans secured by farmland included $130.0 million for loans secured by dairy & livestock land and $27.2 million for loans secured by agricultural land at June 30, 2015, compared to $144.1 million for loans secured by dairy & livestock land and $21.5 million for loans secured by agricultural land at December 31, 2014. As of June 30, 2015, $184.0 million, or 4.99%, of the total gross loan portfolio (excluding PCI loans) consisted of dairy & livestock and agribusiness commercial loans, compared to $279.2 million, or 7.55%, at December 31, 2014. This was comprised of $171.8 million for dairy & livestock loans and $12.2 million for agribusiness loans at June 30, 2015, compared to $268.1 million for dairy & livestock loans and $11.1 million for agribusiness loans at December 31, 2014.

Table of Contents

**PCI Loans from the SJB Acquisition**

These PCI loans were acquired from SJB on October 16, 2009 and were subject to a loss sharing agreement with the FDIC. Under the terms of such loss sharing agreement, the FDIC absorbs 80% of losses and shares in 80% of loss recoveries up to $144.0 million in losses with respect to covered assets, after a first loss amount of $26.7 million. Under the terms of such loss sharing agreement, the FDIC reimburses the Bank for 95% of losses and share in 95% of loss recoveries in excess of $144.0 million with respect to covered assets. The loss sharing agreement covered 5 years for commercial loans and covers 10 years for single-family residential loans from the October 16, 2009 acquisition date and the loss recovery provisions are in effect for 8 and 10 years, respectively, for commercial and single-family residential loans from the acquisition date. The loss sharing agreement for commercial loans expired on October 16, 2014.

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

The following table presents PCI loans by type for the periods presented.

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Commercial and industrial | $ 13,310 | $ 14,605 |
| SBA | 440 | 1,110 |
| Real estate: | | |
| Commercial real estate | 93,700 | 109,350 |
| Construction | | |
| SFR mortgage | 203 | 205 |
| Dairy & livestock and agribusiness | 276 | 4,890 |
| Municipal lease finance receivables | | |
| Consumer and other loans | 2,817 | 3,336 |
| Gross PCI loans | 110,746 | 133,496 |
| Less: Purchase accounting discount | (5,680) | (7,129) |
| Gross PCI loans, net of discount | 105,066 | 126,367 |
| Less: Allowance for PCI loan losses | | |
| Net PCI loans | $ 105,066 | $ 126,367 |

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

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

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

indices for acquired loans with variable rates of interest.

Commercial and industrial loans are loans to commercial entities to finance capital purchases or improvements, or to provide cash flow for operations. Small Business Administration ( SBA ) loans are loans to commercial entities and/or their principals to finance capital purchases or improvements, to provide cash flow for operations for both short and long term working capital needs to finance sales growth or expansion, and commercial real estate loans to acquire or refinance the entities commercial real estate. Real estate loans are loans secured by conforming trust deeds on real property, including property under construction, land development, commercial property and single-family and multi-family residences. Consumer loans include auto and equipment leases, installment loans to consumers as well as home equity loans and other loans secured by junior liens on real property. Municipal lease finance receivables are leases to municipalities. Dairy & livestock and agribusiness loans are loans to finance the operating needs of wholesale dairy farm operations, cattle feeders, livestock raisers and farmers.

Our loan portfolio is from a variety of areas throughout our marketplace. The following is the breakdown of our total held-for-investment commercial real estate loans, excluding PCI loans, by region for the period presented.

Table of Contents

| | June 30, 2015 | | | |
|---|---|---|---|---|
| | Total Loans | | Commercial Real Estate Loans | |
| | (Dollars in thousands) | | | |
| Los Angeles County | $ 1,544,047 | 41.9% | $ 1,091,341 | 42.5% |
| Central Valley | 658,116 | 17.8% | 442,801 | 17.2% |
| Inland Empire | 656,331 | 17.8% | 577,173 | 22.5% |
| Orange County | 530,259 | 14.4% | 272,047 | 10.6% |
| Other areas (1) | 298,928 | 8.1% | 186,049 | 7.2% |
| | $ 3,687,681 | 100.0% | $ 2,569,411 | 100.0% |

(1) Other areas include loans that are out-of-state or in other areas of California.

The following is the breakdown of total PCI held-for-investment commercial real estate loans by region for the period presented.

| | June 30, 2015 | | | |
|---|---|---|---|---|
| | Total PCI Loans | | PCI - Commercial Real Estate Loans | |
| | (Dollars in thousands) | | | |
| Los Angeles County | $ 9,190 | 8.3% | $ 5,704 | 6.1% |
| Central Valley | 98,758 | 89.2% | 85,198 | 90.9% |
| Other areas (1) | 2,798 | 2.5% | 2,798 | 3.0% |
| | $ 110,746 | 100.0% | $ 93,700 | 100.0% |

(1) Other areas include loans that are out-of-state or in other areas of California.

Our SBA loans are comprised of SBA 504 loans and SBA 7(a) loans. As of June 30, 2015, the Company had $17.8 million of SBA 7(a) loans. The SBA 7(a) loans include revolving lines of credit (SBA Express), term loans to finance long term working capital requirements, capital expenditures, and/or for the purchase or refinance of commercial real estate. SBA 7(a) loans are guaranteed by the SBA at various percentages typically ranging from 50% to 75% of the loan, depending on the type of loan and when it was granted. SBA 7(a) loans are typically granted with a variable interest rate adjusting quarterly along with the monthly payment. The SBA 7(a) term loans can provide financing for up to 100% of the project costs associated with the installation of equipment and/or commercial real estate which can exceed the value of the collateral related to the transaction. These loans also provide extended terms not provided by the Bank s standard equipment and CRE loan programs.

As of June 30, 2015, the Company had $103.2 million of SBA 504 loans. SBA 504 loans include term loans to finance capital expenditures and for the purchase of commercial real estate. Initially the Bank provides two separate loans to the Borrower representing a first and second lien on the collateral. The loan with the first lien is typically at a 50% advance to the acquisition costs and the second lien loan provides the financing for 40% of the acquisition costs with the Borrower s down payment of 10%. When the loans are funded the Bank retains the first lien loan for its term and sells the second lien loan to the SBA subordinated debenture program. A majority of the Bank s 504 loans, over 99%, are granted for the purpose of commercial real estate acquisition.

Our real estate loans are comprised of industrial, office, retail, single-family residences, multi-family residences, and farmland. We strive to have an original loan-to-value ratio at 75% or less, although this is not the case for every loan we make.

Table of Contents

The table below breaks down our real estate portfolio, excluding PCI loans, with the exception of construction loans which are addressed separately.

| | June 30, 2015 | | | |
|---|---|---|---|---|
| | Loan Balance | Percent | Percent Owner-Occupied (1) | Average Loan Balance |
| | *(Dollars in thousands)* | | | |
| SFR mortgage: | | | | |
| SFR mortgage - Direct | $ 153,395 | 5.5% | 100.0% | $ 458 |
| SFR mortgage - Mortgage pools | 61,108 | 2.2% | 100.0% | 211 |
| Total SFR mortgage | 214,503 | 7.7% | | |
| Commercial real estate: | | | | |
| Multi-family | 225,562 | 8.1% | | 1,282 |
| Industrial | 730,043 | 26.2% | 35.8% | 959 |
| Office | 459,066 | 16.5% | 25.7% | 1,048 |
| Retail | 450,061 | 16.2% | 6.3% | 1,526 |
| Medical | 191,870 | 6.9% | 36.9% | 1,777 |
| Secured by farmland (2) | 157,155 | 5.6% | 100.0% | 2,068 |
| Other | 355,654 | 12.8% | 43.8% | 1,252 |
| Total commercial real estate | 2,569,411 | 92.3% | | |
| Total SFR mortgage and commercial real estate loans | $ 2,783,914 | 100.0% | 36.1% | 1,204 |

(1) Represents percentage of reported owner-occupied at origination in each real estate loan category.
(2) The loans secured by farmland included $130.0 million for loans secured by dairy & livestock land and $27.2 million for loans secured by agricultural land at June 30, 2015.

The table below breaks down our PCI real estate portfolio with the exception of construction loans which are addressed separately.

| | June 30, 2015 | | | |
|---|---|---|---|---|
| | Loan Balance | Percent | Percent Owner-Occupied (1) | Average Loan Balance |
| | *(Dollars in thousands)* | | | |
| SFR mortgage | | | | |
| SFR mortgage - Direct | $ 203 | 0.2% | 100.0% | $ 102 |
| SFR mortgage - Mortgage pools | | | | |

| | | | | |
|---|---|---|---|---|
| Total SFR mortgage | 203 | 0.2% | | |
| Commercial real estate: | | | | |
| Multi-family | 2,607 | 2.8% | | 1,304 |
| Industrial | 22,338 | 23.8% | 45.1% | 588 |
| Office | 10,526 | 11.2% | 25.5% | 554 |
| Retail | 10,505 | 11.2% | 33.0% | 584 |
| Medical | 11,774 | 12.5% | 89.8% | 1,177 |
| Secured by farmland | 4,177 | 4.5% | 100.0% | 298 |
| Other (2) | 31,773 | 33.8% | 60.3% | 794 |
| Total commercial real estate | 93,700 | 99.8% | | |
| Total SFR mortgage and commercial real estate loans | $ 93,903 | 100.0% | 53.6% | 733 |

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

(2) Includes loans associated with hospitality, churches, gas stations, and hospitals, which represents approximately 76% of other loans.

56

The SFR mortgage  Direct loans in the table above include SFR mortgage loans which are currently generated through an internal program in our Centers. This program is focused on owner-occupied SFR s with defined loan-to-value, debt-to-income and other credit criteria, such as FICO credit scores, that we believe are appropriate for loans which are primarily intended for retention in our Bank s loan portfolio. The program was changed to enable our Bank to underwrite and process SFR mortgage loans generated through our Centers, as opposed to our past practice of contracting with an outside party for certain underwriting and related loan origination services. This program involving Bank-generated referrals, credit guidelines and underwriting was initiated during the quarter ended December 31, 2012. We originated loan volume in the aggregate principal amount of $21.7 million and $30.7 million under this program during the three months and six months ended June 30, 2015, respectively.

In addition, we previously purchased pools of owner-occupied single-family loans from real estate lenders, SFR mortgage  Mortgage Pools, with a remaining balance totaling $61.1 million at June 30, 2015. These loans were purchased with average FICO scores predominantly ranging from 700 to over 800 and overall original loan-to-value ratios of 60% to 80%. These pools were purchased to diversify our loan portfolio. We have not purchased any mortgage pools since August 2007.

## Construction Loans

As of June 30, 2015, the Company had $46.9 million in construction loans. This represents 1.24% of total gross loans held-for-investment. There were no PCI construction loans at June 30, 2015. Although our construction loans are located throughout our market footprint, the majority of construction loans consist of commercial land development and construction projects in Los Angeles and the Inland Empire region of Southern California. At June 30, 2015, construction loans consisted of $29.1 million in SFR and multi-family construction loans and $17.8 million in commercial construction loans. As of June 30, 2015, there were no nonperforming construction loans.

### *Nonperforming Assets*

The following table provides information on nonperforming assets, excluding PCI loans for the periods presented.

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Nonaccrual loans | $ 7,057 | $ 11,901 |
| Troubled debt restructured loans (nonperforming) | 15,167 | 20,285 |
| OREO | 7,835 | 5,637 |
| Total nonperforming assets | $ 30,059 | $ 37,823 |
| Troubled debt restructured performing loans | $ 45,166 | $ 53,589 |
| Percentage of nonperforming assets to total loans outstanding, net of deferred fees, and OREO | 0.79% | 0.99% |
| Percentage of nonperforming assets to total assets | 0.39% | 0.51% |

At June 30, 2015, loans classified as impaired, excluding PCI loans, totaled $67.4 million, or 1.83% of total loans, compared to $85.8 million, or 2.26% of total loans at December 31, 2014. The June 30, 2015 balance included nonperforming loans of $22.2 million. At June 30, 2015, impaired loans which were restructured in a troubled debt restructuring ( TDR ) represented $60.3 million, of which $15.2 million were nonperforming and $45.1 million were performing.

Of the total impaired loans as of June 30, 2015, $55.3 million were considered collateral dependent and measured using the fair value of the collateral based on current appraisals (obtained within 1 year). Impaired loans measured for impairment using the present value of expected future cash flows discounted at the loans effective rate were $12.1 million.

***Troubled Debt Restructurings***

Total TDRs were $60.3 million at June 30, 2015, compared to $73.9 million at December 31, 2014. Of the $15.2 million of nonperforming TDRs at June 30, 2015, all were paying in accordance with the modified terms and $15.2 million have either not demonstrated repayment performance for a sustained period, and/or we have not received all necessary documents to determine the borrower s ability to meet all future principal and interest payments under the modified terms. At June 30, 2015, $45.1 million of performing TDRs were accruing restructured loans. Performing TDRs were granted in response to borrower financial difficulty and generally provide for a modification of loan repayment terms. The performing restructured loans represent the only impaired loans

Table of Contents

accruing interest at each respective reporting date. A performing restructured loan is reasonably assured of repayment and is performing in accordance with the modified terms. We have not restructured loans into multiple loans in what is typically referred to as an A/B note structure, where normally the A note meets current underwriting standards and the B note is typically immediately charged off upon restructuring.

The following table provides a summary of TDRs, excluding PCI loans, for the periods presented.

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Balance | Number of Loans | Balance | Number of Loans |
| | | (Dollars in thousands) | | |
| Performing TDRs: | | | | |
| Commercial and industrial | $ 659 | 4 | $ 711 | 3 |
| SBA | 691 | 1 | 699 | 1 |
| Real Estate: | | | | |
| Commercial real estate | 25,014 | 10 | 24,694 | 11 |
| Construction | 7,651 | 1 | 7,651 | 1 |
| SFR mortgage | 3,643 | 11 | 3,722 | 11 |
| Dairy & livestock and agribusiness | 7,091 | 5 | 15,693 | 8 |
| Consumer | 417 | 1 | 419 | 1 |
| Total performing TDRs | $ 45,166 | 33 | $ 53,589 | 36 |
| Nonperforming TDRs: | | | | |
| Commercial and industrial | $ 857 | 6 | $ 960 | 6 |
| SBA | 330 | 1 | | |
| Real Estate: | | | | |
| Commercial real estate | 13,980 | 6 | 19,222 | 11 |
| Construction | | | | |
| SFR mortgage | | | | |
| Dairy & livestock and agribusiness | | | 103 | 1 |
| Total nonperforming TDRs | $ 15,167 | 13 | $ 20,285 | 18 |
| Total TDRs | $ 60,333 | 46 | $ 73,874 | 54 |

At June 30, 2015 and December 31, 2014, $432,000 and $726,000 of the allowance for loan losses was specifically allocated to TDRs, respectively. Impairment amounts identified are typically charged off against the allowance at the time a probable loss is determined. There were no charge-offs of TDRs during the quarter ended June 30, 2015 and 2014, respectively.

Table of Contents

The table below provides trends in our nonperforming assets and delinquencies, excluding PCI loans, for the periods presented.

**Nonperforming Assets and Delinquency Trends**

| | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 | June 30, 2014 |
|---|---|---|---|---|---|
| **Nonperforming loans:** | | | | | |
| Commercial and industrial | $ 903 | $ 952 | $ 2,308 | $ 3,423 | $ 4,831 |
| SBA | 2,456 | 2,463 | 2,481 | 3,243 | 2,138 |
| Real estate: | | | | | |
| Commercial real estate [1] | 14,967 | 16,787 | 23,318 | 14,795 | 14,866 |
| Construction [1] | | | | 9,666 | 9,767 |
| SFR mortgage | 3,400 | 2,233 | 3,240 | 3,999 | 6,765 |
| Dairy & livestock and agribusiness | | 103 | 103 | 1,463 | 5,133 |
| Consumer and other loans | 498 | 463 | 736 | 461 | 470 |
| **Total** | **$ 22,224** | **$ 23,001** | **$ 32,186** | **$ 37,050** | **$ 43,970** |
| **% of Total gross loans** | **0.59%** | **0.62%** | **0.84%** | **1.04%** | **1.26%** |
| **Past due 30-89 days:** | | | | | |
| Commercial and industrial | $ 246 | $ 112 | $ 978 | $ 673 | $ 516 |
| SBA | | | 75 | | 689 |
| Real estate: | | | | | |
| Commercial real estate | 1,333 | 35 | 122 | | 732 |
| Construction | | | | | |
| SFR mortgage | 355 | 1,613 | 425 | | 161 |
| Dairy & livestock and agribusiness | | | | | |
| Consumer and other loans | 2 | 139 | 81 | 15 | 168 |
| **Total** | **$ 1,936** | **$ 1,899** | **$ 1,681** | **$ 688** | **$ 2,266** |
| **% of Total gross loans** | **0.05%** | **0.05%** | **0.04%** | **0.02%** | **0.07%** |
| **OREO:** | | | | | |
| Commercial and industrial | $ | $ 736 | $ 736 | $ 1,254 | $ 1,638 |
| Real estate: | | | | | |
| Commercial real estate | 2,967 | 1,518 | | 70 | |
| Construction | 4,868 | 4,868 | 4,901 | 4,901 | 4,901 |
| **Total** | **$ 7,835** | **$ 7,122** | **$ 5,637** | **$ 6,225** | **$ 6,539** |
| **Total nonperforming, past due, and OREO** | **$ 31,995** | **$ 32,022** | **$ 39,504** | **$ 43,963** | **$ 52,775** |
| **% of Total gross loans** | **0.85%** | **0.86%** | **1.03%** | **1.23%** | **1.52%** |

[1] Construction was completed on one $9.6 million nonperforming construction loan which was therefore reflected as a nonperforming commercial real estate loan as of December 31, 2014.

We had $22.2 million in nonperforming loans, excluding PCI loans, defined as nonaccrual loans and nonperforming TDRs, at June 30, 2015, or 0.59% of total loans. This compares to $32.2 million in nonperforming loans at December 31, 2014. At June 30, 2015, six customer relationships comprised $15.7 million, or 70.80%, of our nonperforming loans. Four of these customer relationships are commercial real estate developers (non-owner occupied) and the primary collateral securing these loans is commercial real estate properties. At June 30, 2015, there was $371,000 allowance for loan losses specifically allocated to these loans. There were no charge-offs recorded for these customer relationships during the six months ended June 30, 2015.

We had $7.8 million in OREO at June 30, 2015, compared to $5.6 million in OREO at December 31, 2014 and $6.5 million in OREO at June 30, 2014. As of June 30, 2015, we had five OREO properties compared with four OREO properties at December 31, 2014. During the first half of 2015, we added three OREO properties with a carrying value of $3.5 million and sold two OREO properties with a carrying value of $1.3 million, realizing a net gain on sale of $150,000.

Changes in economic and business conditions have had an impact on our market area and on our loan portfolio. We continually monitor these conditions in determining our estimates of needed reserves. However, we cannot predict the extent to which the deterioration in general economic conditions, real estate values, increases in general rates of interest and changes in the financial conditions or business of a borrower, and drought conditions in California may adversely affect a borrower s ability to pay or the value of our collateral. See Risk Management Credit Risk Management contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

***Acquired SJB Assets***

Loans acquired through the SJB acquisition are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ( ASC 310-30 ). PCI loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonperforming loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of June 30, 2015, there were no PCI loans considered as nonperforming as described above.

At June 30, 2015, there were no OREO properties, which was unchanged from December 31, 2014.

***Allowance for Loan Losses***

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

The allowance for loan losses was $59.6 million as of June 30, 2015. This represents a decrease of $271,000, or 0.45%, compared to the allowance for loan losses of $59.8 million as of December 31, 2014. There was a $2.0 million recapture of provision for loan losses that was recorded for the quarter ended June 30, 2015, compared to a $7.6 million recapture of provision for loan losses for the same period of 2014.

Table of Contents

The table below presents a summary of net charge-offs and recoveries by type, and the resulting allowance for loan losses and (recapture of) provision for loan losses for the periods presented. The table below also includes information on loans, excluding PCI loans, for all periods presented as there was no allowance for PCI loans.

**Summary of Loan Loss Experience**

| | As of and For the Six Months Ended June 30, | |
|---|---|---|
| | **2015** | **2014** |
| | *(Dollars in thousands)* | |
| Allowance for loan losses at beginning of period | $ 59,825 | $ 75,235 |
| Charge-offs: | | |
| Commercial and industrial (2) | 134 | 554 |
| SBA (2) | 33 | |
| Commercial real estate (2) | 107 | 352 |
| Construction | | |
| SFR mortgage | 215 | |
| Dairy & livestock and agribusiness | | |
| Consumer and other loans | 197 | 19 |
| Total charge-offs | 686 | 925 |
| Recoveries: | | |
| Commercial and industrial | 232 | 498 |
| SBA | 37 | 63 |
| Commercial real estate | 1,640 | 138 |
| Construction | 50 | 797 |
| SFR mortgage | 185 | |
| Dairy & livestock and agribusiness | 210 | 242 |
| Consumer and other loans | 61 | 26 |
| Total recoveries | 2,415 | 1,764 |
| Net recoveries | (1,729) | (839) |
| Other reallocation | | |
| (Recapture of) provision for loan losses | (2,000) | (15,100) |
| Allowance for loan losses at end of period | $ 59,554 | $ 60,974 |
| Summary of reserve for unfunded loan commitments: | | |
| Reserve for unfunded loan commitments at beginning of period | $ 7,656 | $ 9,088 |
| (Recapture of) provision for unfunded loan commitments | (500) | |
| Reserve for unfunded loan commitments at end of period | $ 7,156 | $ 9,088 |

| | | |
|---|---|---|
| Reserve for unfunded loan commitments to total unfunded loan commitments | 0.86% | 1.14% |
| Amount of total loans at end of period (1) | $ 3,679,153 | $ 3,482,231 |
| Average total loans outstanding (1) | $ 3,616,586 | $ 3,341,283 |
| Net recoveries to average total loans | -0.05% | -0.03% |
| Net recoveries to total loans at end of period | -0.05% | -0.02% |
| Allowance for loan losses to average total loans | 1.65% | 1.82% |
| Allowance for loan losses to total loans at end of period | 1.62% | 1.75% |
| Net recoveries to allowance for loan losses | -2.90% | -1.38% |
| Net recoveries to recapture of provision for loan losses | 86.45% | 5.55% |

(1) Net of deferred loan origination fees, excluding PCI loans.

(2) SBA loans were reclassified as a separate line item from other loan types as of the respective periods presented.

**Specific allowance:** For impaired loans, we incorporate specific allowances based on loans individually evaluated utilizing one of three valuation methods, as prescribed under ASC 310-10. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the ALLL or, alternatively, a specific allocation will be established and included in the overall ALLL balance. The specific allocation represents $550,000 (0.92%), $1.5 million (2.59%) and $2.2 million (3.63%) of the total allowance as of June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

**General allowance:** The loan portfolio collectively evaluated for impairment under ASC 450-20 is divided into classes of loan receivables between classified loans (including substandard and special mention loans) and unclassified loans, and then further disaggregated into loan segments by loan type with similar risk characteristics. The non-classified loans are divided into 37 segments, including 25 specific segments within the commercial real estate and construction loan portfolios split between owner and non-owner properties and based on property type (i.e. industrial, office, retail, etc.). The allowance is provided for each segment based upon that segment s average historical loss experience over a rolling twenty-quarter period, adjusted for current conditions based on our analysis of specific environmental or qualitative loss factors, as prescribed in the 2006 Interagency Policy Statement on ALLL, affecting the collectability of our loan portfolio that may cause actual loss rates to differ from historical loss experience.

In addition, recognizing the inherent imprecision in the estimation of these loss factors, we also incorporate an *unallocated reserve* that reflects management s best estimate of probable losses not otherwise captured by our qualitative loss factors or otherwise accounted for in our ALLL methodology. Management believes that appropriate drawdowns from usage of the unallocated reserve may include, but are not limited to, (i) consideration of conditions or factors that may not be easily allocated to a specific loan segment, (ii) addressing elevated risks from unique or unusual conditions of volatility and uncertainty affecting the collectability of our loan portfolio, (iii) supporting allocations resulting from refinements to our factors, and (iv) prudent releases of general reserves, if warranted and appropriate when current conditions show demonstrable improvement in credit quality for a sustained period.

Moreover, as conditions change, we may modify or refine our methodology to better reflect risk characteristics that currently impact underlying credit components and the collectability of the loan portfolio. Examples of such modifications or refinements impacting our ALLL in recent quarters include (i) addition of a qualitative factor on changes in the value of underlying collateral for collateral-dependent loans , based on continuing weakness in the values of commercial real estate in our primary lending markets, (ii) increasing the number of segments within the classified and criticized pools primarily to disaggregate our real estate portfolio between owner-occupied and non-owner occupied commercial real estate loans, as well as between residential and non-residential construction loans, and (iii) creating a specific allocated pool for our dairy and livestock loan segment to address perceived weaknesses in this segment due to phenomena such as highly volatile milk and feed prices, reduced levels of cow milk production, shorter cyclical periods between industry highs and lows, unstable values for herd liquidations, lack of adequate farm land to raise forage crops in certain geographical locations, and depleted resources available to certain dairy operators due to periodic industry stress factors.

During the first quarter of 2015, the Bank adjusted several qualitative factors including (i) changes in international, national, regional and local economic and business conditions that affect the collectability of the portfolio, including the condition of various market segments, (ii) changes in the experience, ability, and depth of lending management and other relevant staff, (iii) changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans, and (iv) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions existing portfolio. The changes to the qualitative factors noted above reflect our judgment regarding the effect on our loan portfolio of certain current conditions including, but not limited to, reduced factor rates for the continued improvement in the level of non-accrual loans, classified and criticized loans, and other credit metrics. The Bank applied increased factor rates for heightened risk related to (i) intensifying competition for loans in the local markets we serve, (ii) the adverse impact to our local economy from climate/weather issues including the worsening regional drought, (iii) the adverse impact to our local economy from steep declines in crude oil prices and the resulting industry contraction and its direct and indirect effects, and (iv) the Bank s recent expansion into a new geographical service market.

During the second quarter of 2015, the Bank adjusted three qualitative factors including (i) changes in international, national, regional and local economic and business conditions that affect the collectability of the portfolio, including the condition of various market segments, (ii) changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans, and (iii) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions existing portfolio. The changes to the qualitative factors noted above reflect our judgment regarding (i) reduced factors for the positive impact to our local economies of improving unemployment, continued reduction in new unemployment claims, and the continued improvement in new housing starts, among other positive current conditions; (ii) reduced factors in our Dairy & Livestock loan portfolio for the continued improvement in the level of non-accrual loans, classified and criticized loans, and other credit metrics; and, offset to some extent by, (iii) increased factor rates for the heightened risk related to intensifying competition for loans in the local markets we serve. As a result of the reduction in historical loss rates, the net reduction in qualitative factor rates reflecting improved current conditions, continuing improvement in the levels of classified loans and other credit metrics of the Bank s loan portfolio, and net recoveries both in the current period and year-to-date, the overall level of required allocated reserve balance was reduced under our methodology and the Bank determined that such

Table of Contents

improvement warranted a $2.0 million recapture of loan loss provision for this reporting period. The Bank continues to maintain appropriate levels of unallocated reserves within our historical ranges to address the imprecision in the methodology and uncertainties that may affect inherent losses within the loan portfolio.

While we believe that the allowance at June 30, 2015 was appropriate to absorb losses from any known or inherent risks in the portfolio, no assurance can be given that economic conditions, interest rate fluctuations, conditions of our borrowers, or natural disasters, which adversely affect our service areas or other circumstances or conditions, including those defined above, will not be reflected in increased provisions for loan losses in the future.

***Deposits***

The primary source of funds to support earning assets (loans and investments) is the generation of deposits.

Total deposits were $5.99 billion at June 30, 2015. This represented an increase of $389.2 million, or 6.94%, over total deposits of $5.60 billion at December 31, 2014. The composition of deposits is as follows.

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **Balance** | **Percent** | **Balance** | **Percent** |
| | *(Dollars in thousands)* | | | |
| Noninterest-bearing deposits | $ 3,250,574 | 54.23% | $ 2,866,365 | 51.14% |
| Investment Checking | 343,990 | 5.75% | 346,230 | 6.18% |
| Savings and money market | 1,664,799 | 27.77% | 1,615,856 | 28.83% |
| Time deposits | 734,517 | 12.25% | 776,207 | 13.85% |
| Total deposits | $ 5,993,880 | 100.0% | $ 5,604,658 | 100.0% |

The amount of noninterest-bearing deposits in relation to total deposits is an integral element in achieving a low cost of funds. Noninterest-bearing deposits totaled $3.25 billion at June 30, 2015, representing an increase of $384.2 million, or 13.40%, from noninterest-bearing deposits of $2.87 billion at December 31, 2014. Noninterest-bearing demand deposits represented 54.2% of total deposits as of June 30, 2015, compared to 51.1% of total deposits as of December 31, 2014.

Savings, money market, interest-bearing demand and investment checking accounts, totaled $2.01 billion at June 30, 2015 representing an increase of $46.7 million, or 2.38%, from savings deposits of $1.96 billion at December 31, 2014.

Time deposits totaled $734.5 million at June 30, 2015. This represented a decrease of $41.7 million, or 5.37%, from total time deposits of $776.2 million at December 31, 2014.

***Borrowings***

In order to enhance the Bank s spread between its cost of funds and interest-earning assets, we first seek noninterest-bearing deposits (the lowest cost of funds to the Company). Next, we pursue growth in interest-bearing deposits, and finally, we supplement the growth in deposits with borrowed funds (borrowings and customer repurchase agreements). Average borrowed funds, as a percent of average total funding (total deposits plus borrowed funds) was 9.20% for the second quarter of 2015, compared to 13.50% for the second quarter of 2014.

At June 30, 2015, we had no short term borrowings, compared to $46.0 million at December 31, 2014.

At June 30, 2015, borrowed funds (customer repurchase agreements, FHLB Advances and other borrowings) totaled $662.3 million. This represented a decrease of $146.8 million, or 18.14%, from total borrowed funds of $809.1 million at December 31, 2014.

We also offer a repurchase agreement product with our customers. This product, known as Citizens Sweep Manager, sells our investment securities overnight to our customers under an agreement to repurchase them the next day at a price which reflects the market value of the use of funds by the Bank for the period concerned. These repurchase agreements are signed with customers who want to invest their excess deposits, above a pre-determined balance in a demand deposit account, in order to earn interest. As of June 30, 2015 and December 31, 2014, total customer repurchases were $662.3 million and $563.6 million, respectively, with weighted average interest rates of 0.23% and 0.24% for the three months ended June 30, 2015 and December 31, 2014, respectively.

Table of Contents

On February 23, 2015 we repaid our last outstanding FHLB advance with a fixed interest rate of 4.52%. At December 31, 2014, FHLB advances were $199.5 million.

At June 30, 2015, $2.80 billion of loans and $2.92 billion of investment securities, at carrying value, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

**Aggregate Contractual Obligations**

The following table summarizes our contractual commitments as of June 30, 2015.

| | | Maturity by Period | | | |
|---|---|---|---|---|---|
| | Total | Less Than One Year | One Year Through Three Years | Four Years Through Five Years | Over Five Years |
| | *(Dollars in thousands)* | | | | |
| Deposits (1) | $ 5,993,880 | $ 5,963,604 | $ 15,662 | $ 2,274 | $ 12,340 |
| Customer repurchase agreements (1) | 662,326 | 662,326 | | | |
| Junior subordinated debentures (1) | 25,774 | | | | 25,774 |
| Deferred compensation | 11,093 | 725 | 879 | 457 | 9,032 |
| Operating leases | 17,403 | 5,289 | 8,422 | 3,020 | 672 |
| Advertising agreements | 3,118 | 1,225 | 1,693 | 200 | |
| Total | $ 6,713,594 | $ 6,633,169 | $ 26,656 | $ 5,951 | $ 47,818 |

(1) Amounts exclude accrued interest.

Deposits represent noninterest bearing, money market, savings, NOW, certificates of deposits, brokered and all other deposits held by the Bank.

Customer repurchase agreements represent excess amounts swept from customer demand deposit accounts, which mature the following business day and are collateralized by investment securities. These amounts are due to customers.

On February 23, 2015 we repaid our last remaining FHLB advance with a fixed rate of 4.52%.

Junior subordinated debentures represent the amounts that are due from the Company to CVB Statutory Trust III. The debentures have the same maturity as the Trust Preferred Securities. CVB Statutory Trust III matures in 2036, and became callable in whole or in part in March 2011.

Deferred compensation represents the amounts that are due to former employees based on salary continuation agreements as a result of acquisitions and amounts due to current employees under our deferred compensation plans.

Operating leases represent the total minimum lease payments due under non-cancelable operating leases.

Advertising agreements represent the amounts that are due on various agreements that provide advertising benefits to the Company.

***Off-Balance Sheet Arrangements***

The following table summarizes the off-balance sheet arrangements at June 30, 2015.

Table of Contents

| | | Maturity by Period | | | |
|---|---|---|---|---|---|
| | Total | Less Than One Year | One Year to Three Years | Four Years to Five Years | After Five Years |
| | | *(Dollars in thousands)* | | | |
| Commitment to extend credit: | | | | | |
| Commercial and industrial | $ 348,928 | $ 255,050 | $ 75,508 | $ 5,526 | $ 12,844 |
| SBA | 342 | 134 | 208 | | |
| Real estate: | | | | | |
| Commercial real estate | 79,362 | 20,481 | 12,980 | 35,274 | 10,627 |
| Construction | 58,097 | 36,755 | 11,307 | | 10,035 |
| Dairy & livestock and agribusiness (1) | 258,309 | 157,955 | 100,279 | | 75 |
| Consumer and other loans | 62,716 | 3,950 | 5,016 | 12,378 | 41,372 |
| Total Commitment to extend credit | 807,754 | 474,325 | 205,298 | 53,178 | 74,953 |
| Obligations under letters of credit | 26,814 | 20,800 | 6,014 | | |
| Total | $ 834,568 | $ 495,125 | $ 211,312 | $ 53,178 | $ 74,953 |

(1) Total commitments to extend credit to agribusiness were $13.3 million at June 30, 2015.

As of June 30, 2015, we had commitments to extend credit of approximately $807.8 million, and obligations under letters of credit of $26.8 million. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. We use the same credit underwriting policies in granting or accepting such commitments or contingent obligations as we do for on-balance sheet instruments, which consist of evaluating customers creditworthiness individually. The Company had a reserve for unfunded loan commitments of $7.2 million as of June 30, 2015 and $7.7 million as of December 31, 2014 included in other liabilities.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the financial performance of a customer to a first party. Those guarantees are primarily issued to support private borrowing or purchase arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. When deemed necessary, we hold appropriate collateral supporting those commitments. We do not anticipate any material losses as a result of these transactions.

*Capital Resources*

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources, needs and uses of capital in conjunction with projected increases in assets and the level of risk. As part of this ongoing assessment, the Board of Directors reviews the various components of capital.

The Company s equity capital was $894.0 million at June 30, 2015. This represented an increase of $15.9 million, or 1.81%, from equity capital of $878.1 million at December 31, 2014. The increase during the first half of 2015 resulted from $42.6 million in net earnings and $6.1 million for shares issued pursuant to our stock-based compensation plan, offset by $25.5 million for cash dividends declared on common stock and $7.3 million in other comprehensive income, net of tax, resulting from the net change in fair value of our investment securities portfolio.

During the second quarter of 2015, the Board of Directors of the Company declared a quarterly common stock cash dividend totaling $0.12 per share. Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. CVB s ability to pay cash dividends to its shareholders is subject to restrictions under federal and California law, including restrictions imposed by the Federal Reserve, and covenants set forth in various agreements we are a party to including covenants set forth in our junior subordinated debentures.

In July 2008, our Board of Directors authorized the repurchase of up to 10,000,000 shares of our common stock. During the second quarter of 2015, there were no repurchased shares of our common stock outstanding. As of June 30, 2015, we had 7,420,678 shares of our common stock remaining that are eligible for repurchase.

The Company s Annual Report on Form 10-K for the year ended December 31, 2014 (Management s Discussion and Analysis and Note 19 of the consolidated financial statements) describes the regulatory capital requirements of the Company and the Bank.

In July 2013, the Company s primary federal regulator, the Federal Reserve, and the Bank s primary federal regulator, the FDIC, approved final rules (the New Capital Rules ) establishing a new comprehensive capital framework for U.S. banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision s (the Basel Committee ) December 2010 final capital framework referred to as Basel III for strengthening international capital standards. The New Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Bank, as compared to the previous U.S. general risk-based capital rules. The New Capital Rules revised the definitions and the components of regulatory capital, as well as addressed other issues affecting the numerator in banking institutions regulatory capital ratios. The New Capital Rules also addressed asset risk weights and other matters affecting the denominator in banking institutions regulatory capital ratios and replaced the existing general risk-weighting approach, which was derived from the Basel Committee s 1988 Basel I capital accords, with a more risk-sensitive approach. The New Capital Rules were effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. As expected, the biggest impact to the Company and the Bank from the New Capital Rules was the different risk-weightings of various segments of our loan portfolio. We also elected to opt out of having the accumulated other comprehensive income component of stockholders equity included in the calculation of regulatory capital.

The Bank and the Company are required to meet risk-based capital standards set by their respective regulatory authorities. Including the phase-in of the capital conservation buffer of 2.5% through 2019, the new final fully phased-in capital rule requires the following minimum ratios: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity

Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. While the new final capital rule sets higher regulatory capital standards for the Company and the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company s net income and return on equity, restrict the ability to pay dividends or executive bonuses and require the raising of additional capital.

Under the risk-based capital guidelines in place prior to the effectiveness of the New Capital Rules, there were three fundamental capital ratios. A total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed well capitalized a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10%, 6% and 5%, respectively. Under the capital rules that applied in 2014, there was no Tier 1 leverage requirement for a holding company to be deemed well-capitalized. For further information about our capital ratios, see Item 1. Business Capital Adequacy Requirements as described in our Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents

At June 30, 2015, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios, under the revised capital framework referred to as Basel III, required to be considered well-capitalized for regulatory purposes.

The table below presents the Company s and the Bank s capital ratios as of June 30, 2015 and December 31, 2014.

| | | | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|---|
| **Capital Ratios** | **Adequately Capitalized Ratios** | **Well Capitalized Ratios** | **CVB Financial Corp. Consolidated** | **Citizens Business Bank** | **CVB Financial Corp. Consolidated** | **Citizens Business Bank** |
| Tier 1 leverage capital ratio | 4.00% | 5.00% | 11.12% | 11.00% | 10.86% | 10.77% |
| Common equity Tier I capital ratio | 4.50% | 6.50% | 16.68% | 17.01% | N/A | N/A |
| Tier 1 risk-based capital ratio | 6.00% | 8.00% | 17.20% | 17.01% | 16.99% | 16.85% |
| Total risk-based capital ratio | 8.00% | 10.00% | 18.45% | 18.26% | 18.24% | 18.11% |

Table of Contents

## ASSET/LIABILITY AND MARKET RISK MANAGEMENT

### *Liquidity and Cash Flow*

In general, liquidity risk is managed daily by controlling the level of fed funds and the use of funds provided by the cash flow from the investment portfolio, loan demand and deposit fluctuations. To meet unexpected demands, lines of credit are maintained with correspondent banks, the Federal Home Loan Bank and the Federal Reserve. The sale of bonds maturing in the near future can also serve as a contingent source of funds. Increases in deposit rates are considered a last resort as a means of raising funds to increase liquidity.

Since the primary sources and uses of funds for the Company are loans and deposits, the relationship between gross loans and total deposits provides a useful measure of the Bank s liquidity. Typically, the closer the ratio of loans to deposits is to 100%, the more reliant we are on loan portfolio interest and principal payments to provide for short-term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loans to deposit ratio the less liquid are the Company s assets. For the first six months of 2015, the loan to deposit ratio averaged 64.37% compared to an average ratio of 68.08% for the same period in 2014. The ratio of loans to deposits and customer repurchases averaged 58.23% for the first six months of 2015 and 60.14% for the same period in 2014.

CVB Financial Corp. ( CVB ) is a company separate and apart from the Bank that must provide for its own liquidity and must service its own obligations. Substantially all of CVB s revenues are obtained from dividends declared and paid by the Bank to CVB. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to CVB. In addition, our regulators could limit the ability of the Bank or the CVB to pay dividends or make other distributions.

Under applicable California law, the Bank cannot make any distribution (including a cash dividend) to its shareholder in an amount which exceeds the lesser of: (i) the retained earnings of the Bank or (ii) the net income of the Bank for its last three fiscal years, less the amount of any distributions made by the Bank to its shareholder during such period. Notwithstanding the foregoing, with the prior approval of the California Department of Business Oversight, the Bank may make a distribution (including a cash dividend) to CVB in an amount not exceeding the greater of: (i) the retained earnings of the Bank; (ii) the net income of the Bank for its last fiscal year; or (iii) the net income of the Bank for its current fiscal year.

Based on the Bank s last three fiscal years, at June 30, 2015, approximately $98.0 million of the Bank s equity was unrestricted and available to be paid as dividends to CVB. Management of the Company believes that such restrictions will not have any current impact on the ability of CVB to meet its ongoing cash obligations. As of June 30, 2015, neither the Bank nor CVB had any material commitments for capital expenditures.

For the Bank, sources of funds normally include principal payments on loans and investments, growth in deposits, FHLB advances, and other borrowed funds. Uses of funds include withdrawal of deposits, interest paid on deposits, increased loan balances, purchases, and noninterest expenses.

Net cash provided by operating activities totaled $49.6 million for the first six months of 2015, compared to $32.3 million for the same period last year. The increase in cash provided by operating activities was primarily attributed to an increase in interest and dividends received and a decrease in income taxes and interest paid, partially offset by an increase in payments to vendor, employees and others as well as a decrease in service charges and other fees received.

Net cash provided by investing activities totaled $67.7 million for the first six months of 2015, compared to $37.6 million for the same period last year. The increase in cash provided by investing activities was primarily the result of a decrease in purchases of investment securities and an increase from proceeds from the repayment of investment securities, partially offset by a decrease in loan and lease finance receivables.

Net cash provided by financing activities totaled $223.3 million for the first six months of 2015, compared to $239.7 million for the same period last year. The decrease in cash provided by financing activities during the first six months of 2015 was primarily due to the $200.0 million repayment of the FHLB advance, partially offset by an increase in deposits and customer repurchase agreements.

At June 30, 2015, cash and cash equivalents totaled $446.4 million. This represented an increase of $42.3 million, or 10.46%, from $404.2 million at June 30, 2014 and an increase of $340.7 million, or 322.10%, from $105.8 million at December 31, 2014. Total deposits of $5.99 billion at June 30, 2015 increased $389.2 million, or 6.94%, over total deposits of $5.60 billion at December 31, 2014.

*Interest Rate Sensitivity Management*

During periods of changing interest rates, the ability to re-price interest-earning assets and interest-bearing liabilities can influence net interest income, the net interest margin, and consequently, our earnings. Interest rate risk is managed by attempting to control the spread between rates earned on interest-earning assets and the rates paid on interest-bearing liabilities within the constraints imposed by market competition in our service area. Short-term re-pricing risk is minimized by controlling the level of floating rate loans and maintaining a downward sloping ladder of bond payments and maturities. Basis risk is managed by the timing and magnitude of changes to interest-bearing deposit rates. Yield curve risk is reduced by keeping the duration of the loan and bond portfolios relatively short. Options risk in the bond portfolio is monitored monthly and actions are recommended when appropriate.

We monitor the interest rate sensitivity risk to earnings from potential changes in interest rates using various methods, including a maturity/re-pricing gap analysis. This analysis measures, at specific time intervals, the differences between earning assets and interest-bearing liabilities for which re-pricing opportunities will occur. A positive difference, or gap, indicates that earning assets will re-price faster than interest-bearing liabilities. This will generally produce a greater net interest margin during periods of rising interest rates, and a lower net interest margin during periods of declining interest rates. Conversely, a negative gap will generally produce a lower net interest margin during periods of rising interest rates and a greater net interest margin during periods of decreasing interest rates. In managing risks associated with rising interest rates, we utilize interest rate derivative contracts on certain loans and borrowed funds.

The interest rates paid on deposit accounts do not always move in unison with the rates charged on loans. In addition, the magnitude of changes in the rates charged on loans is not always proportionate to the magnitude of changes in the rate paid on deposits. Consequently, changes in interest rates do not necessarily result in an increase or decrease in the net interest margin solely as a result of the differences between re-pricing opportunities of earning assets or interest-bearing liabilities. In general, whether we report a positive gap in the short-term period or negative gap in the long-term period does not necessarily indicate that, if interest rates decreased, net interest income would increase, or if interest rates increased, net interest income would decrease.

Approximately $2.27 billion, or 72%, of the total investment portfolio at June 30, 2015 consisted of securities backed by mortgages. The final maturity of these securities can be affected by the speed at which the underlying mortgages repay. Mortgages tend to repay faster as interest rates fall, and slower as interest rates rise. As a result, we may be subject to a prepayment risk resulting from greater funds available for reinvestment at a time when available yields are lower. Conversely, we may be subject to extension risk resulting, as lesser amounts would be available for reinvestment at a time when available yields are higher. Prepayment risk includes the risk associated with the payment of an investment s principal faster than originally intended. Extension risk is the risk associated with the payment of an investment s principal over a longer time period than originally anticipated. In addition, there can be greater risk of price volatility for mortgage-backed securities as a result of anticipated prepayment or extension risk.

We utilize the results of a simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. The sensitivity of our net interest income is measured over a rolling two-year horizon.

The simulation model estimates the impact of changing interest rates on interest income from all interest-earning assets and interest expense paid on all interest-bearing liabilities reflected on our balance sheet. This sensitivity analysis is compared to policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon assuming no balance sheet growth, given a 200 basis point upward and a 100 basis point downward shift in interest rates. A parallel and pro rata shift in rates over a 12-month period is assumed.

The following depicts the Company s net interest income sensitivity analysis as of June 30, 2015.

| Simulated Rate Changes | Estimated Net Interest Income Sensitivity (1) |
|---|---|
| + 200 basis points | (2.47%) |
| - 100 basis points | (1.29%) |

(1) Changes from the base case for a 12-month period.

Based on our current models, we believe that the interest rate risk profile of our balance sheet is fairly well matched with a slight liability sensitive bias over a two year horizon. The estimated sensitivity does not necessarily represent a forecast and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions including how customer preferences or competitor influences might change.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For quantitative and qualitative disclosures about market risks in our portfolio, see Asset/Liability Management and Interest Rate Sensitivity Management included in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations presented elsewhere in this report. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. Our analysis of market risk and market-sensitive financial information contain forward looking statements and is subject to the disclosure at the beginning of Part I regarding such forward-looking information.

**ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the Company s disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer, the Chief Financial Officer and other senior management of the Company. Based on the foregoing, the Company s Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS**

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with FASB guidance over contingencies (ASC 450). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations. As of June 30, 2015, the Company does not have any litigation reserves.

The Company is involved in the following significant legal actions and complaints.

On July 26, 2010, we received a subpoena from the Los Angeles office of the SEC regarding the Company s allowance for loan loss methodology, loan underwriting guidelines, methodology for grading loans, and the process for making provisions for loan losses. In addition, the subpoena requested information regarding certain presentations Company officers have given or conferences Company officers have attended with analysts, brokers, investors or prospective investors. We have fully cooperated with the SEC in its investigation, and we will continue to do so if and to the extent any further information is requested, although we have not been contacted by the SEC in connection with this matter since October 2011. We cannot predict the timing or outcome of the SEC investigation or if it is still continuing.

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

Table of Contents

Following the filing by each side of various motions and briefs, and a hearing on August 29, 2011, the District Court issued a ruling on January 12, 2012, granting defendants motion to dismiss the consolidated complaint, but the ruling provided the plaintiffs with leave to file an amended complaint within 45 days of the date of the order. On February 27, 2012, the plaintiffs filed a first amended complaint against the same defendants, and, following filings by both sides and another hearing on June 4, 2012, the District Court issued a ruling on August 21, 2012, granting defendants motion to dismiss the first amended complaint, but providing the plaintiffs with leave to file another amended complaint within 30 days of the ruling. On September 20, 2012, the plaintiffs filed a second amended complaint against the same defendants, the Company filed its third motion to dismiss on October 25, 2012, and following another hearing on February 25, 2013, the District Court issued an order dismissing the plaintiffs complaint for the third time on May 9, 2013.

Although the District Court s May 2013 order of dismissal provided the plaintiffs with leave to file a third amended and restated complaint within 30 days of the issuance of the order, on June 3, 2013, counsel for the plaintiffs instead filed a Notice of Intent Not to File an Amended Complaint, along with a request that the District Court convert its order to a dismissal with prejudice, so that plaintiffs could proceed straight to appeal at the U.S. Court of Appeals for the Ninth Circuit. On September 30, 2013, the District Court entered its order dismissing the plaintiffs second amended complaint with prejudice, and the plaintiffs filed their notice of appeal on October 24, 2013.

With respect to the appeal, the plaintiffs opening brief was filed on June 7, 2014, the Company s reply brief was filed on July 7, 2014, and the plaintiff s rebuttal brief was filed on August 20, 2014. It is expected that the Court of Appeals will schedule a hearing in the case to conduct oral argument at some point within the next three to six months, and would then issue its opinion at some point within nine to twelve months thereafter.

The Company intends to continue to vigorously contest the plaintiff s allegations in this case.

On February 28, 2011, a purported and related shareholder derivative complaint was filed in an action captioned Sanderson v. Borba, et al., Case No. CIVRS1102119, in California State Superior Court in San Bernardino County. The complaint names as defendants the members of our board of directors and also refers to unnamed defendants allegedly responsible for the conduct alleged. The Company is included as a nominal defendant. The complaint alleges breaches of fiduciary duties, abuse of control, gross mismanagement and corporate waste. Specifically, the complaint alleges, among other things, that defendants engaged in accounting manipulations in order to falsely portray the Company s financial results in connection with its commercial real estate portfolio. Plaintiff seeks compensatory and exemplary damages to be paid by the defendants and awarded to the Company, as well as other relief.

On June 20, 2011, defendants filed a demurrer requesting dismissal of the derivative complaint. Following the filing by each side of additional motions, the parties have subsequently filed repeated notices to postpone the Court s hearing on the defendants demurrer, pending resolution of the consolidated federal securities shareholder class action complaint. On July 30, 2013, the Court signed a Minute Order agreeing to the parties stipulation to further extend the postponement of the derivative action hearing, at least to the date of any ruling by the Ninth Circuit Court of Appeals in connection with the pending appeal in the federal class action securities case, subject to brief status conferences every six months or so, with the next status update scheduled for January 16, 2016.

Because the outcome of these proceedings is uncertain, we cannot predict any range of loss or even if any loss is probable related to the actions described above.

## ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors as previously disclosed in Item 1A. to Part I of our Annual Report on Form 10-K for the year ended December 31, 2014. The materiality of any risks and uncertainties identified in our Forward Looking Statements contained in this report together with those previously disclosed in the Form 10-K and any subsequent Form 10-Q or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Item 2.  Management s Discussion and Analysis of Financial Condition and Results of Operations  in this Quarterly Report on Form 10-Q. California has recently experienced a number of years with precipitation at relatively low levels. As a result, Governor Brown has declared an extreme drought condition and has asked for a 25% decrease in consumption levels. The drought conditions and the availability to access adequate levels of water may have negative financial effects on individuals and businesses in our marketplace.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On July 16, 2008, our Board of Directors approved a program to repurchase up to 10,000,000 shares of our common stock (such number will not be adjusted for stock splits, stock dividends, and the like) in the open market or in privately negotiated transactions, at times and at prices considered appropriate by us, depending upon prevailing market conditions and other corporate and legal

Table of Contents

considerations. There is no expiration date for our current stock repurchase program. There were no issuer repurchases of the Company s common stock as part of its repurchase program for the three months ended June 30, 2015. As of June 30, 2015, there were 7,420,678 shares of our common stock remaining available for repurchase.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**
Not Applicable

**ITEM 4. MINE SAFETY DISCLOSURES**
Not Applicable

**ITEM 5. OTHER INFORMATION**
None

**ITEM 6. EXHIBITS**

| Exhibit No. | Description of Exhibits |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

Table of Contents

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CVB FINANCIAL CORP.

(Registrant)

Date: August 10, 2015

/s/Richard C. Thomas

Duly Authorized Officer and

Chief Financial Officer

73