

CVB FINANCIAL CORP  
Form 10-K  
February 29, 2016  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from N/A to N/A

Commission file number: 1-10140

**CVB FINANCIAL CORP.**

(Exact name of registrant as specified in its charter)

**California**  
(State or other jurisdiction of

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

# Edgar Filing: CVB FINANCIAL CORP - Form 10-K

incorporation or organization)

Identification No.)

**701 N. Haven Avenue, Suite 350**

**Ontario, California**

(Address of Principal Executive Offices)

**91764**

(Zip Code)

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

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

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

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

**None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

As of June 30, 2015, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$1,735,610,715.

Number of shares of common stock of the registrant outstanding as of February 17, 2016: 106,372,382.

Edgar Filing: CVB FINANCIAL CORP - Form 10-K

DOCUMENTS INCORPORATED BY REFERENCE  
Definitive Proxy Statement for the Annual Meeting of Stockholders which will be filed  
within 120 days of the fiscal year ended December 31, 2015

PART OF

Part III of Form 10-K

**Table of Contents**

**CVB FINANCIAL CORP.**

**2015 ANNUAL REPORT ON FORM 10-K**

**TABLE OF CONTENTS**

**PART I**

|          |                                  |    |
|----------|----------------------------------|----|
| ITEM 1.  | <u>BUSINESS</u>                  | 4  |
| ITEM 1A. | <u>RISK FACTORS</u>              | 16 |
| ITEM 1B. | <u>UNRESOLVED STAFF COMMENTS</u> | 27 |
| ITEM 2.  | <u>PROPERTIES</u>                | 27 |
| ITEM 3.  | <u>LEGAL PROCEEDINGS</u>         | 27 |
| ITEM 4.  | <u>MINE SAFETY DISCLOSURES</u>   | 29 |

**PART II**

|          |                                                                                                                         |    |
|----------|-------------------------------------------------------------------------------------------------------------------------|----|
| ITEM 5.  | <u>MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u> | 30 |
| ITEM 6.  | <u>SELECTED FINANCIAL DATA</u>                                                                                          | 32 |
| ITEM 7.  | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND THE RESULTS OF OPERATIONS</u>                        | 33 |
|          | <u>CRITICAL ACCOUNTING POLICIES</u>                                                                                     | 33 |
|          | <u>OVERVIEW</u>                                                                                                         | 35 |
|          | <u>ANALYSIS OF THE RESULTS OF OPERATIONS</u>                                                                            | 37 |
|          | <u>RESULTS BY BUSINESS SEGMENTS</u>                                                                                     | 48 |
|          | <u>ANALYSIS OF FINANCIAL CONDITION</u>                                                                                  | 52 |
|          | <u>RISK MANAGEMENT</u>                                                                                                  | 74 |
| ITEM 7A. | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                                                       | 85 |
| ITEM 8.  | <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>                                                                      | 86 |
| ITEM 9.  | <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>                             | 86 |
| ITEM 9A. | <u>CONTROLS AND PROCEDURES</u>                                                                                          | 86 |
| ITEM 9B. | <u>OTHER INFORMATION</u>                                                                                                | 88 |

**PART III**

|          |                                                                                                       |    |
|----------|-------------------------------------------------------------------------------------------------------|----|
| ITEM 10. | <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>                                         | 89 |
| ITEM 11. | <u>EXECUTIVE COMPENSATION</u>                                                                         | 89 |
| ITEM 12. | <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u> | 89 |
| ITEM 13. | <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>                      | 90 |
| ITEM 14. | <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>                                                         | 90 |

**PART IV**

|          |                                                   |    |
|----------|---------------------------------------------------|----|
| ITEM 15. | <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u> | 91 |
|          | <u>SIGNATURES</u>                                 | 92 |

## **Table of Contents**

### **INTRODUCTION**

#### ***Cautionary Note Regarding Forward-Looking Statements***

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

*Words such as will likely result, aims, anticipates, believes, could, estimates, expects, hopes, intends, may, plans, projects, seeks, should, will and variations of these words and similar expressions help to identify these forward looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include but are not limited to:*

*Local, regional, national and international economic conditions and events and the impact they may have on us and our customers;*

*Ability to attract deposits and other sources of liquidity and our cost of funds and other borrowings;*

*Oversupply of inventory and/or deterioration in values of real estate, both for residential and commercial real estate, in California or other states where we make loans;*

*A prolonged slowdown in construction activity;*

*Changes in our ability to receive dividends from our primary banking subsidiary;*

*The effect of any goodwill impairment;*

*The effect of climate change and attendant regulation on our customers and borrowers;*

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

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

*Changes in the level of our nonperforming assets and charge-offs;*

*Changes in critical accounting policies and judgments;*

*Effects of acquisitions or sales we may make;*

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

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

*Inflation, interest rate, securities market and monetary fluctuations;*

*Cybersecurity breaches or customer or bank data or monetary losses with respect to our systems or vendor or customer systems;*

**Table of Contents**

*Our reliance upon vendor and other third party systems, applications and operations, including with respect to physical and electronic security;*

*Changes in government interest rate or monetary policies or practices;*

*Fluctuations of our stock price or in our ability to access capital markets;*

*Political developments or instability;*

*Acts of war or terrorism, or natural disasters, such as earthquakes;*

*The timely development and acceptance of new banking products and services by either the banking industry or our Company and the perceived overall value of these products and services by commercial and/or consumer customers;*

*Changes in business or consumer spending, borrowing and savings habits;*

*Technological changes including but not limited to the adoption by customers and competitors of innovations such as mobile banking capabilities;*

*The ability to increase market share and to control expenses;*

*Changes in the competitive environment among financial and bank holding companies and other financial service providers;*

*Volatility in the credit and equity markets and its effects on the general economy;*

*The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters, and our resulting judgments and interpretations;*

*Changes in our organization, management, compensation and benefit plans, including in our ability to recruit and/or retain key directors, managers and employees;*

*The costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries, including, but not limited to, the lawsuits pending against us and derivative lawsuits filed against us, and the results of regulatory examinations or reviews; and*

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

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

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

**Table of Contents**

**PART I**

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

CVB Financial Corp. (referred to herein on an unconsolidated basis as "CVB" and on a consolidated basis as "we", "our" or the "Company") is a bank holding company incorporated in California on April 27, 1981 and registered with the Board of Governors of the Federal Reserve System ("Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). The Company commenced business on December 30, 1981 when, pursuant to a reorganization, it acquired all of the voting stock of Chino Valley Bank. On March 29, 1996, Chino Valley Bank changed its name to Citizens Business Bank ("CBB" or the "Bank"). The Bank is our principal asset. The Company also 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.

CVB's principal business is to serve as a holding company for the Bank and for other banking or banking related subsidiaries, which the Company may establish or acquire. CVB has not engaged in any other material activities to date. As a legal entity separate and distinct from its subsidiaries, CVB's principal source of funds is, and will continue to be, dividends paid by and other funds advanced from the Bank and capital raised directly by CVB. Legal limitations are imposed on the amount of dividends that may be paid and loans that may be made by the Bank to CVB. See Item 1. Business Regulation and Supervision Dividends. As of December 31, 2015, the Company had \$7.67 billion in total consolidated assets, \$3.96 billion in net loans, \$5.92 billion in deposits, and \$690.7 million in customer repurchase agreements.

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

On May 15, 2014, the Bank acquired all of the assets and assumed all of the liabilities of American Security Bank ("ASB") for \$57.0 million in cash. As a result, ASB was merged with CBB. This transaction served to further expand CBB's footprint in Southern California. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of May 15, 2014. The total fair value of assets acquired approximated \$436.4 million, which included \$117.8 million in cash and cash due from banks, \$44.5 million in investment securities available for sale, \$242.7 million in loans receivable, \$2.1 million in core deposit intangible assets acquired. The total fair value of liabilities assumed was \$379.4 million, which included \$378.4 million in deposits. Goodwill of \$19.1 million from the acquisition represents the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired. At close, ASB had five branches located in the Southern California communities of: Newport Beach, Laguna Niguel, Corona, Lancaster, and Apple Valley. ASB also had two electronic branch vestibules in the High Desert area of California and a loan production office in Ontario, California. In the latter half of the third quarter of 2014, branch locations were consolidated with branches of CBB and the two electronic banking vestibules were closed. By the end of 2014, the integration of ASB into CBB was completed. This included personnel decisions, center consolidations and system conversions.

On October 14, 2015, we announced that we have entered into a merger agreement with County Commerce Bank ("CCB"), pursuant to which County Commerce Bank will merge into CBB when the transaction closes. County Commerce Bank is headquartered in Ventura County with four branch locations in Ventura and Santa Barbara Counties and total assets of approximately \$250 million. This acquisition extends our geographic footprint northward into the central coast of California. We expect to close this announced acquisition in the first

## **Table of Contents**

quarter of 2016, subject to compliance by each party to the merger with the required closing conditions outlined in the merger agreement. Applicable regulatory approvals and the approval of County Commerce Bank shareholders have already been obtained.

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

### **Citizens Business Bank**

The Bank commenced operations as a California state-chartered bank on August 9, 1974. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act up to applicable limits. The Bank is not a member of the Federal Reserve System. At December 31, 2015, the Bank had \$7.66 billion in assets, \$3.96 billion in net loans, \$5.93 billion in deposits, and \$690.7 million in customer repurchase agreements.

As of December 31, 2015, there were 40 Business Financial Centers and eight Commercial Banking Centers (collectively Centers) located in the Inland Empire, Los Angeles County, Orange County, San Diego County, Ventura County, Santa Barbara County, and the Central Valley areas of California.

We also have three trust offices located in Ontario, Newport Beach and Pasadena. These offices serve as sales offices for the Bank's wealth management, trust and investment products.

The Bank opened a new Commercial Banking Center in Santa Barbara in January 2016.

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

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

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

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

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

## **Table of Contents**

### **Business Segments**

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

### **Competition**

The banking and financial services business is highly competitive. The competitive environment faced by banks is a result primarily of changes in laws and regulations, changes in technology and product delivery systems, and the ongoing consolidation among insured financial institutions. We compete for loans, deposits, and customers with other commercial banks, savings and loan associations, savings banks, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers, including online banks and peer-to-peer or marketplace lenders and other small business and consumer lenders. Many competitors are much larger in total assets and capitalization, have greater access to capital markets and/or offer a broader range of financial products and services, including technology-based services.

### **Economic Conditions/Government Policies**

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

Opportunity for banks to earn fees and other noninterest income have also been limited by restrictions imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and other government regulations. As the following sections indicate, the impact of current and future changes in government laws and regulations on our ability to maintain an increase on fees and other noninterest income could be material and cannot be predicted.

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

## **Table of Contents**

### **Regulation and Supervision**

#### ***General***

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

We cannot predict whether or when other legislation or new regulations may be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Such developments may further alter the structure, regulation, and competitive relationship among financial institutions, may limit the types or pricing of the products and services we offer, and may subject us to increased regulation, disclosure, and reporting requirements.

#### ***Legislation and Regulatory Developments***

The federal banking agencies continue to implement the remaining requirements in the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) as well as promulgating other regulations and guidelines intended to assure the financial strength and safety and soundness of banks and the stability of the U.S. banking system. Following on the implementation in 2014 and effectiveness in 2015 of new capital rules ( the New Capital Rules ) and the so called Volcker Rule restrictions on certain proprietary trading and investment activities, developments in 2015 included:

(i) the extension of the Volcker Rule conformance period until July 21, 2016 and a possible additional extension until 2017 for banking institutions to conform existing investments, including certain collateralized loan obligations, and relationships, with certain exceptions, with covered funds , including hedge funds, private equity funds and certain other private funds. The Company and the Bank held no investment positions at December 31, 2015 which were subject to the final rule. See Volcker Rule and has controls in place to ensure compliance with the Volcker Rule going forward.

(ii) the shift in the stress testing cycle and reporting dates required by the banking agencies for institutions with total consolidated assets of \$10 billion to \$50 billion to assess the potential impact of different scenarios on earnings, losses, liquidity and capital. The Bank conducts a modified form of stress testing but is not currently subject to these requirements.

(iii) the implementation of an additional capital conservation buffer of 0.625% in 2016 for minimum risk-weighted asset ratios under the New Capital Rules. See Capital Adequacy and Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources.

(iv) the effectiveness in October, 2015 of the final TILA-RESPA Integrated Disclosure ( TRID ) rules promulgated by the CFPB, as required by the Dodd-Frank Act, which require new mortgage disclosures and training of staff for most mortgage loan applications. CBB is employing its best efforts to comply with the new TRID requirements. See CFPB .

(v) the release by the Interagency Federal Financial Institutions Examinations Council (FFIEC) of a cybersecurity assessment tool for voluntary use by banks which provides guidelines to measure a bank s individual risk profile and Cybersecurity maturity . The Bank is considering whether and in what form we would implement this tool.

## **Table of Contents**

(vi) the adoption of the Fixing America's Surface Transportation Act (the FAST Act), highway legislation which contains financial services provisions, including (a) expanding the extended 18 months examination cycle for banks with up to \$1 billion in assets; (b) deleting the annual privacy notice for banks which have not changed their policy or practices of sharing of information with third parties and (c) limiting the percentage payment of dividends on reserve bank stock held by banks with more than \$10 billion in assets. The bank as a nonmember state bank holds no reserve bank stock.

In the exercise of their supervisory and examination authority, the regulatory agencies have emphasized corporate governance, capital planning and stress testing, enterprise risk management and other board responsibilities; anti-money laundering compliance; information technology adequacy; cyber security preparedness; vendor management and fair lending and other consumer compliance obligations.

### ***Capital Adequacy Requirements***

Bank holding companies and banks are subject to similar regulatory capital requirements administered by state and federal banking agencies. The basic capital rule changes in the New Capital Rules adopted by the federal bank regulatory agencies were fully effective on January 1, 2015, but many elements are being phased in over multiple future years. The risk-based capital guidelines for bank holding companies, and additionally for banks, require capital ratios that vary based on the perceived degree of risk associated with a banking organization's operations, both for transactions reported on the balance sheet as assets, such as loans, and for those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks, and with the applicable ratios calculated by dividing qualifying capital by total risk-adjusted assets and off-balance sheet items. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. To the extent that the new rules are not fully phased in, the prior capital rules will continue to apply.

The New Capital Rules revised the previous risk-based and leverage capital requirements for banking organizations to meet the requirements of the Dodd-Frank Act and to implement the international Basel Committee on Banking Supervision Basel III agreements. Many of the requirements in the New Capital Rules and other regulations and rules are applicable only to larger or internationally active institutions and not to all banking organizations, including institutions currently with less than \$10 billion of assets, which includes CVB and the Bank. These include required annual stress tests for institutions with \$10 billion or more assets and Enhanced Prudential Standards, Comprehensive Capital Analysis and Review requirements, Capital Plan and Resolution Plan or living will submissions. These also include an additional countercyclical capital buffer, a supplementary leverage ratio and the Liquidity Coverage Ratio rule requiring sufficient high-quality liquid assets, which may in turn apply to institutions with \$50 billion or more in assets, \$250 billion or more in assets, or institutions which may be identified as Global Systematically Important Banking Institutions (G-SIBs).

Under the risk-based capital guidelines in place prior to the effectiveness of the New Capital Rules, which trace back to the 1988 Basel I accord, 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 ten percent, six percent and five percent, 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.

The following are the New Capital Rules applicable to the Company and the Bank beginning January 1, 2015:

an increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;

## **Table of Contents**

a new category and a required 4.50% of risk-weighted assets ratio is established for common equity Tier 1 as a subset of Tier 1 capital limited to common equity;

a minimum non-risk-based leverage ratio is set at 4.00%;

changes in the permitted composition of Tier 1 capital to exclude trust preferred securities subject to certain grandfathering exceptions for organizations like CVB which were under \$15 billion in assets as of December 31, 2009, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities unless the organization opts out of including such unrealized gains and losses, which election the Company made in 2015;

the risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures; and

an additional capital conservation buffer of 2.5% of risk weighted assets above the regulatory minimum capital ratios, which will be phased in until 2019 beginning at 0.625% of risk-weighted assets for 2016 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

Management believes that, as of December 31, 2015, the Company and the Bank would meet all requirements under the New Capital Rules applicable to them on a fully phased-in basis if such requirements were currently in effect.

Including the capital conservation buffer of 2.5%, the New Capital Rules would result in the following minimum ratios to be considered well capitalized: (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%. At December 31, 2015, the respective capital ratios of the Company and the Bank exceeded the minimum percentage requirements to be deemed well-capitalized for regulatory purposes. See Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources.

While the New Capital Rules set 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. See Management's Discussion and Analysis Capital Resources.

### *Prompt Corrective Action Provisions*

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank's capital ratios, the agencies' regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends or executive bonuses. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were also changed as the New Capital Rules ratios became effective. Under the new standards, in order to be considered well-capitalized, the bank will be required to meet the new

## **Table of Contents**

common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

The federal banking agencies also may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to certain restrictions such as taking brokered deposits.

### *Volcker Rule*

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the Volcker Rule. Under these rules and subject to certain exceptions, banking entities are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered covered funds. These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the FRB. The Company and the Bank held no investment positions at December 31, 2015 which were subject to the final rule. Therefore, while these new rules may require us to conduct certain internal analysis and reporting to ensure continued compliance, they did not require any material changes in our operations or business.

### ***Bank Holding Company Regulation***

Bank holding companies and their subsidiaries are subject to significant regulation and restrictions by Federal and State laws and regulatory agencies, which may affect the cost of doing business, and may limit permissible activities and expansion or impact the competitive balance between banks and other financial services providers.

A wide range of requirements and restrictions are contained in both Federal and State banking laws, which together with implementing regulatory authority:

Require periodic reports and such additional reports of information as the Federal Reserve may require;

Require bank holding companies to meet or exceed increased levels of capital (See Capital Adequacy Requirements );

Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank;

Limit of dividends payable to shareholders and restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks. The Company's ability to pay dividends on both its common and preferred stock is subject to legal and regulatory restrictions. Substantially all of the Company's funds to pay dividends or to pay principal and interest on our debt obligations are derived from dividends paid by the Bank;

Require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;

Require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination if an institution is in troubled condition ;

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations;

## **Table of Contents**

Require prior approval for the acquisition of 5% or more of the voting stock of a bank or bank holding company by bank holding companies or other acquisitions and mergers with banks and consider certain competitive, management, financial, anti-money-laundering compliance, potential impact on U.S. financial stability or other factors in granting these approvals, in addition to similar California or other state banking agency approvals which may also be required;

Require prior notice and/or prior approval of the acquisition of control of a bank or a bank holding company by a shareholder or individuals acting in concert with ownership or control of 10% of the voting stock being a presumption of control.

### *Other Restrictions on the Company's Activities*

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

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

### *Securities Exchange Act of 1934*

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

### *Sarbanes-Oxley Act*

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

### *Bank Regulation*

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FDIC, as the Bank's primary Federal regulator, and

## **Table of Contents**

must additionally comply with certain applicable regulations of the Federal Reserve. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to insiders, including officers, directors, and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties.

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

### ***FDIC and DBO Enforcement Authority***

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

Require affirmative action to correct any conditions resulting from any violation or practice;

Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which could preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;

Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;

Enter into or issue informal or formal enforcement actions, including required Board resolutions, Matters Requiring Board Attention (MRBA), written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;

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

Terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.



## **Table of Contents**

### ***Deposit Insurance***

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. The Dodd-Frank Act revised the FDIC's DIF management authority by setting requirements for the Designated Reserve Ratio (the DIF balance divided by estimated insured deposits) and redefining the assessment base, which is used to calculate banks' quarterly assessments. The amount of FDIC assessments paid by each DIF member institution is based on its asset size and relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the DBO.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors. In October 2015, the FDIC published for comment a proposed rule that would enable the FDIC to reach a 1.35% DIF reserve ratio by September 30, 2020, as required by the Dodd-Frank Act, by imposing a surcharge on the quarterly assessments of depository institutions with total consolidated assets of \$10 billion or more, which could have potential impact on the bank's deposit insurance assessments in future years. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

### ***Dividends***

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

The Bank is a legal entity that is separate and distinct from its holding company. The Company is dependent on the performance of the Bank for funds which may be received as dividends from the Bank for use in the operation of the Company and the ability of the Company to pay dividends to shareholders. Future cash dividends by the Bank will also depend upon management's assessment of future capital requirements, contractual restrictions, and other factors. The new Capital Rules may restrict dividends by the Bank if the additional capital conservation buffer is not achieved. See [Capital Adequacy Requirements](#).

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

### ***Operations and Consumer Compliance Laws***

The Bank must comply with numerous federal and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home

## **Table of Contents**

Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection laws, including the Telephone Consumer Protection Act, CAN-SPAM Act. Noncompliance with any of these laws could subject the Bank to compliance enforcement actions as well as lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

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

The Bank received a Satisfactory rating in its most recent FDIC CRA performance evaluation, which measures how financial institutions support their communities in the areas of lending, investment and service.

Dodd-Frank provided for the creation of the Consumer Finance Protection Bureau (CFPB) as an independent entity within the Federal Reserve with broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The bureau's functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions and banks with \$10 billion or more in assets are subject to examination by the CFPB. Banks with less than \$10 billion in assets, including the Bank, will continue to be examined for compliance by their primary federal banking agency.

In 2014, the CFPB adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to the Dodd-Frank Act, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer's ability to repay and establish certain protections from liability under this requirement for qualified mortgages meeting certain standards. In general, a qualified mortgage is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage the points and fees paid by a consumer cannot exceed 3% of the total loan amount. The Bank primarily makes non-qualified mortgages and continues to employ its best efforts to comply with the new TRID requirements.

### ***Available Information***

Reports filed with the SEC include our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports and other information on file can be inspected and copied on official business days between 10:00 a.m. and 3:00 p.m. at the public reference facilities of the SEC on file at 100 F Street, N.E., Washington D.C., 20549. The public may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains the reports, proxy and information statements and other information we file with them. The address of the site is <http://www.sec.gov>. The Company also maintains an Internet website at <http://www.cbbank.com>. We make available, free of charge through our website, our Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and current Report on Form 8-K, and any amendment thereto, as soon as reasonably practicable after we file such reports with the SEC. None of the information contained in or hyperlinked from our website is incorporated into this Form 10-K.

**Table of Contents*****Executive Officers of the Company***

The following sets forth certain information regarding our five named executive officers, their positions and their ages.

**Executive Officers:**

| <b>Name</b>          | <b>Position</b>                                                                                             | <b>Age</b> |
|----------------------|-------------------------------------------------------------------------------------------------------------|------------|
| Christopher D. Myers | President and Chief Executive Officer of the Company and the Bank                                           | 53         |
| Richard C. Thomas    | Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank | 67         |
| James F. Dowd        | Executive Vice President and Chief Credit Officer of the Bank                                               | 63         |
| David A. Brager      | Executive Vice President and Sales Division Manager of the Bank                                             | 48         |
| David C. Harvey      | Executive Vice President and Chief Operations Officer of the Bank                                           | 48         |

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

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

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

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

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

---

**Table of Contents**

**ITEM 1A. RISK FACTORS**

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

**Risk Relating to Recent Economic Conditions and Government Response Efforts**

***Economic and market conditions continue to be challenging for our industry***

After suffering sharp declines in values during the 2008-2009 Recession, commercial and residential real estate prices have improved in most areas served by CBB. There are geographic regions that continue to have higher unemployment and more difficult economies where housing prices have not recovered from pre-recession levels, particularly in the Central Valley of California which is also an important geographic region for CBB. In areas that have not fully recovered, there continues to be delinquencies and foreclosure activities.

While general economic conditions in the United States, including in the employment markets, appear to have improved, the overall rate of economic growth, compared to prior periods of economic growth, for most of the markets and industries served by CBB, continues to be modest, and this in turn has generally resulted in more limited business expansion, revenue expansion and employment growth for CBB's customers and geographic markets. In addition, there continue to be widespread concerns over the stability of the financial markets and the economy, which have notably limited the expansion of lending by financial institutions to their customers beyond what otherwise would be expected. In addition, the banking industry has been impacted by increased regulatory oversight, a continuing low interest rate environment, declines in selected overseas markets and various geopolitical issues and conflicts.

The resulting economic pressure on consumers and businesses, the absence of sustained historical rates of economic growth, and the periodic lack of confidence in financial markets, may adversely affect our business, financial condition, results of operations and stock price. A worsening of any of these conditions would likely exacerbate the adverse effects of these market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events, or any downward turn in the economy:

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

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

A sustained environment of low interest rates would continue to cause lending margins to stay compressed, which in turn may limit our revenues and profitability.

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

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



## **Table of Contents**

Increased competition among financial services companies due to expected further consolidation in the industry may adversely affect the Company's ability to market its products and services.

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

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

As described in Business Economic Conditions, Government Policies, Legislation and Regulation, turmoil and downward economic trends have been particularly acute in the financial sector. Although the Company and the Bank exceed the minimum capital ratio requirements to be deemed well capitalized and have not suffered any significant liquidity issues as a result of these events, the cost and availability of funds may be adversely affected by illiquid credit markets and the demand for our products and services may decline as our borrowers and customers continue to realize the impact of slower than customary economic growth, after-effects of the previous recession and ongoing underemployment of the workforce. In view of the concentration of our operations and the collateral securing our loan portfolio in Central and Southern California, we may be particularly susceptible to adverse economic conditions in the state of California, where our business is concentrated. In addition, adverse economic conditions may exacerbate our exposure to credit risk and adversely affect the ability of borrowers to perform, and thereby, adversely affect our liquidity, financial condition, results or operations and profitability.

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

For the year ended December 31, 2015, we recorded a \$5.6 million loan loss provision recapture, charge-offs of \$1.0 million, and recoveries of \$6.0 million. As of December 31, 2015, we had \$2.7 billion in commercial real estate loans, \$68.6 million in construction loans and \$233.9 million in single-family residential mortgages. Although the U.S. economy appears to have emerged from a period of severe recession followed by slower than normal growth, business activity and real estate values continue to grow more slowly than in past economic recoveries, and may not recover fully or could again decline from current levels, and this in turn could affect the ability of our loan customers to service their debts, including those customers whose loans are secured by commercial or residential real estate. This, in turn, could result in loan charge-offs and provisions for credit losses in the future, which could have a material adverse effect on our financial condition, net income and capital. In addition, the Federal Reserve Board and other government officials have expressed concerns about banks' concentration in commercial real estate lending and the ability of commercial real estate borrowers to perform pursuant to the terms of their loans.

### ***Volatility in commodity prices may adversely affect our results of operations***

As of December 31, 2015, approximately 7.6% of our total gross loan portfolio was comprised of dairy & livestock and agribusiness loans. Recent volatility in certain commodity prices, including milk prices, could adversely impact the ability of those to whom we have made dairy & livestock and agribusiness loans to perform under the terms of their borrowing arrangements with us.

## **Risks Related to Our Market and Business**

### ***Our allowance for loan losses may not be appropriate to cover actual losses***

A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not

## **Table of Contents**

prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for loan losses to provide for loan and lease defaults and non-performance. The allowance is also appropriately increased for new loan growth. While we believe that our allowance for loan losses is appropriate to cover inherent losses, we cannot assure you that we will not increase the allowance for loan losses further or that regulators will not require us to increase this allowance.

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Many if not all of these same factors could also significantly raise the cost of deposits to our Company and/or to the banking industry in general. This in turn could negatively affect the amount of interest we pay on our interest-bearing liabilities, which could have an adverse impact on our interest rate spread and profitability.

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

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

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

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

Additional risks associated with our real estate construction loan portfolio include failure of developers and/or contractors to complete construction on a timely basis or at all, market deterioration during construction, cost overruns and failure to sell or lease the security underlying the construction loans so as to generate the cash flow anticipated by our borrower.

## **Table of Contents**

A decline in the economy may cause renewed declines in real estate values and increases in unemployment, which may result in higher than expected loan delinquencies or problem assets, a decline in demand for our products and services, or a lack of growth or decrease in deposits, which may cause us to incur losses, adversely affect our capital or hurt our business.

### ***Our commercial real estate loan portfolio exposes us to risks that may be greater than the risks related to our other loans***

Federal and state banking regulators are examining commercial real estate lending activity with heightened scrutiny and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. Because a significant portion of our loan portfolio is comprised of commercial real estate loans, the banking regulators may require us to maintain higher levels of capital than we would otherwise be expected to maintain, which could limit our ability to leverage our capital and have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

### ***We may experience goodwill impairment***

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

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

A substantial portion of our income is derived from the differential or spread between the interest earned on loans, securities and other interest-earning assets, and the interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. At December 31, 2015 our balance sheet was matched with asset sensitive bias over a two-year horizon assuming no balance sheet growth, and as a result, our net interest margin tends to expand in a rising interest rate environment and decrease in a declining interest rate environment. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability. In addition, loan origination volumes are affected by market interest rates. Rising interest rates, generally, are associated with a lower volume of loan originations.

## **Table of Contents**

while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase. In addition, in a rising interest rate environment, we may need to accelerate the pace of rate increases on our deposit accounts as compared to the pace of future increases in short-term market rates. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, as well as loan origination and prepayment volume.

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

Our operations are subject to extensive regulation by federal, state and local governmental authorities and we are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Similarly, the lending, credit and deposit products we offer are subject to broad oversight and regulation. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. Perennially, various laws, rules and regulations are proposed, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products. Current and future legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd-Frank, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules, and may make it more difficult for us to attract and retain qualified executive officers and employees. The implementation of certain final Dodd-Frank rules is delayed or phased in over several years; therefore, as yet we cannot definitively assess what may be the short or longer term specific or aggregate effect of the full implementation of Dodd-Frank on us.

### ***We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations***

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

### ***New mortgage regulations may adversely impact our business***

Revisions made pursuant to Dodd-Frank to Regulation Z, which implements the Truth in Lending Act (TILA), effective in January 2014, apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans), and mandate specific underwriting criteria and ability to repay requirements for home loans. This may impact our offering and underwriting of single family residential loans in our residential mortgage lending operation and could have a resulting unknown effect on potential delinquencies. In addition, the relatively uniform requirements may make it difficult for regional and community banks to compete against the larger national banks for single family residential loan originations.

---

## **Table of Contents**

### ***The impact of new capital rules will impose enhanced capital adequacy requirements on us and may materially affect our operations***

We will be subject to more stringent capital requirements. Pursuant to Dodd-Frank and to implement for U.S. banking institutions the principles of the international Basel III standards, the federal banking agencies have adopted a new set of rules on minimum leverage and risk-based capital that will apply to both insured banks and their holding companies. These regulations were issued in July 2013, and will be phased in, for the Bank and the Company, over a period of five years, beginning in 2015. The new capital rules, among other things:

impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital;

introduce a new category of capital, called Common Equity Tier 1 capital, which must be at least 4.5 percent of risk-based assets, net of regulatory deductions, and a capital conservation buffer of an additional 2.5 percent of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7 percent;

increase the minimum Tier 1 capital ratio to 8.5 percent inclusive of the capital conservation buffer;

increase the minimum total capital ratio to 10.5 percent inclusive of the capital conservation buffer; and

introduce a non-risk adjusted Tier 1 leverage ratio of 3 percent, based on a measure of total exposure rather than total assets, and new liquidity standards.

The full implementation of the new capital rule may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our business, liquidity, financial condition and results of operations.

The new Basel III-based capital standards could limit our ability to pay dividends or make stock repurchases and our ability to compensate our executives with discretionary bonuses. Under the new capital standards, if our Common Equity Tier 1 Capital does not include a newly required capital conservation buffer, we will be prohibited from making distributions to our stockholders. The capital conservation buffer requirement, which is measured in addition to the minimum Common Equity Tier 1 capital of 4.5%, will be phased in over four years, starting at 0.625% for 2016, and rising to 2.5% for 2019 and subsequent years. Additionally, under the new capital standards, if our Common Equity Tier 1 Capital does not include the newly required capital conservation buffer, we will also be prohibited from paying discretionary bonuses to our executive employees. This may affect our ability to attract or retain employees, or alter the nature of the compensation arrangements that we may enter into with them.

### ***Failure to manage our growth may adversely affect our performance***

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

### ***The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations***

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, on-line banking, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related



## **Table of Contents**

incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our clients is maintained, and transactions are executed, on the networks and systems of ours, our clients and certain of our third party providers, such as our online banking or core systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain our clients' confidence. Breaches of information security also may occur, and in infrequent, incidental, cases have occurred, through intentional or unintentional acts by those having access to our systems or our clients' or counterparties' confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Although we have developed, and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, our inability to anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our clients; our loss of business and/or clients; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability any of which could have a material adverse effect on our business, financial condition and results of operations.

More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition and results of operations could be adversely affected.

### ***Our business is exposed to the risk of changes in technology***

The rapid pace of technology changes and the impact of such changes on financial services generally and on our Company specifically could impact our cost structure and our competitive position with our customers. Salient although not exclusive examples of such developments are the rapid movement by customers and some competitor financial institutions to web-based services, mobile banking and cloud computing. Because of our relatively smaller size and limited resources, our Company has typically followed rather than lead such developments and the adoption of such applications by larger institutions and technology providers, and we are reliant on legacy systems and software that may not be as efficient or adaptable as those utilized by competitors. Our failure or inability to anticipate, plan for or implement technology change could adversely affect our competitive position, financial condition and profitability.

### ***Our controls and procedures could fail or be circumvented***

Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is

## **Table of Contents**

based in part on certain assumptions and on the conduct of individuals, and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition.

***Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis***

A failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial results accurately and on a timely basis, which could result in a loss of investor confidence in our financial reporting or adversely affect our access to sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls and fraud, even effective internal controls may not prevent or detect all misstatements.

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

Through the acquisition of San Joaquin Bank, we acquired approximately \$673.1 million of assets and assumed \$660.9 million of liabilities. The San Joaquin Bank acquisition was accounted for under the purchase method of accounting and we recorded an after-tax bargain purchase gain totaling \$12.3 million as a result of the acquisition. This gain was included as a component of other operating income on our statement of earnings for 2009. The amount of the gain was equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities. The bargain purchase gain resulting from the acquisition was a one-time gain that is not expected to be repeated in future periods. The loss sharing agreement for commercial loans expired October 16, 2014. At December 31, 2015, the remaining discount associated with the SJB loans approximated \$3.9 million.

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

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

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

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

## **Table of Contents**

competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology driven products and services. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits.

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

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in the security of these systems could result in failures or interruptions in our customer relationship management, the Bank's reputation, general ledger, deposit, servicing and/or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, which may result in increased costs or other consequences that in turn could have an adverse effect on our business.

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

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

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

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

***We are subject to legal and litigation risk, including a consolidated class action lawsuit and a similar state law derivative action, and wage-hour employment litigation, which could adversely affect us***

Because our Company is extensively regulated by a variety of federal and state agencies, and because we are subject to a wide range of business, consumer and employment laws and regulations at the federal, state and local levels, we are at risk of governmental investigations and lawsuits as well as claims and litigation from private parties. We are from time to time involved in disputes with and claims from investors, customers, government agencies, vendors, employees and other business parties, and such disputes and claims may result in litigation or settlements, any one of which or in the aggregate could have an adverse impact on the Company's

## **Table of Contents**

operating flexibility, employee relations, financial condition or results of operations, as a result of the costs of any judgment, the terms of any settlement and/or the expenses incurred in defending the applicable claim.

A federal securities class action lawsuit was filed against us and certain of our officers, a state law derivative action was filed in the name of the Company against our directors, and a purported class action lawsuit alleging federal and state wage-hour violations has been filed against CBB. See Item 3 – Legal Proceedings below.

We are unable, at this time, to estimate our potential liability in these matters, but we may be required to pay judgments, settlements or other penalties and incur other costs and expenses in connection with any one or more of these lawsuits, which in turn could have a material adverse effect on our business, results of operations and financial condition. In addition, responding to requests for information in connection with discovery demanded by the plaintiffs in any of these lawsuits may be costly and divert internal resources away from managing our business. See Item 3 – Legal Proceedings below.

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

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

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

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

actual or anticipated fluctuations in our operating results and financial condition;

changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;

credit events or losses;

failure to meet analysts' revenue or earnings estimates;

speculation in the press or investment community;

strategic actions by us or our competitors, such as acquisitions or restructurings;

actions or trades by institutional shareholders or other large shareholders;

our capital position;

fluctuations in the stock price and operating results of our competitors;

actions by hedge funds, short term investors, activist shareholders or shareholder representative organizations;

general market conditions and, in particular, developments related to market conditions for the financial services industry;

proposed or adopted regulatory changes or developments;

anticipated or pending investigations, proceedings or litigation that involve or affect the Company and/or the Bank; or

## **Table of Contents**

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

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

Various provisions of our articles of incorporation and by-laws and certain other actions we have taken could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our shareholders. The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, regulatory approval and/or appropriate regulatory filings may be required from either or all the Federal Reserve, the FDIC, the DBO prior to any person or entity acquiring "control" (as defined in the applicable regulations) of a state non-member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

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

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

### ***CVB is a holding company and depends on the Bank for dividends, distributions and other payments***

CVB is a legal entity separate and distinct from the Bank. Our principal source of cash flow, including cash flow to pay dividends to our shareholders is dividends from the Bank. CVB's ability to pay dividends to our stockholders is substantially dependent upon the Bank's ability to pay dividends to CVB. Federal and state law imposes limits on the ability of the Bank to pay dividends and make other distributions and payments. If the Bank is unable to meet regulatory requirements to pay dividends or make other distributions to CVB, CVB will be unable to pay dividends to its shareholders.

### ***We may face other risks***

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

## **Table of Contents**

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

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

### **ITEM 2. PROPERTIES**

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

As of December 31, 2015, the Bank occupied a total of 51 premises consisting of (i) 48 Business Financial and Commercial Banking Centers (Centers) of which one Center is located at our Corporate Headquarters, (ii) a Corporate Headquarters and 2 operations/administrative centers, and (iii) a storage facility. We own 13 of these locations and the remaining properties are leased under various agreements with expiration dates ranging from 2016 through 2026, some with lease renewal options that could extend certain leases through 2036. All properties are located in Southern and Central California.

As of December 31, 2015, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization totaled \$31.4 million. Our total occupancy expense, exclusive of furniture and equipment expense, for the year ended December 31, 2015, was \$11.1 million. We believe that our existing facilities are adequate for our present purposes. The Company believes that if necessary, it could secure suitable alternative facilities on similar terms without adversely affecting operations. For additional information concerning properties, see Note 10 *Premises and Equipment* of the Notes to the consolidated financial statements included in this report. See Item 8 *Financial Statements and Supplemental Data*.

### **ITEM 3. LEGAL PROCEEDINGS**

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates, including but not limited to actions involving employment, wage-hour and labor law claims, lender liability claims, trust and estate administration claims, and consumer and privacy claims, some of which may be styled as class action or representative cases. Where appropriate, we establish reserves in accordance with FASB guidance over loss contingencies (ASC 450). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations. As of December 31, 2015, the Company does not have any litigation reserves.

The Company is involved in the following legal actions and complaints which we currently believe could be material to us.

A purported shareholder class action complaint was filed against the Company on August 23, 2010, 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). At the same time, the

## **Table of Contents**

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. The consolidated complaint alleges that defendants, among other things, 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. Specifically, defendants are alleged to have violated applicable accounting rules and to have made misrepresentations in connection with the Company's allowance for loan loss methodology, loan underwriting guidelines, methodology for grading loans, and the process for making provisions for loan losses. The consolidated complaint sought compensatory damages and other relief in favor of the purported class.

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 this 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, which became a final, appealable order on September 30, 2013.

On October 24, 2013, the plaintiffs filed a notice of appeal of the District Court's final order of dismissal with the U.S. Court of Appeals for the Ninth Circuit. Following the filing of appellate briefs by the respective parties, the Court of Appeals conducted a hearing and oral argument in the case on December 10, 2015. On February 1, 2016, subsequent to the end of the reporting period covered by this Form 10-K, the Court of Appeals issued its decision in the case. This decision affirmed the district court's decision in part, reversed it in part and remanded the case for further proceedings in the District Court. Upon remand to the District Court, we expect to undertake discovery and motion practice with respect to the remaining claims of the plaintiffs which survived the appeal.

The Company intends to continue to vigorously contest and defend the plaintiff's allegations with respect to the remaining claims 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 named as defendants the members of our board of directors and also referred to unnamed defendants allegedly responsible for the conduct alleged. The Company was included as a nominal defendant. The complaint alleged breaches of fiduciary duties, abuse of control, gross mismanagement and corporate waste. Specifically, the complaint alleged, 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 loan portfolio. Plaintiff sought 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, over the succeeding four year period, the parties filed repeated notices to postpone the Court's hearing on the defendants' demurrer, pending resolution of the consolidated

## **Table of Contents**

federal securities shareholder class action complaint. However, on January 18, 2016, subsequent to the end of the reporting period covered by this Form 10-K, the Court signed a Minute Order agreeing to the parties' joint stipulation to dismiss the shareholder derivative action complaint without prejudice.

A former employee and service manager filed a complaint against the Company, on December 29, 2014, in an action entitled *Glenda Morgan v. Citizens Business Bank, et al.*, Case No. BC568004, in the Superior Court for Los Angeles County, individually and on behalf of the Company's branch-based employees and managers who are classified as exempt under California and federal employment laws. The case is styled as a putative class action lawsuit and alleges, among other things, that (i) the Company misclassified certain employees and managers as exempt employees, (ii) the Company violated California's wage and hour, overtime, meal break and rest break rules and regulations, (iii) certain employees did not receive proper expense reimbursements, (iv) the Company did not maintain accurate and complete payroll records, and (v) the Company engaged in unfair business practices. On February 11, 2015, the same law firm representing Morgan filed a second complaint, entitled *Jessica Osuna v. Citizens Business Bank, et al.*, Case No. CIVDS1501781, in the Superior Court for San Bernardino County, alleging wage and hour claims on behalf of the Company's non-exempt hourly employees. On April 6, 2015, these two cases were consolidated in a first amended complaint under the rubric of the Morgan case in Los Angeles County Superior Court. The first amended complaint seeks class certification, the appointment of the plaintiffs as class representatives, and an unspecified amount of damages and penalties.

On May 11, 2015, the Company filed its answer to the first amended complaint denying all allegations regarding the plaintiffs' claims and asserting various defenses. The parties are currently engaged in discovery, and briefing by the parties in connection with the class certification motion is not expected to commence until at least the summer of 2016. The Company intends to vigorously contest both (x) the allegations that the case should be certified as one or more class or representative actions as well as (y) the substantive merits of any consolidated lawsuit in the event that it is permitted to proceed.

We establish accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our accruals for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. We disclose the amount accrued if material or if such disclosure is necessary for our financial statements to not be misleading. If a loss is not both probable and reasonably estimable, or if an exposure to loss exists in excess of the amount previously accrued, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred, and we adjust our disclosures accordingly. Because the outcomes of the federal securities class action appeal and the consolidated wage-hour class action case summarized above are uncertain, we cannot predict any range of loss or even if any loss is probable related to these two actions. We do not presently believe that the ultimate resolution of any of the foregoing matters will have a material adverse effect on the Company's results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition, or cash flows.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the NASDAQ Global Select National Market under the symbol CVBF. The following table presents the high and low sales prices and dividend information for our common stock during each quarter for the past two years. The Company had approximately 106,372,382 shares of common stock outstanding with 1,462 registered shareholders of record as of February 17, 2016, respectively. Refer to the section entitled "Information about the Annual Meeting and Voting" of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

| Quarter |            |         |                         |
|---------|------------|---------|-------------------------|
|         | Ended      | High    | Low                     |
|         |            |         | Cash Dividends Declared |
|         | 12/31/2015 | \$18.77 | \$15.82                 |
|         | 9/30/2015  | \$18.37 | \$15.30                 |
|         | 6/30/2015  | \$18.11 | \$15.45                 |
|         | 3/31/2015  | \$16.21 | \$14.53                 |
|         | 12/31/2014 | \$16.47 | \$13.35                 |
|         | 9/30/2014  | \$16.50 | \$14.35                 |
|         | 6/30/2014  | \$16.42 | \$13.77                 |
|         | 3/31/2014  | \$17.08 | \$14.23                 |

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

**Issuer Purchases of Equity Securities**

On July 16, 2008, our Board of Directors approved a program to repurchase up to 10,000,000 shares of our common stock (such number will not be adjusted for stock splits, stock dividends, and the like) in the open market or in privately negotiated transactions, at times and at prices considered appropriate by us, depending upon prevailing market conditions and other corporate and legal considerations. 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 in the fourth quarter of the year ended December 31, 2015. As of December 31, 2015, there were 7,420,678 shares remaining to be purchased.

**Performance Graph**

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

The following graph compares the yearly percentage change in CVB Financial Corp.'s cumulative total shareholder return (stock price appreciation plus reinvested dividends) on common stock (i) the cumulative total return of the Nasdaq Composite Index; and (ii) a published index comprised by Morningstar (formerly Hemscoff, Inc.) of banks and bank holding companies in the Pacific region (the peer group line depicted below). The graph assumes an initial investment of \$100 on December 31, 2010, and reinvestment of dividends through December 31, 2015. Points on the graph represent the performance as of the last business day of each of the years indicated. The graph is not necessarily indicative of future price performance.

**Table of Contents**

**ASSUMES \$100 INVESTED ON DECEMBER 31, 2010**

**ASSUMES DIVIDEND REINVESTED**

**FISCAL YEAR ENDING DECEMBER 31, 2015**

| Company/Market/Peer Group  | 12/31/2010       | 12/31/2011       | 12/31/2012       | 12/31/2013       | 12/31/2014       | 12/31/2015       |
|----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>CVB Financial Corp.</b> | <b>\$ 100.00</b> | <b>\$ 119.38</b> | <b>\$ 128.60</b> | <b>\$ 217.34</b> | <b>\$ 209.23</b> | <b>\$ 227.32</b> |
| <b>NASDAQ Composite</b>    | <b>\$ 100.00</b> | <b>\$ 100.53</b> | <b>\$ 116.92</b> | <b>\$ 166.19</b> | <b>\$ 188.78</b> | <b>\$ 199.95</b> |
| <b>Peer Group Index</b>    | <b>\$ 100.00</b> | <b>\$ 89.62</b>  | <b>\$ 107.38</b> | <b>\$ 166.84</b> | <b>\$ 171.59</b> | <b>\$ 182.87</b> |

Source: Research Data Group, Inc., [www.researchdatagroup.com](http://www.researchdatagroup.com)

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

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

|                                                         | 2015             | At or For the Year Ended December 31,                   |                  |                  |                  | 2011 |
|---------------------------------------------------------|------------------|---------------------------------------------------------|------------------|------------------|------------------|------|
|                                                         |                  | 2014                                                    | 2013             | 2012             |                  |      |
|                                                         |                  | <i>(Dollars in thousands, except per share amounts)</i> |                  |                  |                  |      |
| Interest income                                         | \$ 261,513       | \$ 252,903                                              | \$ 232,773       | \$ 262,222       | \$ 269,720       |      |
| Interest expense                                        | 8,571            | 16,389                                                  | 16,507           | 25,272           | 35,039           |      |
| Net interest income                                     | 252,942          | 236,514                                                 | 216,266          | 236,950          | 234,681          |      |
| (Recapture of) provision for loan losses                | (5,600)          | (16,100)                                                | (16,750)         |                  | 7,068            |      |
| Noninterest income                                      | 33,483           | 36,412                                                  | 25,287           | 15,903           | 34,216           |      |
| Noninterest expense                                     | 140,659          | 126,229                                                 | 114,028          | 138,160          | 141,025          |      |
| Earnings before income taxes                            | 151,366          | 162,797                                                 | 144,275          | 114,693          | 120,804          |      |
| Income taxes                                            | 52,221           | 58,776                                                  | 48,667           | 37,413           | 39,071           |      |
| <b>NET EARNINGS</b>                                     | <b>\$ 99,145</b> | <b>\$ 104,021</b>                                       | <b>\$ 95,608</b> | <b>\$ 77,280</b> | <b>\$ 81,733</b> |      |
| Basic earnings per common share                         | \$ 0.93          | \$ 0.98                                                 | \$ 0.91          | \$ 0.74          | \$ 0.77          |      |
| Diluted earnings per common share                       | \$ 0.93          | \$ 0.98                                                 | \$ 0.91          | \$ 0.74          | \$ 0.77          |      |
| Cash dividends declared per common share                | \$ 0.480         | \$ 0.400                                                | \$ 0.385         | \$ 0.340         | \$ 0.340         |      |
| Cash dividends declared on common shares                | \$ 51,040        | \$ 42,356                                               | \$ 40,469        | \$ 35,642        | \$ 35,805        |      |
| Dividend pay-out ratio (1)                              | 51.48%           | 40.72%                                                  | 42.33%           | 46.12%           | 43.81%           |      |
| Weighted average common shares:                         |                  |                                                         |                  |                  |                  |      |
| Basic                                                   | 105,715,247      | 105,239,421                                             | 104,729,184      | 104,418,905      | 105,142,650      |      |
| Diluted                                                 | 106,192,472      | 105,759,523                                             | 105,126,303      | 104,657,610      | 105,222,566      |      |
| <b>Common Stock Data:</b>                               |                  |                                                         |                  |                  |                  |      |
| Common shares outstanding at year end                   | 106,384,982      | 105,893,216                                             | 105,370,170      | 104,889,586      | 104,482,271      |      |
| Book value per share                                    | \$ 8.68          | \$ 8.29                                                 | \$ 7.33          | \$ 7.28          | \$ 6.84          |      |
| <b>Financial Position:</b>                              |                  |                                                         |                  |                  |                  |      |
| Assets                                                  | \$ 7,671,200     | \$ 7,377,920                                            | \$ 6,664,967     | \$ 6,363,364     | \$ 6,482,915     |      |
| Investment securities available-for-sale                | 2,368,646        | 3,137,158                                               | 2,663,642        | 2,449,387        | 2,201,526        |      |
| Investment securities held-to-maturity                  | 850,989          | 1,528                                                   | 1,777            | 2,050            | 2,383            |      |
| Net loans, excluding PCI loans (2)                      | 3,867,941        | 3,630,875                                               | 3,310,681        | 3,159,872        | 3,125,763        |      |
| Net PCI loans (3)                                       | 89,840           | 126,367                                                 | 160,315          | 195,215          | 256,869          |      |
| Deposits                                                | 5,917,260        | 5,604,658                                               | 4,890,631        | 4,773,987        | 4,604,548        |      |
| Borrowings                                              | 736,704          | 809,106                                                 | 911,457          | 698,178          | 958,032          |      |
| Junior subordinated debentures                          | 25,774           | 25,774                                                  | 25,774           | 67,012           | 115,055          |      |
| Stockholders' equity                                    | 923,399          | 878,109                                                 | 771,887          | 762,970          | 714,814          |      |
| Equity-to-assets ratio (4)                              | 12.04%           | 11.90%                                                  | 11.58%           | 11.99%           | 11.03%           |      |
| <b>Financial Performance:</b>                           |                  |                                                         |                  |                  |                  |      |
| Return on beginning equity                              | 11.29%           | 13.48%                                                  | 12.53%           | 10.81%           | 12.69%           |      |
| Return on average equity (ROE)                          | 10.87%           | 12.50%                                                  | 12.34%           | 10.31%           | 12.00%           |      |
| Return on average assets (ROA)                          | 1.31%            | 1.45%                                                   | 1.48%            | 1.19%            | 1.26%            |      |
| Net interest margin, tax-equivalent (TE) (5)            | 3.62%            | 3.62%                                                   | 3.71%            | 4.06%            | 4.04%            |      |
| Efficiency ratio (6)                                    | 49.11%           | 46.25%                                                  | 47.21%           | 54.64%           | 52.45%           |      |
| Noninterest expense to average assets                   | 1.86%            | 1.77%                                                   | 1.77%            | 2.13%            | 2.17%            |      |
| <b>Credit Quality (excluding PCI loans):</b>            |                  |                                                         |                  |                  |                  |      |
| Allowance for loan losses                               | \$ 59,156        | \$ 59,825                                               | \$ 75,235        | \$ 92,441        | \$ 93,964        |      |
| Allowance/gross loans                                   | 1.51%            | 1.62%                                                   | 2.22%            | 2.84%            | 2.92%            |      |
| Total nonaccrual loans                                  | \$ 21,019        | \$ 32,186                                               | \$ 39,954        | \$ 57,997        | \$ 62,672        |      |
| Nonaccrual loans/gross loans, net of deferred loan fees | 0.54%            | 0.87%                                                   | 1.18%            | 1.78%            | 1.95%            |      |
| Allowance/nonaccrual loans                              | 281.44%          | 185.87%                                                 | 188.30%          | 159.39%          | 149.93%          |      |

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

|                                               |    |         |    |        |    |        |    |        |    |        |
|-----------------------------------------------|----|---------|----|--------|----|--------|----|--------|----|--------|
| Net (recoveries), charge offs                 | \$ | (4,931) | \$ | (690)  | \$ | 456    | \$ | 1,523  | \$ | 18,363 |
| Net (recoveries), charge offs/average loans   |    | -0.13%  |    | -0.02% |    | 0.01%  |    | 0.05%  |    | 0.57%  |
| <b>Regulatory Capital Ratios:</b>             |    |         |    |        |    |        |    |        |    |        |
| <b>Company:</b>                               |    |         |    |        |    |        |    |        |    |        |
| Leverage ratio                                |    | 11.22%  |    | 10.86% |    | 11.30% |    | 11.50% |    | 11.19% |
| Common equity Tier 1 risk-based capital ratio |    | 16.49%  |    | N/A    |    | N/A    |    | N/A    |    | N/A    |
| Tier 1 risk-based capital ratio               |    | 16.98%  |    | 16.99% |    | 17.83% |    | 18.23% |    | 17.79% |
| Total risk-based capital ratio                |    | 18.23%  |    | 18.24% |    | 19.09% |    | 19.49% |    | 19.05% |
| <b>Bank:</b>                                  |    |         |    |        |    |        |    |        |    |        |
| Leverage ratio                                |    | 11.11%  |    | 10.77% |    | 11.20% |    | 11.21% |    | 10.92% |
| Common equity Tier 1 risk-based capital ratio |    | 16.81%  |    | N/A    |    | N/A    |    | N/A    |    | N/A    |
| Tier 1 risk-based capital ratio               |    | 16.81%  |    | 16.85% |    | 17.67% |    | 17.77% |    | 17.36% |
| Total risk-based capital ratio                |    | 18.06%  |    | 18.11% |    | 18.93% |    | 19.03% |    | 18.63% |

- (1) Dividends declared on common stock divided by net earnings.
- (2) Net loans, excluding purchase credit impaired ( PCI ) loans.
- (3) Excludes loans held-for-sale. PCI loans are those loans acquired from SJB and previously covered by a loss sharing agreement with the FDIC.
- (4) Stockholders' equity divided by total assets.
- (5) Net interest income (TE) divided by average interest-earning assets.
- (6) Noninterest expense divided by net interest income before provision for loan losses plus noninterest income. Also refer to Noninterest Expense and Efficiency Ratio Reconciliation (non-GAAP) under *Analysis of the Results of Operations* of Item 7 of this Form 10-K.

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**CRITICAL ACCOUNTING POLICIES**

The preparation of these 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.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. The following is a summary of the more judgmental and complex accounting estimates and principles. In each area, we have identified the variables most important in the estimation process. We have used the best information available 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 could change future valuations and impact the results of operations.

*Allowance for Loan Losses ( ALLL )* Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. Our allowance for loan losses provides for probable losses based upon evaluations of known and inherent risks in the loan and lease portfolio. The determination of the balance in the allowance for 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 our judgment, is appropriate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors as deserve current recognition in estimating inherent credit losses. The provision for loan losses is charged to expense. For a full discussion of our methodology of assessing the adequacy of the allowance for loan losses, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation Risk Management and Note 3 *Summary of Significant Accounting Policies* and Note 7 *Loans and Lease Finance Receivables and Allowance for Loan Losses* of our consolidated financial statements presented elsewhere in this report.

*Investment Securities* The Company classifies as held-to-maturity ( HTM ) those debt securities that the Company has the positive intent and ability to hold to maturity. Securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available-for-sale ( AFS ). Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized gains and losses being included in current earnings. Available-for-sale securities are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects, presented as a separate component of stockholders' equity. Realized gains and losses on sales of securities are recognized in earnings at the time of sale and are determined on a specific-identification basis. Purchase premiums and discounts are recognized in interest income using the effective-yield method over the estimated terms of the securities. For mortgage-backed securities ( MBS ), the amortization or accretion is based on estimated average lives of the securities. The lives of these securities can fluctuate based on the amount of prepayments received on the underlying collateral of the securities. The Company's investment in the Federal Home Loan Bank of San Francisco ( FHLB ) stock is carried at cost.

## **Table of Contents**

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

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

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheets. Based on the Company's annual impairment test, there was zero recorded impairment as of December 31, 2015.

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

**Purchase Credit Impaired Loans** Purchase credit impaired ( PCI ) loans are those loans that we acquired in the San Joaquin Bank ( SJB ) acquisition for which we were covered for reimbursement for a substantial portion of any future losses under the terms of the Federal Deposit Insurance Corporation ( FDIC ) loss sharing agreement. We account for PCI loans under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ( acquired impaired loan accounting ) when (i) we acquire loans deemed to be impaired when there is evidence of credit deterioration since their origination and it is probable at the date of acquisition that we would be unable to collect all contractually required payments and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition. Acquired impaired loans are accounted for individually or in pools of loans based on common risk characteristics. The excess of the loan's or pool's scheduled contractual principal and interest payments over all cash flows expected at acquisition is the nonaccretable difference. The remaining amount, representing the excess of the loan's cash flows expected to be collected over the fair value is the accretable yield (accreted into interest income over the remaining life of the loan or pool). Refer to Note 6 *Acquired SJB Assets and FDIC Loss Sharing Asset* for PCI loans by type.

**Use of Fair Value** We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Investment securities available-for-sale and interest-rate swaps are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a non-recurring basis, such as impaired loans and other real estate owned ( OREO ), goodwill, and other intangible assets. These non-recurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets. Further, we include in Note 20 *Fair Value Information* of the consolidated financial statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value we disclose the estimate of their fair value.

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

## **Table of Contents**

At December 31, 2015, the Company had three stock-based employee compensation plans. The Company accounts for stock compensation using the modified prospective method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are measured at fair value as of the grant date with compensation costs recognized over the vesting period on a straight-lined basis. Also under this method, unvested stock awards as of January 1, 2006 are recognized over the remaining service period with no change in historical reported earnings.

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

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

For complete discussion and disclosure of other accounting policies see Note 3 *Summary of Significant Accounting Policies* of the Company's consolidated financial statements presented elsewhere in this report.

## **OVERVIEW**

On October 14, 2015, we announced that we have entered into a merger agreement with County Commerce Bank (CCB), pursuant to which CCB will merge into Citizens Business Bank upon closing of the transaction. CCB is headquartered in Ventura County with total assets of approximately \$250 million. This acquisition extends our geographic footprint northward into the central coast of California. The acquisition is scheduled to close in the first quarter of 2016.

The Company opened a new Commercial Banking Center in Santa Barbara, CA in January 2016. This follows recent strategic moves into the Central Coast area, which included a new location in Oxnard in March 2015 and the announced merger agreement with County Commerce Bank in October 2015.

For the year ended December 31, 2015, we reported net earnings of \$99.1 million, compared with \$104.0 million for 2014, a decrease of \$4.9 million, or 4.69%. Diluted earnings per share were \$0.93 per share for the year ended December 31, 2015, compared to \$0.98 per share for 2014. Pre-tax earnings for 2015 included a \$5.6 million loan loss provision recapture compared to \$16.1 million for the same period of 2014, and debt termination expense of \$13.9 million as a result of the redemption of \$200 million of 4.52% fixed rate debt from the FHLB on February 23, 2015. Net interest income for 2015 was positively impacted by a year-over-year decrease of \$8.1 million in interest expense for borrowings as a result of the repayment of the FHLB fixed rate debt.

At December 31, 2015, total assets of \$7.67 billion increased \$293.3 million, or 3.98%, from total assets of \$7.38 billion at December 31, 2014. Interest-earning assets totaled \$7.29 billion at December 31, 2015, an increase of \$271.2 million, or 3.86%, when compared with total interest-earning assets of \$7.02 billion at December 31, 2014. The increase in interest-earning assets was primarily due to a \$199.9 million increase in total loans and an \$80.9 million increase in total investment securities. This was partially offset by a \$7.4 million decrease in interest-earning balances due from the Federal Reserve and a \$7.8 million decrease in FHLB stock.

Total investment securities were \$3.22 billion at December 31, 2015, an increase of \$80.9 million from \$3.14 billion at December 31, 2014.

During the third quarter of 2015, we transferred investment securities from our AFS security portfolio to HTM. Transfers of securities into the HTM category from the AFS category are transferred at fair value at the

## **Table of Contents**

date of transfer. The fair value of these securities at the date of transfer was \$898.6 million. The unrealized holding gain or loss at the date of transfer is retained in accumulated other comprehensive income and in the carrying value of the held-to-maturity securities. The net unrealized holding gain at the date of transfer was \$3.9 million after-tax and will continue to be reported in accumulated other comprehensive income ( AOCI ) and amortized over the remaining life of the securities as a yield adjustment. At December 31, 2015, investment securities HTM totaled \$851.0 million. The after-tax unrealized gain reported in AOCI on investment securities HTM was \$3.0 million at December 31, 2015.

At December 31, 2015, investment securities AFS totaled \$2.37 billion, inclusive of a pre-tax unrealized gain of \$30.9 million.

Total loans and leases, net of deferred fees and discount, of \$4.02 billion at December 31, 2015, increased by \$199.9 million, or 5.24%, from \$3.82 billion at December 31, 2014. The \$199.9 million increase in loans was principally due to increases of \$127.8 million in commercial real estate loans, \$37.0 million in commercial and industrial loans, \$28.6 million in SFR mortgage loans, \$22.9 million in dairy & livestock and agribusiness loans, and \$13.4 million in construction loans. This growth was partially offset by decreases of \$28.1 million in SBA loans, \$3.7 million in municipal lease finance receivables, and \$1.5 million in consumer loans.

Noninterest-bearing deposits were \$3.25 billion at December 31, 2015, an increase of \$383.8 million, or 13.39%, compared to \$2.87 billion at December 31, 2014. At December 31, 2015, noninterest-bearing deposits were 54.93% of total deposits, compared to 51.14% at December 31, 2014. Our average cost of total deposits was 9 basis points for 2015 and 2014.

At December 31, 2015 and 2014, we had \$46.0 million in short-term borrowings.

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

The allowance for loan losses totaled \$59.2 million at December 31, 2015, compared to \$59.8 million at December 31, 2014. The allowance for loan losses was reduced by \$5.6 million in 2015, offset by net recoveries of \$5.0 million. This compares with a \$16.1 million recapture of loan loss provision for 2014. The allowance for loan losses was 1.51% and 1.62% of total loans and leases outstanding, excluding PCI loans, at December 31, 2015 and December 31, 2014, respectively.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory standards. As of December 31, 2015, the Company's Tier 1 leverage capital ratio totaled 11.22%, our common equity Tier 1 ratio totaled 16.49%, our Tier 1 risk-based capital ratio totaled 16.98%, and our total risk-based capital ratio totaled 18.23%. 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 Year Ended December 31, |            |            | Variance   |         |           |        |
|---------------------------------------------------------|---------------------------------|------------|------------|------------|---------|-----------|--------|
|                                                         | 2015                            | 2014       | 2013       | \$         | %       | \$        | %      |
| <i>(Dollars in thousands, except per share amounts)</i> |                                 |            |            |            |         |           |        |
| Net interest income                                     | \$ 252,942                      | \$ 236,514 | \$ 216,266 | \$ 16,428  | 6.95%   | \$ 20,248 | 9.36%  |
| Recapture of provision for loan losses                  | 5,600                           | 16,100     | 16,750     | (10,500)   | -65.22% | (650)     | -3.88% |
| Noninterest income                                      | 33,483                          | 36,412     | 25,287     | (2,929)    | -8.04%  | 11,125    | 43.99% |
| Noninterest expense                                     | (140,659)(1)                    | (126,229)  | (114,028)  | (14,430)   | 11.43%  | (12,201)  | 10.70% |
| Income taxes                                            | (52,221)                        | (58,776)   | (48,667)   | 6,555      | -11.15% | (10,109)  | 20.77% |
| Net earnings                                            | \$ 99,145                       | \$ 104,021 | \$ 95,608  | \$ (4,876) | -4.69%  | \$ 8,413  | 8.80%  |
| Earnings per common share:                              |                                 |            |            |            |         |           |        |
| Basic                                                   | \$ 0.93                         | \$ 0.98    | \$ 0.91    | \$ (0.05)  |         | \$ 0.07   |        |
| Diluted                                                 | \$ 0.93                         | \$ 0.98    | \$ 0.91    | \$ (0.05)  |         | \$ 0.07   |        |
| Return on average assets                                | 1.31%(1)                        | 1.45%      | 1.48%      | -0.14%     |         | -0.03%    |        |
| Return on average shareholders equity                   | 10.87%(1)                       | 12.50%     | 12.34%     | -1.63%     |         | 0.16%     |        |
| Efficiency ratio                                        | 49.11%(1)                       | 46.25%     | 47.21%     | 2.86%      |         | -0.96%    |        |
| Noninterest expense to average assets                   | 1.86%(1)                        | 1.77%      | 1.77%      | 0.09%      |         | 0.00%     |        |

(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 year ended December 31, 2015 included a debt termination expense of \$13.9 million. We believe that presenting the efficiency ratio, and the ratio of noninterest expense to average assets, excluding the impact of debt termination expense, provides additional clarity to the users of financial statements regarding core financial performance. The Company did not incur debt termination expense during the years ended December 31, 2014 and 2013.

|                                                | For the Year Ended December 31, |            |            |
|------------------------------------------------|---------------------------------|------------|------------|
|                                                | 2015                            | 2014       | 2013       |
| <i>(Dollars in thousands)</i>                  |                                 |            |            |
| Net interest income                            | \$ 252,942                      | \$ 236,514 | \$ 216,266 |
| Noninterest income                             | 33,483                          | 36,412     | 25,287     |
| Noninterest expense                            | 140,659                         | 126,229    | 114,028    |
| Less: debt termination expense                 | (13,870)                        |            |            |
| Adjusted noninterest expense                   | \$ 126,789                      | \$ 126,229 | \$ 114,028 |
| Efficiency ratio                               | 49.11%                          | 46.25%     | 47.21%     |
| Adjusted efficiency ratio                      | 44.27%                          | 46.25%     | 47.21%     |
| Adjusted noninterest expense                   | \$ 126,789                      | \$ 126,229 | \$ 114,028 |
| Average assets                                 | 7,565,056                       | 7,150,017  | 6,440,221  |
| Adjusted noninterest expense to average assets | 1.68%                           | 1.77%      | 1.77%      |



**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 indicated.

|                                                                                    | <b>For the Year Ended December 31,</b> |                 |                 |
|------------------------------------------------------------------------------------|----------------------------------------|-----------------|-----------------|
|                                                                                    | <b>2015</b>                            | <b>2014</b>     | <b>2013</b>     |
|                                                                                    | <i>(Dollars in thousands)</i>          |                 |                 |
| Interest income                                                                    |                                        |                 |                 |
| Interest income-accretion                                                          | \$ 4,032                               | \$ 5,825        | \$ 12,856       |
| Noninterest income                                                                 |                                        |                 |                 |
| Decrease in FDIC loss sharing asset                                                | (902)                                  | (3,591)         | (12,860)        |
| Net gain on sale of OREO                                                           | 3                                      | 579             | 372             |
| Noninterest expense                                                                |                                        |                 |                 |
| Legal and professional                                                             | (79)                                   | (162)           | (405)           |
| OREO write-down                                                                    |                                        | (65)            | (415)           |
| OREO expenses                                                                      |                                        | (54)            | (58)            |
| Other expenses (appraisals, etc.)                                                  | (6)                                    | (132)           | (196)           |
| <b>Net income (loss) before income tax (expense) benefit related to SJB assets</b> | <b>\$ 3,048</b>                        | <b>\$ 2,400</b> | <b>\$ (706)</b> |

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.

**2015 Compared to 2014**

The discount accretion of \$4.0 million in 2015, recognized as part of interest income from PCI loans, decreased \$1.8 million, compared to \$5.8 million in 2014. The net decrease in the FDIC loss sharing asset was \$902,000 for 2015, compared to a net decrease of \$3.6 million for 2014.

Gross PCI loans decreased \$39.8 million to \$93.7 million at December 31, 2015 from \$133.5 million at December 31, 2014. At December 31, 2015, the remaining discount associated with the SJB loans approximated \$3.9 million. Based on the Company's regular forecast of expected cash flows from these loans, approximately \$2.1 million of the related discount is expected to accrete into interest income over the remaining average lives of the respective pools, which approximates 3 years. The loss sharing agreement for commercial loans expired October 16, 2014. At December 31, 2015, there was a \$229,000 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 December 31, 2015 and 2014. Refer to Note 3 *Summary of Significant Accounting Policies* for a more detailed discussion about the FDIC loss sharing asset.

**2014 Compared to 2013**

The discount accretion of \$5.8 million in 2014, recognized as part of interest income from PCI loans, decreased \$7.0 million, compared to \$12.9 million in 2013. This decrease was reduced by the changes in the FDIC loss sharing asset, a net decrease of \$3.6 million for 2014, compared to a net decrease of \$12.9 million for 2013.

**Net Interest Income**

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (interest-earning assets) and the interest paid on deposits and borrowed

**Table of Contents**

funds (interest-bearing liabilities). Net interest margin is the taxable-equivalent (TE) of net interest income as a percentage of average interest-earning assets for the period. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average interest earning assets minus the cost of average interest-bearing liabilities. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the international, national and state economies, in general, and more specifically, the local economies in which we conduct business. Our ability to manage net interest income during changing interest rate environments will have a significant impact on our overall performance. We manage net interest income through affecting changes in the mix of interest-earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to interest-earning assets, and in the growth and maturity of earning assets. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Asset/Liability and Market Risk Management Interest Rate Sensitivity Management and Asset and Liability Maturity/Repricing GAP included herein.

**Table of Contents**

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

**Interest-Earning Assets and Interest-Bearing Liabilities**

|                                                                          | For the Year Ended December 31, |           |                |                    |           |                |                    |           |                |
|--------------------------------------------------------------------------|---------------------------------|-----------|----------------|--------------------|-----------|----------------|--------------------|-----------|----------------|
|                                                                          | 2015                            |           |                | 2014               |           |                | 2013               |           |                |
|                                                                          | Average<br>Balance              | Interest  | Yield/<br>Rate | Average<br>Balance | Interest  | Yield/<br>Rate | Average<br>Balance | Interest  | Yield/<br>Rate |
| <i>(Dollars in thousands)</i>                                            |                                 |           |                |                    |           |                |                    |           |                |
| <b>INTEREST-EARNING ASSETS</b>                                           |                                 |           |                |                    |           |                |                    |           |                |
| Investment securities (1)                                                |                                 |           |                |                    |           |                |                    |           |                |
| Available-for-sale securities:                                           |                                 |           |                |                    |           |                |                    |           |                |
| Taxable                                                                  | \$ 2,339,849                    | \$ 48,854 | 2.08%          | \$ 2,341,487       | \$ 47,301 | 2.03%          | \$ 1,852,756       | \$ 28,186 | 1.53%          |
| Tax-advantaged                                                           | 397,440                         | 14,336    | 4.95%          | 578,594            | 20,913    | 4.95%          | 611,003            | 22,025    | 4.94%          |
| Held-to-maturity securities:                                             |                                 |           |                |                    |           |                |                    |           |                |
| Taxable                                                                  | 223,780                         | 4,451     | 1.97%          | 1,640              | 164       | 10.00%         | 1,885              | 188       | 9.97%          |
| Tax-advantaged                                                           | 135,419                         | 4,567     | 4.55%          |                    |           |                |                    |           |                |
| Investment in FHLB stock                                                 | 20,497                          | 2,774(4)  | 13.35%         | 27,347             | 2,130     | 7.68%          | 45,734             | 2,033     | 4.45%          |
| Federal funds sold and interest-earning deposits with other institutions | 276,459                         | 868       | 0.31%          | 222,929            | 776       | 0.35%          | 157,372            | 710       | 0.45%          |
| Loans held-for-sale                                                      |                                 |           |                | 90                 |           |                | 28                 | 1         | 3.57%          |
| Loans (2)                                                                | 3,788,008                       | 181,631   | 4.79%          | 3,608,858          | 175,794   | 4.87%          | 3,412,472          | 166,774   | 4.89%          |
| Yield adjustment to interest income from discount accretion on PCI loans | (5,875)                         | 4,032     |                | (10,138)           | 5,825     |                | (18,785)           | 12,856    |                |
| Total interest-earning assets                                            | 7,175,577                       | 261,513   | 3.74%          | 6,770,807          | 252,903   | 3.86%          | 6,062,465          | 232,773   | 3.98%          |
| Total noninterest-earning assets                                         | 389,479                         |           |                | 379,210            |           |                | 377,756            |           |                |
| Total assets                                                             | \$ 7,565,056                    |           |                | \$ 7,150,017       |           |                | \$ 6,440,221       |           |                |
| <b>INTEREST-BEARING LIABILITIES</b>                                      |                                 |           |                |                    |           |                |                    |           |                |
| Savings deposits (3)                                                     | \$ 1,998,601                    | 3,849     | 0.19%          | \$ 1,886,743       | 3,692     | 0.20%          | \$ 1,652,313       | 3,543     | 0.21%          |
| Time deposits                                                            | 735,045                         | 1,417     | 0.19%          | 713,813            | 1,285     | 0.18%          | 698,905            | 1,344     | 0.19%          |
| Total interest-bearing deposits                                          | 2,733,646                       | 5,266     | 0.19%          | 2,600,556          | 4,977     | 0.19%          | 2,351,218          | 4,887     | 0.21%          |
| FHLB advances and other borrowings                                       | 684,386                         | 3,305     | 0.48%          | 845,686            | 11,412    | 1.33%          | 786,520            | 11,620    | 1.48%          |
| Interest-bearing liabilities                                             | 3,418,032                       | 8,571     | 0.25%          | 3,446,242          | 16,389    | 0.47%          | 3,137,738          | 16,507    | 0.53%          |
| Noninterest-bearing deposits                                             | 3,159,989                       |           |                | 2,802,490          |           |                | 2,452,689          |           |                |
| Other liabilities                                                        | 74,997                          |           |                | 69,258             |           |                | 75,018             |           |                |
| Stockholders' equity                                                     | 912,038                         |           |                | 832,027            |           |                | 774,776            |           |                |
| Total liabilities and stockholders' equity                               | \$ 7,565,056                    |           |                | \$ 7,150,017       |           |                | \$ 6,440,221       |           |                |
| Net interest income                                                      | \$ 252,942                      |           |                | \$ 236,514         |           |                | \$ 216,266         |           |                |
| Net interest income excluding discount on PCI loans                      | \$ 248,910                      |           |                | \$ 230,689         |           |                | \$ 203,410         |           |                |
| Net interest spread tax equivalent                                       | 3.49%                           |           |                | 3.39%              |           |                | 3.45%              |           |                |
| Net interest spread tax equivalent excluding PCI discount                | 3.43%                           |           |                | 3.29%              |           |                | 3.23%              |           |                |
| Net interest margin                                                      | 3.52%                           |           |                | 3.50%              |           |                | 3.58%              |           |                |
| Net interest margin tax equivalent                                       | 3.62%                           |           |                | 3.62%              |           |                | 3.71%              |           |                |
|                                                                          | 3.56%                           |           |                | 3.52%              |           |                | 3.49%              |           |                |

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

|                                                              |       |       |       |
|--------------------------------------------------------------|-------|-------|-------|
| Net interest margin tax equivalent<br>excluding PCI discount |       |       |       |
| Net interest margin excluding loan fees                      | 3.47% | 3.45% | 3.52% |
| Net interest margin excluding loan fees tax<br>equivalent    | 3.56% | 3.57% | 3.66% |

- (1) Non tax-equivalent (TE) rate was 2.38%, 2.35% and 2.06% for the years ended December 31, 2015, 2014 and 2013, respectively.
- (2) Includes loan fees of \$3,922, \$3,078 and \$3,078 for the years ended December 31, 2015, 2014 and 2013, respectively. Prepayment penalty fees of \$4,920, \$2,983 and \$3,222 are included in interest income for the years ended December 31, 2015, 2014 and 2013, 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. The 2015, 2014 and 2013 net interest income and net interest margin include a yield adjustment of \$4.0 million, \$5.8 million and \$12.9 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.

|                                                                                   | 2015               |            |       | For the Year Ended December 31,<br>2014 |            |       | 2013               |            |       |
|-----------------------------------------------------------------------------------|--------------------|------------|-------|-----------------------------------------|------------|-------|--------------------|------------|-------|
|                                                                                   | Average<br>Balance | Interest   | Yield | Average<br>Balance                      | Interest   | Yield | Average<br>Balance | Interest   | Yield |
| <i>(Dollars in thousands)</i>                                                     |                    |            |       |                                         |            |       |                    |            |       |
| Total interest-earning assets (TE)                                                | \$ 7,175,577       | \$ 268,422 | 3.74% | \$ 6,770,807                            | \$ 260,573 | 3.86% | \$ 6,062,465       | \$ 240,898 | 3.98% |
| Discount on acquired PCI loans                                                    | 5,875              | (4,032)    |       | 10,138                                  | (5,825)    |       | 18,785             | (12,856)   |       |
| Total interest-earning assets, excluding PCI loan discount and yield adjustment   | \$ 7,181,452       | \$ 264,390 | 3.68% | \$ 6,780,945                            | \$ 254,748 | 3.77% | \$ 6,081,250       | \$ 228,042 | 3.76% |
| Net interest income and net interest margin (TE)                                  |                    | \$ 259,851 | 3.62% |                                         | \$ 244,184 | 3.62% |                    | \$ 224,391 | 3.71% |
| Yield adjustment to interest income from discount accretion on acquired PCI loans |                    | (4,032)    |       |                                         | (5,825)    |       |                    | (12,856)   |       |
| Net interest income and net interest margin (TE), excluding yield adjustment      |                    | \$ 255,819 | 3.56% |                                         | \$ 238,359 | 3.52% |                    | \$ 211,535 | 3.49% |

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

**Table of Contents****Rate and Volume Analysis for Changes in Interest Income, Interest Expense and Net Interest Income**

|                                                                    | Comparison of Year Ended December 31, |                 |                    |                  |                            |                 |                 |                  |
|--------------------------------------------------------------------|---------------------------------------|-----------------|--------------------|------------------|----------------------------|-----------------|-----------------|------------------|
|                                                                    | 2015 Compared to 2014                 |                 |                    |                  | 2014 Compared to 2013      |                 |                 |                  |
|                                                                    | Increase (Decrease) Due to            |                 |                    |                  | Increase (Decrease) Due to |                 |                 |                  |
|                                                                    | Volume                                | Rate            | Rate/<br>Volume    | Total            | Volume                     | Rate            | Rate/<br>Volume | Total            |
| <i>(Dollars in thousands)</i>                                      |                                       |                 |                    |                  |                            |                 |                 |                  |
| <b>Interest income:</b>                                            |                                       |                 |                    |                  |                            |                 |                 |                  |
| Available-for-sale securities:                                     |                                       |                 |                    |                  |                            |                 |                 |                  |
| Taxable investment securities                                      | \$ (52)                               | \$ 1,607        | \$ (2)             | \$ 1,553         | \$ 7,538                   | \$ 9,163        | \$ 2,414        | \$ 19,115        |
| Tax-advantaged investment securities                               | (6,584)                               | 11              | (4)                | (6,577)          | (1,119)                    | 8               | (1)             | (1,112)          |
| Held-to-maturity securities:                                       |                                       |                 |                    |                  |                            |                 |                 |                  |
| Taxable investment securities                                      | 22,449                                | (133)           | (18,029)           | 4,287            | (25)                       | 1               |                 | (24)             |
| Tax-advantaged investment securities                               | 4,567                                 |                 |                    | 4,567            |                            |                 |                 |                  |
| Investment in FHLB stock                                           | (532)                                 | 1,569           | (393)              | 644              | (1,165)                    | 2,111           | (849)           | 97               |
| Fed funds sold & interest-earning deposits with other institutions | 196                                   | (84)            | (20)               | 92               | 296                        | (162)           | (68)            | 66               |
| Loans HFS                                                          |                                       |                 |                    |                  | 2                          | (1)             | (2)             | (1)              |
| Loans                                                              | 8,661                                 | (2,690)         | (134)              | 5,837            | 9,601                      | (549)           | (32)            | 9,020            |
| Yield adjustment from discount accretion on PCI loans              | (2,450)                               | 1,133           | (476)              | (1,793)          | (5,917)                    | (2,063)         | 949             | (7,031)          |
| <b>Total interest income</b>                                       | <b>26,255</b>                         | <b>1,413</b>    | <b>(19,058)</b>    | <b>8,610</b>     | <b>9,211</b>               | <b>8,508</b>    | <b>2,411</b>    | <b>20,130</b>    |
| <b>Interest expense:</b>                                           |                                       |                 |                    |                  |                            |                 |                 |                  |
| Savings deposits                                                   | 463                                   | (289)           | (17)               | 157              | 503                        | (310)           | (44)            | 149              |
| Time deposits                                                      | 38                                    | 91              | 3                  | 132              | 29                         | (86)            | (2)             | (59)             |
| FHLB advances and other borrowings                                 | (2,189)                               | (7,313)         | 1,395              | (8,107)          | 532                        | (688)           | (52)            | (208)            |
| <b>Total interest expense</b>                                      | <b>(1,688)</b>                        | <b>(7,511)</b>  | <b>1,381</b>       | <b>(7,818)</b>   | <b>1,064</b>               | <b>(1,084)</b>  | <b>(98)</b>     | <b>(118)</b>     |
| <b>Net interest income</b>                                         | <b>\$ 27,943</b>                      | <b>\$ 8,924</b> | <b>\$ (20,439)</b> | <b>\$ 16,428</b> | <b>\$ 8,147</b>            | <b>\$ 9,592</b> | <b>\$ 2,509</b> | <b>\$ 20,248</b> |

*2015 Compared to 2014*

Net interest income, before the provision for loan losses of \$252.9 million for 2015 increased \$16.4 million, or 6.95%, compared to \$236.5 million for 2014. Interest income and fees and loans for 2015 totaled \$185.7 million, which included \$4.0 million of discount accretion from principal reductions, payoffs and improved credit loss experienced on PCI loans acquired from SJB. This represents a \$4.0 million, or 2.23%, increase when compared to interest income and fees on loans of \$181.6 million for 2014, which included \$5.8 million of discount accretion on PCI loans. Net interest income for 2015 was also positively impacted by a \$7.8 million decrease in interest expense, primarily due to the \$200.0 million redemption of fixed rate debt from the FHLB in the first quarter of 2015.

Our net interest margin tax equivalent (TE) was 3.62% for 2015 and 2014. Total average earning asset yields (TE) were 3.74% for 2015, compared to 3.86% for 2014. Total cost of funds decreased to 0.13% for 2015 from 0.26% for 2014.

The average balance of total loans (excluding PCI discount) increased \$179.2 million to \$3.79 billion for 2015, compared to \$3.61 billion for 2014. The average yield on loans (excluding discount on PCI loans) was 4.79% for 2015, compared to 4.87% for 2014. During the third quarter of 2015, we had one non-performing commercial real estate loan that was paid in full resulting in a \$2.8 million increase to interest income. We also earned \$4.9 million in loan prepayment penalty fees for 2015, compared with \$3.0 million for 2014.

Total average interest-earning assets of \$7.18 billion increased \$404.8 million, or 5.98%, from \$6.77 billion for 2014. This increase was principally due to a \$184.3 million increase in average total loans, net of deferred



## **Table of Contents**

fees and discounts to \$3.78 billion, compared to \$3.60 billion for 2014. Total average investment securities increased \$174.8 million to \$3.10 billion for 2015. Average overnight funds sold to the Federal Reserve and average interest-earning deposits with other institutions also increased \$53.5 million to \$276.5 million for 2015, compared to \$222.9 million for 2014. These increases were partially offset by a \$6.9 million decrease in 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 December 31, 2015 and 2014. As of December 31, 2015 and 2014, we had \$21.0 million and \$32.2 million of nonaccrual loans (excluding PCI loans), respectively. Had these nonaccrual loans for which interest was no longer accruing complied with the original terms and conditions, interest income would have been approximately \$1.2 million and \$2.0 million greater for 2015 and 2014, 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 \$3.9 million for 2015, compared to \$3.1 million for 2014.

Interest income on total investments of \$72.2 million for 2015 increased \$3.8 million, or 5.60%, from \$68.4 million for 2014. Total TE yield on investments was 2.55% for 2015, compared to 2.61% for 2014. During 2015, we purchased \$694.6 million in investment securities, principally MBS with an average duration of approximately four years, offset by total repayments/maturities and proceeds from sales of investment securities of \$576.1 million. We elected to utilize short-term borrowings to facilitate a portion of these purchases. However, we regard these borrowings as temporary as we intend to pay them back through cash flow from our investment portfolio and/or future deposit growth.

Interest expense of \$8.6 million for 2015, decreased \$7.8 million, or 47.70%, compared to \$16.4 million for 2014. Interest expense for borrowings decreased \$8.1 million year-over-year as a result of the \$200.0 million repayment of FHLB fixed rate debt in the first quarter of 2015. The average rate paid on interest-bearing liabilities decreased 22 basis points, to 0.25% for 2015, from 0.47%.

### *2014 Compared to 2013*

Net interest income, before the provision for loan losses of \$236.5 million for 2014 increased \$20.2 million, or 9.36%, compared to \$216.3 million for 2013. Interest income and fees and loans for 2014 totaled \$181.6 million, which included \$5.8 million of discount accretion on PCI loans. This represents a \$2.0 million increase when compared to interest income and fees on loans of \$179.6 million for 2013, which included \$12.9 million of discount accretion on PCI loans.

Excluding the impact of the yield adjustment on PCI loans, our net interest margin (TE) was 3.52% for 2014, compared to 3.49% for 2013. Total average interest-earning asset yields (excluding discount on PCI loans) were 3.77% for 2014, compared to 3.76% for 2013. Total cost of funds decreased to 0.26% for 2014 from 0.30% for 2013.

The average balance of total loans increased \$196.4 million to \$3.61 billion for 2014, compared to \$3.41 billion for 2013. The average yield on loans (excluding discount on PCI loans) was 4.87% for 2014, compared to 4.89% for 2013. We earned \$3.0 million in loan prepayment penalty fees for 2014, compared with \$3.2 million for 2013. We recognized loan fee income of \$3.1 million for 2014 and 2013.

Total average earning assets of \$6.77 billion increased \$708.3 million, or 11.68%, from \$6.06 billion for 2013. This increase was principally due to a \$456.1 million increase in average investment securities to \$2.92

## **Table of Contents**

billion for 2014, compared to \$2.47 billion for 2013. Total average loans, net of deferred fees and discounts, of \$3.60 billion increased \$205.0 million, compared to \$3.39 billion for 2013. Average overnight funds sold to the Federal Reserve and interest-earning deposits with other institutions also increased \$65.6 million. These increases were partially offset by an \$18.4 million decrease in 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 December 31, 2014 and 2013. As of December 31, 2014 and 2013, we had \$32.2 million and \$40.0 million of nonaccrual loans (excluding PCI loans), respectively. Had these nonaccrual loans for which interest was no longer accruing complied with the original terms and conditions, interest income would have been approximately \$2.0 million and \$3.0 million greater for 2014 and 2013, respectively.

Interest income on investments of \$68.4 million for 2014, increased \$18.0 million, or 35.67%, from \$50.4 million for 2013. Total TE yield on investments was 2.61% for 2014, compared to 2.39% for 2013. During 2014, we purchased \$805.5 million in investment securities, principally MBS with an average duration of approximately four years, offset by total repayments/maturities and proceeds from sales of investment securities of \$425.4 million. We elected to utilize short-term borrowings to facilitate a portion of these purchases. However, we regard these borrowings as temporary as we intend to pay them back through cash flow from our investment portfolio and/or future deposit growth.

Interest expense of \$16.4 million for 2014, decreased \$118,000, or 0.71%, compared to \$16.5 million for 2013. The average rate paid on interest-bearing liabilities decreased 6 basis points, to 0.47% for 2014, from 0.53% for 2013 as a result of the low interest rate environment experienced for 2014, as well as the mix of interest-bearing liabilities. The drop in interest expense for 2014 was primarily due to a \$200,000 decrease in interest on junior subordinated debentures as a result of the redemption of \$41.2 million of the outstanding capital and common securities issued by the Company's trust subsidiary, CVB Statutory Trust II in 2013.

Contributing to the decline in interest expense was lower rates paid on deposits as reflected by the decrease in our average cost of interest-bearing deposits (0.19% for 2014, compared to 0.21% for 2013). Average noninterest-bearing deposits grew to \$2.80 billion, or 51.87% of total average deposits for 2014, compared to \$2.45 billion, or 51.06% of total average deposits for 2013.

### ***Provision for Loan Losses***

We maintain an allowance for loan losses that is increased (decreased) by a provision (recapture) for loan losses charged against operating results. The provision for loan losses is determined by management as the amount to be added to (subtracted from) the allowance for loan losses after net charge-offs have been deducted to bring the allowance to an appropriate level which, in management's best estimate, is necessary to absorb probable loan losses within the existing loan portfolio.

The allowance for loan losses totaled \$59.2 million at December 31, 2015, compared to \$59.8 million at December 31, 2014. The allowance for loan losses was reduced by a \$5.6 million loan loss provision recapture for 2015, offset by net recoveries of \$5.0 million. We recorded a \$16.1 million loan loss provision recapture for 2014 and a \$16.8 million loan loss provision recapture for 2013. We believe the allowance is appropriate at December 31, 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, net of deferred fees and discount, as of December 31, 2015, 2014 and 2013 was 1.47%, 1.57% and 2.12%, respectively. Refer to the discussion of Allowance for Loan Losses in Item 7 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.

**Table of Contents**

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 \$5.0 million for 2015, compared to net recoveries of \$690,000 for 2014 and net charge-offs of \$456,000 for 2013. See Allowance for Loan Losses under *Analysis of Financial Condition* herein.

PCI loans acquired in the FDIC-assisted transaction were initially recorded at their fair value and were covered by a loss sharing agreement with the FDIC, which expired in October 2014 for commercial loans. Due to the timing of the acquisition and the October 16, 2009 fair value estimate, there was no provision for loan losses on the PCI loans in 2009. Refer to Note 3 *Summary of Significant Accounting Policies* of the consolidated financial statements. During the year ended December 31, 2015 there was \$92,000 in net charge-offs, compared to \$40,000 in net charge-offs for 2014 and zero in net recoveries for 2013, for loans in excess of the amount originally expected in the fair value of the loans at acquisition.

**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 Year Ended     |                      |           | Variance   |         |           |          |
|---------------------------------------------------|------------------------|----------------------|-----------|------------|---------|-----------|----------|
|                                                   | 2015                   | December 31,<br>2014 | 2013      | 2015       |         | 2014      |          |
|                                                   |                        |                      |           | \$         | %       | \$        | %        |
|                                                   | (Dollars in thousands) |                      |           |            |         |           |          |
| Noninterest income:                               |                        |                      |           |            |         |           |          |
| Service charges on deposit accounts               | \$ 15,567              | \$ 15,778            | \$ 15,923 | \$ (211)   | -1.34%  | \$ (145)  | -0.91%   |
| Trust and investment services                     | 8,642                  | 8,118                | 8,071     | 524        | 6.45%   | 47        | 0.58%    |
| Bankcard services                                 | 3,094                  | 3,386                | 3,481     | (292)      | -8.62%  | (95)      | -2.73%   |
| BOLI income                                       | 2,561                  | 2,428                | 2,511     | 133        | 5.48%   | (83)      | -3.31%   |
| (Loss) gain on sale of investment securities, net | (22)                   |                      | 2,094     | (22)       |         | (2,094)   | -100.00% |
| Decrease in FDIC loss sharing asset, net          | (902)                  | (3,591)              | (12,860)  | 2,689      | 74.88%  | 9,269     | 72.08%   |
| Gain on OREO, net                                 | 416                    | 1,020                | 3,131     | (604)      | -59.22% | (2,111)   | -67.42%  |
| Gain on sale of loans                             | 732                    | 6,001                |           | (5,269)    | -87.80% | 6,001     |          |
| Other                                             | 3,395                  | 3,272                | 2,936     | 123        | 3.76%   | 336       | 11.44%   |
| Total noninterest income                          | \$ 33,483              | \$ 36,412            | \$ 25,287 | \$ (2,929) | -8.04%  | \$ 11,125 | 43.99%   |

**2015 Compared to 2014**

Noninterest income of \$33.5 million for 2015 decreased \$2.9 million, or 8.04%, over noninterest income of \$36.4 million for 2014. The decrease was due to a \$732,000 gain on the sale of loans in 2015, compared to a \$6.0 million gain for 2014. This was partially offset by a \$902,000 net decrease in the FDIC loss sharing asset, compared to a \$3.6 million net decrease for 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

## **Table of Contents**

self-directed brokerage, 401(k) plans, mutual funds, insurance and other non-insured investment products. At December 31, 2015, CitizensTrust had approximately \$2.42 billion in assets under management and administration, including \$1.88 billion in assets under management. CitizensTrust generated fees of \$8.6 million for 2015, compared to \$8.1 million for 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 \$2.6 million for 2015 increased \$133,000, or 5.48%, from \$2.4 million for 2014.

Other noninterest income of \$3.4 million for 2015 increased \$123,000 or 3.76%, compared to \$3.3 million for 2014. This increase included a \$200,000 increase in swap fee income for 2015.

### *2014 Compared to 2013*

Noninterest income of \$36.4 million for 2014 increased \$11.1 million, or 43.99%, over noninterest income of \$25.3 million for 2013. This increase was primarily due to a \$3.6 million net decrease in the FDIC loss sharing asset for 2014, compared to a \$12.9 million net decrease in the FDIC loss sharing asset for 2013 and a \$5.3 million pre-tax gain on the sale of one loan held-for-sale. Noninterest income for 2013 included a net pre-tax gain of \$2.1 million on the sale of investments securities and a \$2.5 million net pre-tax gain on the sale of one OREO property.

At December 31, 2014, CitizensTrust had approximately \$2.41 billion in assets under management and administration, including \$1.87 billion in assets under management. CitizensTrust generated fees of \$8.1 million for 2014 and 2013.

BOLI income of \$2.4 million for 2014 decreased \$83,000, or 3.31%, from \$2.5 million for 2013.

**Table of Contents****Noninterest Expense**

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

|                                                                           | For the Year Ended December 31, |                   |                   | 2015             |               | Variance         | 2014          |   |
|---------------------------------------------------------------------------|---------------------------------|-------------------|-------------------|------------------|---------------|------------------|---------------|---|
|                                                                           | 2015                            | 2014              | 2013              | \$               | %             |                  | \$            | % |
|                                                                           | (Dollars in thousands)          |                   |                   |                  |               |                  |               |   |
| Noninterest expense:                                                      |                                 |                   |                   |                  |               |                  |               |   |
| Salaries and employee benefits                                            | \$ 78,878                       | \$ 77,118         | \$ 71,015         | \$ 1,760         | 2.28%         | \$ 6,103         | 8.59%         |   |
| Occupancy                                                                 | 11,141                          | 11,345            | 10,677            | (204)            | -1.80%        | 668              | 6.26%         |   |
| Equipment                                                                 | 3,751                           | 3,919             | 3,827             | (168)            | -4.29%        | 92               | 2.40%         |   |
| Professional services                                                     | 6,188                           | 6,018             | 5,709             | 170              | 2.82%         | 309              | 5.41%         |   |
| Software licenses and maintenance                                         | 3,930                           | 4,464             | 4,671             | (534)            | -11.96%       | (207)            | -4.43%        |   |
| Stationary and supplies                                                   | 1,295                           | 1,530             | 1,565             | (235)            | -15.36%       | (35)             | -2.24%        |   |
| Telecommunications expense                                                | 1,649                           | 1,565             | 1,227             | 84               | 5.37%         | 338              | 27.55%        |   |
| Promotion                                                                 | 5,015                           | 5,195             | 4,681             | (180)            | -3.46%        | 514              | 10.98%        |   |
| Amortization of intangible assets                                         | 949                             | 1,137             | 1,127             | (188)            | -16.53%       | 10               | 0.89%         |   |
| Debt termination expense                                                  | 13,870                          |                   |                   | 13,870           |               |                  |               |   |
| Regulatory assessments                                                    | 4,168                           | 3,996             | 3,541             | 172              | 4.30%         | 455              | 12.85%        |   |
| Loan expense                                                              | 904                             | 1,260             | 1,533             | (356)            | -28.25%       | (273)            | -17.81%       |   |
| OREO expense                                                              | 443                             | 307               | 856               | 136              | 44.30%        | (549)            | -64.14%       |   |
| (Recapture of) provision for unfunded loan commitments                    | (500)                           | (1,250)           | 500               | 750              | -60.00%       | (1,750)          | -350.00%      |   |
| Insurance reimbursements                                                  |                                 | (372)             | (4,155)           | 372              | -100.00%      | 3,783            | 91.05%        |   |
| Acquisition related expenses                                              | 475                             | 1,973             |                   | (1,498)          | -75.92%       | 1,973            |               |   |
| Other                                                                     | 8,503                           | 8,024             | 7,254             | 479              | 5.97%         | 770              | 10.62%        |   |
| <b>Total noninterest expense</b>                                          | <b>\$ 140,659</b>               | <b>\$ 126,229</b> | <b>\$ 114,028</b> | <b>\$ 14,430</b> | <b>11.43%</b> | <b>\$ 12,201</b> | <b>10.70%</b> |   |
| Noninterest expense to average assets, excluding debt termination expense | 1.68%                           | 1.77%             | 1.77%             |                  |               |                  |               |   |
| Efficiency ratio, excluding debt termination expense (1)                  | 44.27%                          | 46.25%            | 47.21%            |                  |               |                  |               |   |

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

Our ability to control noninterest expenses in relation to asset growth can be measured in terms of total noninterest expenses as a percentage of average assets. Excluding the impact of the debt termination expense in 2015, noninterest expense measured as a percentage of average assets was 1.68% for 2015, compared to 1.77% for both 2014 and 2013.

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 2015, the efficiency ratio, excluding debt termination expense, was 44.27%, compared to 46.25% for 2014 and 47.21% for 2013.

**2015 Compared to 2014**

Noninterest expense for 2015 increased \$14.4 million, compared to 2014. The overall increase was primarily due to pre-tax debt termination expense of \$13.9 million resulting from the redemption of a \$200.0

## **Table of Contents**

million FHLB fixed rate advance in the first quarter of 2015. The \$1.8 million increase in salaries and employee benefits expense was principally due to our growth and expansion efforts in Los Angeles, Ventura and Santa Barbara Counties. As part of these growth efforts, we hired new teams 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. Acquisition related costs for CCB in 2015 were \$475,000, compared to acquisition related costs of \$2.0 million for American Security Bank ( ASB ) in 2014. Noninterest expense for 2015 also included a \$500,000 recapture of provision for unfunded loan commitments, compared to \$1.3 million for 2014.

### *2014 Compared to 2013*

Noninterest expense for 2014 increased \$12.2 million, compared to the same period of 2013. Year-over-year, salaries and employee benefits increased due to new hire expenses, other employee benefits as well as expenses related to new associates acquired through ASB. Non-recurring ASB acquisition related costs for 2014 were \$2.0 million. Noninterest expense for 2014 also included a \$1.3 million recapture of provision for unfunded loan commitments, compared to a provision of \$500,000 for 2013. Noninterest expense for 2013 included \$4.1 million in insurance reimbursements for previous years' legal costs and a \$1.0 million accrual for potential interest and penalties associated with previous years' federal and state income tax returns included in other expenses.

### ***Income Taxes***

The Company's effective tax rate for 2015 was 34.50%, compared to 36.10% for 2014 and 33.73% for 2013. Our estimated annual effective tax rate varies depending upon tax-advantaged income as well as available tax credits. We also benefited from \$1.1 million of enterprise zone tax credits in 2013.

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

## **RESULTS BY BUSINESS SEGMENTS**

We have two reportable business segments: (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 included in the segments as these are accounted for at the corporate level. Refer to Note 3 *Summary of Significant Accounting Policies* and Note 21 *Business Segments* of the consolidated financial statements.

Key measures we use to evaluate the segments' performance are included in the following table for the years ended December 31, 2015, 2014 and 2013. These tables also provide additional significant segment measures useful to understanding the performance of these segments. Certain amounts in the prior periods' presentation of segments' performance have been reclassified between segments to conform to the current year presentation with no impact on previously reported consolidated net income.

**Table of Contents****Business Financial and Commercial Banking Centers**

|                                                                      | For the Year Ended December 31, |              |              |
|----------------------------------------------------------------------|---------------------------------|--------------|--------------|
|                                                                      | 2015                            | 2014         | 2013         |
|                                                                      | (Dollars in thousands)          |              |              |
| Key Measures:                                                        |                                 |              |              |
| Statement of Operations                                              |                                 |              |              |
| Interest income (1)                                                  | \$ 178,453                      | \$ 170,249   | \$ 166,123   |
| Interest expense (1)                                                 | 10,820                          | 10,317       | 9,330        |
| Net interest income                                                  | 167,633                         | 159,932      | 156,793      |
| Noninterest income                                                   | 20,677                          | 20,513       | 20,733       |
| Noninterest expense                                                  | 48,568                          | 47,493       | 45,268       |
| Segment pre-tax profit                                               | \$ 139,742                      | \$ 132,952   | \$ 132,258   |
| Balance Sheet                                                        |                                 |              |              |
| Average loans                                                        | \$ 3,001,503                    | \$ 2,851,809 | \$ 2,614,172 |
| Average interest-bearing deposits and customer repurchase agreements | \$ 3,080,142                    | \$ 2,964,404 | \$ 2,649,002 |
| Yield on loans (2)                                                   | 4.78%                           | 4.88%        | 5.33%        |
| Rate paid on interest-bearing deposits and customer repurchases      | 0.21%                           | 0.22%        | 0.23%        |

(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 year ended December 31, 2015, the Centers segment pre-tax profit increased by \$6.8 million, or 5.11%, primarily due to an increase in interest income of \$8.2 million, or 4.82%, compared to 2014. The \$8.2 million increase in interest income for 2015 was principally due to a \$149.7 million increase in average loans, partially offset by a 10 basis point drop in the loan yield to 4.78% for 2015, compared to 4.88% for 2014. The market for new loans continued to remain competitive. This increase in interest income was offset by a \$1.1 million increase in noninterest expense for 2015, compared to 2014.

For the year ended December 31, 2014, the Centers segment pre-tax profits increased by \$694,000, or 0.52%, compared to 2013. The \$4.1 million increase in interest income for 2014 was principally due to a \$237.6 million increase in average loans, partially offset by a 45 basis point drop in the loan yield to 4.88% in 2014, compared to 5.33% in 2013. The market for new loans was very competitive. This increase in interest income was offset by an increase of \$987,000 in interest expense and a \$2.2 million increase in noninterest expense for 2014, compared to 2013.

**Table of Contents****Treasury**

|                                   | For the Year Ended December 31, |              |              |
|-----------------------------------|---------------------------------|--------------|--------------|
|                                   | 2015                            | 2014         | 2013         |
|                                   | (Dollars in thousands)          |              |              |
| Key Measures:                     |                                 |              |              |
| Statement of Operations           |                                 |              |              |
| Interest income (1)               | \$ 75,914                       | \$ 71,369    | \$ 53,234    |
| Interest expense (1)              | 63,748                          | 64,475       | 54,969       |
| Net interest income               | 12,166                          | 6,894        | (1,735)      |
| Noninterest income                | (22)                            |              | 2,094        |
| Noninterest expense               | 859                             | 784          | 714          |
| Debt termination expense          | 13,870                          |              |              |
| Segment pre-tax (loss) profit     | \$ (2,585)                      | \$ 6,110     | \$ (355)     |
| Balance Sheet                     |                                 |              |              |
| Average investments               | \$ 3,096,488                    | \$ 2,921,721 | \$ 2,465,644 |
| Average interest-bearing deposits | \$ 279,918                      | \$ 258,535   | \$ 240,001   |
| Average borrowings                | \$ 29,791                       | \$ 200,765   | \$ 211,632   |
| Yield on investments -TE          | 2.55%                           | 2.61%        | 2.39%        |
| Non-tax equivalent yield          | 2.38%                           | 2.35%        | 2.06%        |
| Average cost of borrowings        | 4.64%                           | 4.70%        | 4.47%        |

(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 year ended December 31, 2015, the Company's Treasury department reported a pre-tax loss of \$2.6 million, compared to a pre-tax profit of \$6.1 million for 2014. This \$8.7 million decrease in pre-tax profit was primarily due to \$13.9 million in debt termination expense as a result of the redemption of \$200.0 million of fixed rate debt from the FHLB on February 23, 2015. Interest income increased \$4.5 million as a result of a \$174.8 million increase in average investments, partially offset by a six basis point drop in yield on investments (TE). Interest expense decreased due to the redemption of fixed rate debt from the FHLB in the first quarter of 2015.

For the year ended December 31, 2014, the Company's Treasury department reported a pre-tax profit of \$6.1 million, compared to a pre-tax loss of \$355,000 for 2013. The increase in pre-tax profit was primarily due to an \$18.1 million increase in interest income due to a \$456.1 million increase in average investments and a 22 basis point increase in yield on investments (TE). The increase in interest income was partially offset by a \$9.5 million increase in interest expense.

**Table of Contents****Other**

|                                        | For the Year Ended December 31, |            |            |
|----------------------------------------|---------------------------------|------------|------------|
|                                        | 2015                            | 2014       | 2013       |
|                                        | (Dollars in thousands)          |            |            |
| Key Measures:                          |                                 |            |            |
| Statement of Operations                |                                 |            |            |
| Interest income (1)                    | \$ 94,215                       | \$ 89,243  | \$ 82,157  |
| Interest expense (1)                   | 21,072                          | 19,555     | 20,949     |
| Net interest income                    | 73,143                          | 69,688     | 61,208     |
| Recapture of provision for loan losses | (5,600)                         | (16,100)   | (16,750)   |
| Noninterest income                     | 12,828                          | 15,899     | 2,460      |
| Noninterest expense                    | 77,362                          | 77,952     | 68,046     |
| Segment pre-tax profit                 | \$ 14,209                       | \$ 23,735  | \$ 12,372  |
| Balance Sheet                          |                                 |            |            |
| Average loans                          | \$ 780,630                      | \$ 746,911 | \$ 779,515 |
| Yield on loans                         | 5.39%                           | 5.70%      | 5.17%      |

(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 \$14.2 million for the year ended December 31, 2015, a decrease of \$9.5 million, or 40.14%, from \$23.7 million for 2014. The decrease in pre-tax profit was principally due to a loan loss provision recapture of \$5.6 million for 2015, compared to a \$16.1 million loan loss provision recapture for 2014. Interest income increased \$5.0 million primarily due to one non-performing commercial real estate loan that was paid in full resulting in a \$2.8 million increase to interest income. Contributing to the increase in interest income was a \$33.7 million increase in average loans, partially offset by a 31 basis point drop in the loan yield for 2015, compared to 2014. Noninterest income decreased \$3.1 million due to a \$5.3 million decrease in gain on sale of loans, offset by an increase of \$2.7 million related to the FDIC loss sharing asset (a net decrease in the FDIC loss sharing asset of \$902,000 for 2015, compared to a net decrease of \$3.6 million for 2014).

The Company's administration and other operating departments reported pre-tax profit of \$23.7 million for the year ended December 31, 2014, an increase of \$11.4 million. Interest income increased \$7.1 million primarily due to a 53 basis point increase in the loan yield for 2014, compared to 2013. Noninterest income increased \$13.4 million due to a net decrease in the FDIC loss sharing asset of \$3.6 million for 2014, compared to net decrease of \$12.9 million for 2013. Noninterest expense increased \$9.9 million primarily due to \$4.1 million in insurance reimbursements for previous years' legal costs recognized in 2013 and \$2.0 million for non-recurring ASB acquisition related costs in 2014.

**Table of Contents****ANALYSIS OF FINANCIAL CONDITION**

The Company reported total assets of \$7.67 billion at December 31, 2015. This represented an increase of \$293.3 million, or 3.98%, from total assets of \$7.38 billion at December 31, 2014. Interest-earning assets totaled \$7.29 billion at December 31, 2015, an increase of \$271.2 million, or 3.86%, when compared with interest-earning assets of \$7.02 billion at December 31, 2014. The increase in interest-earning assets was primarily due to a \$199.9 million increase in total loans and an \$80.9 million increase in total investment securities. This was partially offset by a \$7.4 million decrease in interest-earning balances due from the Federal Reserve and a \$7.8 million decrease in FHLB stock. Total liabilities were \$6.75 billion at December 31, 2015, an increase of \$248.0 million, or 3.82%, from total liabilities of \$6.50 billion at December 31, 2014. Total equity increased \$45.3 million, or 5.16%, to \$923.4 million at December 31, 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 December 31, 2015, we reported total investment securities of \$3.22 billion. This represented an increase of \$80.9 million, or 2.58%, from total investment securities of \$3.14 billion at December 31, 2014. During the third quarter of 2015, we transferred investment securities from our AFS security portfolio to HTM. Transfers of securities into the held-to-maturity category from the available-for-sale category are transferred at fair value at the date of transfer. The fair value of these securities at the date of transfer was \$898.6 million. The unrealized holding gain or loss at the date of transfer is retained in accumulated other comprehensive income and in the carrying value of the held-to-maturity securities. The net unrealized holding gain at the date of transfer was \$3.9 million after-tax and will continue to be reported in AOCI and amortized over the remaining life of the securities as a yield adjustment. At December 31, 2015, investment securities HTM totaled \$851.0 million. The after-tax unrealized gain reported in AOCI on investment securities HTM was \$3.0 million at December 31, 2015. At December 31, 2015, our investment securities AFS totaled \$2.37 billion, inclusive of a pre-tax unrealized gain of \$30.9 million. The after-tax unrealized gain reported in AOCI on investment securities AFS was \$17.9 million.

As of December 31, 2015, the Company had a pre-tax net unrealized holding gain on total investment securities of \$33.0 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. For 2015, total repayments/maturities and proceeds from sales of investment securities totaled \$576.1 million. The Company purchased additional investment securities totaling \$694.6 million and \$805.5 million for 2015 and 2014, respectively. There was one investment security sold in 2015 with a recognized loss of approximately \$22,000. No investment securities were sold during 2014. There were 13 investment securities sold in 2013 with a recognized pre-tax gain on sale of \$2.1 million.

The table below summarizes the fair value of AFS investment securities for the periods presented.

|                                          | 2015         |         | December 31,<br>2014 |         | 2013         |         |
|------------------------------------------|--------------|---------|----------------------|---------|--------------|---------|
|                                          | Fair Value   | Percent | Fair Value           | Percent | Fair Value   | Percent |
| <i>(Dollars in thousands)</i>            |              |         |                      |         |              |         |
| Investment securities available-for-sale |              |         |                      |         |              |         |
| Government agency                        | \$ 5,745     | 0.24%   | \$ 330,843           | 10.55%  | \$ 326,525   | 12.26%  |
| Residential mortgage-backed securities   | 1,813,097    | 76.55%  | 1,917,496            | 61.12%  | 1,379,943    | 51.81%  |
| CMOs/REMICs Residential                  | 383,781      | 16.20%  | 304,091              | 9.69%   | 366,175      | 13.75%  |
| Municipal bonds                          | 160,973      | 6.80%   | 579,641              | 18.48%  | 586,091      | 22.00%  |
| Other securities                         | 5,050        | 0.21%   | 5,087                | 0.16%   | 4,908        | 0.18%   |
| Total available-for-sale securities      | \$ 2,368,646 | 100.00% | \$ 3,137,158         | 100.00% | \$ 2,663,642 | 100.00% |

**Table of Contents**

The table below set forth the carrying value of HTM investment securities for the periods presented.

|                                        | 2015           |         | December 31, 2014 |         | 2013           |         |
|----------------------------------------|----------------|---------|-------------------|---------|----------------|---------|
|                                        | Amortized Cost | Percent | Amortized Cost    | Percent | Amortized Cost | Percent |
| <i>(Dollars in thousands)</i>          |                |         |                   |         |                |         |
| Investment securities held-to-maturity |                |         |                   |         |                |         |
| Government agency                      | \$ 293,338     | 34.47%  | \$                |         | \$             |         |
| Residential mortgage-backed securities | 232,053        | 27.27%  |                   |         |                |         |
| CMO                                    | 1,284          | 0.15%   | 1,528             | 100.00% | 1,777          | 100.00% |
| Municipal bonds                        | 324,314        | 38.11%  |                   |         |                |         |
| Other securities                       |                |         |                   |         |                |         |
| Total held-to-maturity securities      | \$ 850,989     | 100.00% | \$ 1,528          | 100.00% | \$ 1,777       | 100.00% |
| Fair Value                             | \$ 853,039     |         | \$ 2,177          |         | \$ 2,296       |         |

The maturity distribution of the AFS portfolio consists of the following for the period presented.

|                                           | December 31, 2015 |                                   |                                   |                 |              |                  |
|-------------------------------------------|-------------------|-----------------------------------|-----------------------------------|-----------------|--------------|------------------|
|                                           | One Year or Less  | After One Year Through Five Years | After Five Year Through Ten Years | After Ten Years | Total        | Percent to Total |
| <i>(Dollars in thousands)</i>             |                   |                                   |                                   |                 |              |                  |
| Investment securities available-for-sale: |                   |                                   |                                   |                 |              |                  |
| Government agency/GSEs                    | \$ 2,998          | \$ 2,747                          | \$                                | \$              | \$ 5,745     | 0.24%            |
| Residential mortgage-backed securities    | 3,918             | 1,772,186                         | 32,954                            | 4,039           | 1,813,097    | 76.55%           |
| CMOs/REMICs residential                   | 351               | 129,333                           | 49,532                            | 204,565         | 383,781      | 16.20%           |
| Municipal bonds (1)                       | 6,713             | 89,694                            | 48,134                            | 16,432          | 160,973      | 6.80%            |
| Other securities                          |                   |                                   |                                   | 5,050           | 5,050        | 0.21%            |
| Total                                     | \$ 13,980         | \$ 1,993,960                      | \$ 130,620                        | \$ 230,086      | \$ 2,368,646 | 100.00%          |
| Weighted average yield:                   |                   |                                   |                                   |                 |              |                  |
| Government agency/GSEs                    | 0.54%             | 0.94%                             |                                   |                 | 0.73%        |                  |
| Residential mortgage-backed securities    | 5.29%             | 2.44%                             | 2.28%                             | 6.12%           | 2.45%        |                  |
| CMOs/REMICs residential                   | 3.80%             | 1.55%                             | 2.26%                             | 1.84%           | 1.80%        |                  |
| Municipal bonds (1)                       | 4.01%             | 3.56%                             | 4.11%                             | 3.52%           | 3.74%        |                  |
| Other securities                          |                   |                                   |                                   | 6.01%           | 6.01%        |                  |
| Total                                     | 3.60%             | 2.43%                             | 2.94%                             | 2.12%           | 2.44%        |                  |

(1) The weighted average yield for the portfolio is not tax-equivalent. The tax equivalent yield at December 31, 2015 was 5.75%.

**Table of Contents**

The maturity distribution of the HTM portfolio consists of the following for the period presented.

|                                         | December 31, 2015      |                                               |                                            |                    |            | Percent to<br>Total |
|-----------------------------------------|------------------------|-----------------------------------------------|--------------------------------------------|--------------------|------------|---------------------|
|                                         | One Year<br>or<br>Less | After One<br>Year<br>Through<br>Five<br>Years | After Five<br>Year<br>Through<br>Ten Years | After Ten<br>Years | Total      |                     |
|                                         | (Dollars in thousands) |                                               |                                            |                    |            |                     |
| Investment securities held-to-maturity: |                        |                                               |                                            |                    |            |                     |
| Government agency/GSEs                  | \$                     | \$ 60,543                                     | \$ 79,157                                  | \$ 153,638         | \$ 293,338 | 34.47%              |
| Residential mortgage-backed securities  |                        | 87,874                                        | 138,775                                    | 5,404              | 232,053    | 27.27%              |
| CMO                                     |                        | 1,284                                         |                                            |                    | 1,284      | 0.15%               |
| Municipal bonds (1)                     |                        | 3,525                                         | 158,672                                    | 162,117            | 324,314    | 38.11%              |
| Other securities                        |                        |                                               |                                            |                    |            |                     |
| Total                                   | \$                     | \$ 153,226                                    | \$ 376,604                                 | \$ 321,159         | \$ 850,989 | 100.00%             |
| Weighted average yield:                 |                        |                                               |                                            |                    |            |                     |
| Government agency/GSEs                  |                        | 1.76%                                         | 1.96%                                      | 1.77%              | 1.82%      |                     |
| Residential mortgage-backed securities  |                        | 2.41%                                         | 2.25%                                      | 2.92%              | 2.33%      |                     |
| CMO                                     |                        | 6.25%                                         |                                            |                    | 6.25%      |                     |
| Municipal bonds (1)                     |                        | 3.31%                                         | 3.65%                                      | 3.48%              | 3.56%      |                     |
| Other securities                        |                        |                                               |                                            |                    |            |                     |
| Total                                   |                        | 2.21%                                         | 2.78%                                      | 2.65%              | 2.63%      |                     |

(1) The weighted average yield for the portfolio is not tax-equivalent. The tax equivalent yield at December 31, 2015 was 5.48%.

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

The weighted-average yield (TE) on the total investment portfolio at December 31, 2015 was 2.55% with a weighted-average life of 4.1 years. This compares to a weighted-average yield of 2.48% at December 31, 2014 with a weighted-average life of 3.9 years. The weighted average life is the average number of years that each dollar of unpaid principal due remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal pay-downs.

Approximately 85% of the securities in the total investment portfolio, at December 31, 2015, are issued by the U.S. government or U.S. government-sponsored agencies and enterprises, which have the implied guarantee of payment of principal and interest. As of December 31, 2015, approximately \$215.6 million in U.S. government agency bonds are callable.

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

**Table of Contents**

The Company held investment securities in excess of 10% of shareholders' equity from the following issuers for the periods presented.

|                                       | December 31, 2015             |              | December 31, 2014 |              |
|---------------------------------------|-------------------------------|--------------|-------------------|--------------|
|                                       | Book Value                    | Market Value | Book Value        | Market Value |
|                                       | <i>(Dollars in thousands)</i> |              |                   |              |
| Major issuer:                         |                               |              |                   |              |
| Federal National Mortgage Association | \$ 1,541,033                  | \$ 1,556,388 | \$ 1,509,745      | \$ 1,530,465 |
| Federal Home Loan Mortgage Corp.      | 906,942                       | 916,403      | 725,258           | 741,021      |
| Small Business Administration         | 153,638                       | 154,538      | 175,584           | 170,947      |

Municipal securities held by the Company are issued by various states and their various local municipalities. The following tables present municipal securities by the top holdings by state for the periods presented.

|                                          | Amortized Cost                | Percent of Total | Fair Value | Percent of Total |
|------------------------------------------|-------------------------------|------------------|------------|------------------|
|                                          | <i>(Dollars in thousands)</i> |                  |            |                  |
| Municipal Securities available-for-sale: |                               |                  |            |                  |
| New Jersey                               | \$ 25,458                     | 16.1%            | \$ 25,919  | 16.1%            |
| Washington                               | 18,847                        | 11.9%            | 19,219     | 12.0%            |
| Michigan                                 | 17,580                        | 11.1%            | 17,765     | 11.0%            |
| Missouri                                 | 14,937                        | 9.5%             | 15,012     | 9.3%             |
| California                               | 13,838                        | 8.8%             | 14,059     | 8.7%             |
| Illinois                                 | 10,266                        | 6.5%             | 10,402     | 6.5%             |
| All other states (11 states)             | 57,014                        | 36.1%            | 58,597     | 36.4%            |
| Total                                    | \$ 157,940                    | 100.0%           | \$ 160,973 | 100.0%           |

|                                        |            |        |            |        |
|----------------------------------------|------------|--------|------------|--------|
| Municipal Securities held-to-maturity: |            |        |            |        |
| Minnesota                              | \$ 60,617  | 18.7%  | \$ 61,530  | 18.8%  |
| Michigan                               | 38,496     | 11.9%  | 38,303     | 11.7%  |
| Texas                                  | 37,160     | 11.5%  | 37,557     | 11.5%  |
| Ohio                                   | 23,028     | 7.1%   | 23,016     | 7.1%   |
| New Jersey                             | 21,202     | 6.5%   | 21,184     | 6.5%   |
| Pennsylvania                           | 17,500     | 5.4%   | 17,739     | 5.4%   |
| All other states (21 states)           | 126,311    | 38.9%  | 127,317    | 39.0%  |
| Total                                  | \$ 324,314 | 100.0% | \$ 326,646 | 100.0% |

|                                          | Amortized Cost                | Percent of Total | Fair Value | Percent of Total |
|------------------------------------------|-------------------------------|------------------|------------|------------------|
|                                          | <i>(Dollars in thousands)</i> |                  |            |                  |
| Municipal Securities available-for-sale: |                               |                  |            |                  |
| Michigan                                 | \$ 72,331                     | 13.0%            | \$ 74,498  | 12.9%            |
| New Jersey                               | 59,986                        | 10.7%            | 62,171     | 10.7%            |
| Minnesota                                | 53,902                        | 9.7%             | 56,004     | 9.7%             |
| Texas                                    | 47,858                        | 8.6%             | 50,085     | 8.6%             |
| Illinois                                 | 44,016                        | 7.9%             | 45,889     | 7.9%             |
| Missouri                                 | 34,056                        | 6.1%             | 34,721     | 6.0%             |
| All other states (23 states)             | 245,674                       | 44.0%            | 256,273    | 44.2%            |

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

|       |            |        |            |        |
|-------|------------|--------|------------|--------|
| Total | \$ 557,823 | 100.0% | \$ 579,641 | 100.0% |
|-------|------------|--------|------------|--------|

**Table of Contents**

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 December 31, 2015 and 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* of the notes to the consolidated financial statements. Economic trends may adversely affect the value of the portfolio of investment securities that we hold.

|                                           | Less Than 12 Months    |                                 | December 31, 2015<br>12 Months or Longer |                                 | Total      |                                 |
|-------------------------------------------|------------------------|---------------------------------|------------------------------------------|---------------------------------|------------|---------------------------------|
|                                           | Fair Value             | Gross Unrealized Holding Losses | Fair Value                               | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
|                                           | (Dollars in thousands) |                                 |                                          |                                 |            |                                 |
| Investment securities available-for-sale: |                        |                                 |                                          |                                 |            |                                 |
| Government agency/GSEs                    | \$ 5,745               | \$ (7)                          | \$                                       | \$                              | \$ 5,745   | \$ (7)                          |
| Residential mortgage-backed securities    | 437,699                | (1,761)                         |                                          |                                 | 437,699    | (1,761)                         |
| CMOs/REMICs residential                   | 171,923                | (1,074)                         |                                          |                                 | 171,923    | (1,074)                         |
| Municipal bonds                           | 398                    | (2)                             | 5,961                                    | (1)                             | 6,359      | (3)                             |
| Other securities                          |                        |                                 |                                          |                                 |            |                                 |
| Total available-for-sale securities       | \$ 615,765             | \$ (2,844)                      | \$ 5,961                                 | \$ (1)                          | \$ 621,726 | \$ (2,845)                      |
| Investment securities held-to-maturity:   |                        |                                 |                                          |                                 |            |                                 |
| Government agency/GSEs                    | \$ 84,495              | \$ (734)                        | \$                                       | \$                              | \$ 84,495  | \$ (734)                        |
| Residential mortgage-backed securities    | 230,760                | (1,293)                         |                                          |                                 | 230,760    | (1,293)                         |
| CMO                                       |                        |                                 |                                          |                                 |            |                                 |
| Municipal bonds                           | 110,119                | (719)                           |                                          |                                 | 110,119    | (719)                           |
| Other securities                          |                        |                                 |                                          |                                 |            |                                 |
| Total held-to-maturity securities         | \$ 425,374             | \$ (2,746)                      | \$                                       | \$                              | \$ 425,374 | \$ (2,746)                      |

|                                           | Less Than 12 Months    |        | December 31, 2014   |           | Total      |           |
|-------------------------------------------|------------------------|--------|---------------------|-----------|------------|-----------|
|                                           | Gross                  |        | 12 Months or Longer |           | Gross      |           |
|                                           | Unrealized             |        | Gross               |           | Unrealized |           |
|                                           | Holding                |        | Unrealized          |           | Holding    |           |
|                                           | Fair Value             | Losses | Fair Value          | Losses    | Fair Value | Losses    |
|                                           | (Dollars in thousands) |        |                     |           |            |           |
| Investment securities 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 available-for-sale securities       | \$ 43,813              | \$ 55  | \$ 509,509          | \$ 12,123 | \$ 553,322 | \$ 12,178 |

The Company did not record any charges for other-than-temporary impairment losses for the years ended December 31, 2015 and 2014.



**Table of Contents****Loans**

Total loans and leases, net of deferred fees and discounts, of \$4.02 billion at December 31, 2015, increased by \$199.9 million, or 5.24%, from \$3.82 billion at December 31, 2014. The \$199.9 million increase in loans was principally due to increases of \$127.8 million in commercial real estate loans, \$37.0 million in commercial and industrial loans, \$28.6 million in SFR mortgage loans, \$22.9 million in dairy & livestock and agribusiness loans, and \$13.4 million in construction loans. The overall increase in loans and leases was partially offset by decreases of \$28.1 million in SBA loans and \$3.7 million in municipal lease finance receivables.

Total loans, net of deferred loan fees, comprise 55.10% of our total earning assets as of December 31, 2015. The following table presents our loan portfolio, excluding PCI and held-for-sale loans, by type for the periods presented.

**Distribution of Loan Portfolio by Type**

|                                                             | 2015         | 2014         | As of December 31,<br>2013<br>(Dollars in thousands) | 2012         | 2011         |
|-------------------------------------------------------------|--------------|--------------|------------------------------------------------------|--------------|--------------|
| Commercial and industrial                                   | \$ 434,099   | \$ 390,011   | \$ 376,800                                           | \$ 391,664   | \$ 332,259   |
| SBA                                                         | 106,867      | 134,265      | 135,992                                              | 155,758      | 162,040      |
| Real estate:                                                |              |              |                                                      |              |              |
| Commercial real estate                                      | 2,643,184    | 2,487,803    | 2,207,515                                            | 1,990,107    | 76,146       |
| Construction                                                | 68,563       | 55,173       | 47,109                                               | 59,721       | 1,948,292    |
| SFR mortgage                                                | 233,754      | 205,124      | 189,233                                              | 159,288      | 176,442      |
| Dairy & livestock and agribusiness                          | 305,509      | 279,173      | 294,292                                              | 336,660      | 347,677      |
| Municipal lease finance receivables                         | 74,135       | 77,834       | 89,106                                               | 105,767      | 113,460      |
| Consumer and other loans                                    | 69,278       | 69,884       | 55,103                                               | 60,273       | 68,806       |
| Gross loans, excluding PCI loans                            | 3,935,389    | 3,699,267    | 3,395,150                                            | 3,259,238    | 3,225,122    |
| Less: Deferred loan fees, net                               | (8,292)      | (8,567)      | (9,234)                                              | (6,925)      | (5,395)      |
| Gross loans, excluding PCI loans, net of deferred loan fees | 3,927,097    | 3,690,700    | 3,385,916                                            | 3,252,313    | 3,219,727    |
| Less: Allowance for loan losses                             | (59,156)     | (59,825)     | (75,235)                                             | (92,441)     | (93,964)     |
| Net loans, excluding PCI loans                              | 3,867,941    | 3,630,875    | 3,310,681                                            | 3,159,872    | 3,125,763    |
| PCI Loans                                                   | 93,712       | 133,496      | 173,104                                              | 220,559      | 307,649      |
| Discount on PCI loans                                       | (3,872)      | (7,129)      | (12,789)                                             | (25,344)     | (50,780)     |
| PCI loans, net                                              | 89,840       | 126,367      | 160,315                                              | 195,215      | 256,869      |
| Total loans and lease finance receivables                   | \$ 3,957,781 | \$ 3,757,242 | \$ 3,470,996                                         | \$ 3,355,087 | \$ 3,382,632 |

As of December 31, 2015, \$173.0 million, or 6.54% 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 \$128.4 million for loans secured by dairy & livestock land and \$44.6 million for loans secured by agricultural land at December 31, 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 December 31, 2015, dairy & livestock and agribusiness loans of \$305.5 million was comprised of \$287.0 million for dairy & livestock loans and \$18.5 million for agribusiness loans, 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. 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 of credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is included under the shared-loss agreement. As such, any additional advances up to the total commitment outstanding at the time of acquisition were covered under the loss share agreement.

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

**Distribution of Loan Portfolio by Type (PCI)**

|                                      | 2015                   | 2014       | As of December 31, |            |            |
|--------------------------------------|------------------------|------------|--------------------|------------|------------|
|                                      |                        |            | 2013               | 2012       | 2011       |
|                                      | (Dollars in thousands) |            |                    |            |            |
| Commercial and industrial            | \$ 7,473               | \$ 14,605  | \$ 19,047          | \$ 24,680  | \$ 25,378  |
| SBA                                  | 393                    | 1,110      | 1,414              | 1,469      | 4,273      |
| Real estate:                         |                        |            |                    |            |            |
| Commercial real estate               | 81,786                 | 109,350    | 141,141            | 179,428    | 223,107    |
| Construction                         |                        |            | 644                | 1,579      | 18,685     |
| SFR mortgage                         | 193                    | 205        | 313                | 1,415      | 3,289      |
| Dairy & livestock and agribusiness   | 1,429                  | 4,890      | 6,000              | 5,651      | 24,395     |
| Municipal lease finance receivables  |                        |            |                    |            | 169        |
| Consumer and other loans             | 2,438                  | 3,336      | 4,545              | 6,337      | 8,353      |
| Gross PCI loans                      | 93,712                 | 133,496    | 173,104            | 220,559    | 307,649    |
| Less: Purchase accounting discount   | (3,872)                | (7,129)    | (12,789)           | (25,344)   | (50,780)   |
| Gross PCI loans, net of discount     | 89,840                 | 126,367    | 160,315            | 195,215    | 256,869    |
| Less: Allowance for PCI loans losses |                        |            |                    |            |            |
| Net PCI loans                        | \$ 89,840              | \$ 126,367 | \$ 160,315         | \$ 195,215 | \$ 256,869 |

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, which are guaranteed in whole or in part by the SBA, to commercial entities

and/or their principals to finance

**Table of Contents**

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 SBA loans are comprised of SBA 504 loans and SBA 7(a) loans. As of December 31, 2015, the Company had \$15.6 million of total SBA 7(a) loans. The SBA 7(a) loans of 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 December 31, 2015, the Company had \$91.7 million of total 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 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.

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 as of December 31, 2015.

|                    | December 31, 2015      |        |                              |        |
|--------------------|------------------------|--------|------------------------------|--------|
|                    | Total Loans            |        | Commercial Real Estate Loans |        |
|                    | (Dollars in thousands) |        |                              |        |
| Los Angeles County | \$ 1,627,435           | 41.4%  | \$ 1,139,388                 | 43.1%  |
| Central Valley     | 764,344                | 19.4%  | 467,042                      | 17.7%  |
| Inland Empire      | 670,077                | 17.0%  | 562,108                      | 21.3%  |
| Orange County      | 522,373                | 13.3%  | 297,330                      | 11.2%  |
| Other areas (1)    | 351,160                | 8.9%   | 177,316                      | 6.7%   |
|                    | \$ 3,935,389           | 100.0% | \$ 2,643,184                 | 100.0% |

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

## Table of Contents

The following is the breakdown of total PCI held-for-investment commercial real estate loans by region as of December 31, 2015.

|                    | December 31, 2015      |        |                              |        |
|--------------------|------------------------|--------|------------------------------|--------|
|                    | Total PCI Loans        |        | Commercial Real Estate Loans |        |
|                    | (Dollars in thousands) |        |                              |        |
| Los Angeles County | \$ 8,980               | 9.6%   | \$ 5,582                     | 6.8%   |
| Central Valley     | 81,962                 | 87.5%  | 73,436                       | 89.8%  |
| Other areas (1)    | 2,770                  | 2.9%   | 2,768                        | 3.4%   |
|                    | \$ 93,712              | 100.0% | \$ 81,786                    | 100.0% |

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

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

|                                                     | December 31, 2015      |         |                            |                      |
|-----------------------------------------------------|------------------------|---------|----------------------------|----------------------|
|                                                     | Loan Balance           | Percent | Percent Owner-Occupied (1) | Average Loan Balance |
|                                                     | (Dollars in thousands) |         |                            |                      |
| SFR mortgage:                                       |                        |         |                            |                      |
| SFR mortgage Direct                                 | \$ 179,280             | 6.2%    | 100.0%                     | \$ 553               |
| SFR mortgage Mortgage pools                         | 54,474                 | 1.9%    | 100.0%                     | 202                  |
| Total SFR mortgage                                  | 233,754                | 8.1%    |                            |                      |
| Commercial real estate:                             |                        |         |                            |                      |
| Multi-family                                        | 231,130                | 8.0%    |                            | 1,313                |
| Industrial                                          | 782,277                | 27.2%   | 37.3%                      | 1,118                |
| Office                                              | 468,754                | 16.3%   | 27.5%                      | 1,221                |
| Retail                                              | 461,927                | 16.1%   | 6.2%                       | 1,650                |
| Medical                                             | 187,223                | 6.5%    | 36.7%                      | 1,930                |
| Secured by farmland (2)                             | 172,958                | 6.0%    | 100.0%                     | 2,084                |
| Other                                               | 338,915                | 11.8%   | 43.5%                      | 1,395                |
| Total commercial real estate                        | 2,643,184              | 91.9%   |                            |                      |
| Total SFR mortgage and commercial real estate loans | \$ 2,876,938           | 100.0%  | 37.3%                      | 1,125                |

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

(2) The loans secured by farmland included \$128.4 million for loans secured by dairy & livestock land and \$44.6 million for loans secured by agricultural land at December 31, 2015.

The SFR mortgage Direct loans, excluding PCI 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

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

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 \$71.2 million under this program during 2015.

**Table of Contents**

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 \$54.5 million at December 31, 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.

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

|                                                     |           |        | December 31, 2015<br>Percent<br>Owner-<br>Occupied (1)<br>(Dollars in thousands) | Average Loan<br>Balance |
|-----------------------------------------------------|-----------|--------|----------------------------------------------------------------------------------|-------------------------|
| SFR mortgage                                        |           |        |                                                                                  |                         |
| SFR mortgage Direct                                 | \$ 193    | 0.2%   | 100.0%                                                                           | \$ 97                   |
| SFR mortgage Mortgage pools                         |           |        |                                                                                  |                         |
| Total SFR mortgage                                  | 193       | 0.2%   |                                                                                  |                         |
| Commercial real estate:                             |           |        |                                                                                  |                         |
| Multi-family                                        | 2,560     | 3.1%   |                                                                                  | 1,280                   |
| Industrial                                          | 18,878    | 23.0%  | 45.5%                                                                            | 699                     |
| Office                                              | 7,596     | 9.3%   | 32.4%                                                                            | 506                     |
| Retail                                              | 9,779     | 11.9%  | 34.0%                                                                            | 611                     |
| Medical                                             | 10,290    | 12.6%  | 99.2%                                                                            | 1,143                   |
| Secured by farmland                                 | 5,915     | 7.2%   | 100.0%                                                                           | 493                     |
| Other (2)                                           | 26,768    | 32.7%  | 68.0%                                                                            | 765                     |
| Total commercial real estate                        | 81,786    | 99.8%  |                                                                                  |                         |
| Total SFR mortgage and commercial real estate loans | \$ 81,979 | 100.0% | 59.6%                                                                            | 695                     |

(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 81% of other loans.

**Construction Loans**

As of December 31, 2015, the Company had \$68.6 million in construction loans. This represents 1.70% of total gross loans held-for-investment. There were no PCI construction loans at December 31, 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, Orange County, and the Inland empire region of Southern California. At December 31, 2015, construction loans consisted of \$33.9 million in SFR and multi-family construction loans and \$34.7 million in commercial construction loans. As of December 31, 2015 there were no nonperforming construction loans.

The table below provides the maturity distribution for held-for-investment total gross loans, including PCI loans, as of December 31, 2015. The loan amounts are based on contractual maturities although the borrowers have the ability to prepay the loans. Amounts are also classified according to repricing opportunities or rate sensitivity.

**Table of Contents****Loan Maturities and Interest Rate Category at December 31, 2015**

|                                     | <b>Within<br/>One Year</b> | <b>After One<br/>But Within<br/>Five Years</b> | <b>After<br/>Five Years</b> | <b>Total</b>        |
|-------------------------------------|----------------------------|------------------------------------------------|-----------------------------|---------------------|
| <i>(Dollars in thousands)</i>       |                            |                                                |                             |                     |
| Types of Loans:                     |                            |                                                |                             |                     |
| Commercial and industrial           | \$ 160,533                 | \$ 189,223                                     | \$ 91,816                   | \$ 441,572          |
| SBA                                 | 1,793                      | 16,567                                         | 88,900                      | 107,260             |
| Real estate:                        |                            |                                                |                             |                     |
| Commercial real estate              | 153,802                    | 619,261                                        | 1,951,907                   | 2,724,970           |
| Construction                        | 58,771                     | 9,793                                          |                             | 68,563              |
| SFR mortgage                        | 522                        | 6,391                                          | 227,033                     | 233,947             |
| Dairy & livestock and agribusiness  | 285,108                    | 20,918                                         | 912                         | 306,938             |
| Municipal lease finance receivables | 399                        | 8,242                                          | 65,494                      | 74,135              |
| Consumer and other loans            | 12,271                     | 30,179                                         | 29,266                      | 71,716              |
| <b>Total gross loans</b>            | <b>\$ 673,199</b>          | <b>\$ 900,574</b>                              | <b>\$ 2,455,328</b>         | <b>\$ 4,029,101</b> |
| Amount of Loans based upon:         |                            |                                                |                             |                     |
| Fixed Rates                         | \$ 166,771                 | \$ 540,037                                     | \$ 1,262,404                | \$ 1,969,212        |
| Floating or adjustable rates        | 506,428                    | 360,537                                        | 1,192,924                   | 2,059,889           |
| <b>Total gross loans</b>            | <b>\$ 673,199</b>          | <b>\$ 900,574</b>                              | <b>\$ 2,455,328</b>         | <b>\$ 4,029,101</b> |

As a normal practice in extending credit for commercial and industrial purposes, we may accept trust deeds on real property as collateral. In some cases, when the primary source of repayment for the loan is anticipated to come from the cash flow from normal operations of the borrower, and real property has been taken as collateral, the real property is considered a secondary source of repayment for the loan. Since we lend primarily in Southern and Central California, our real estate loan collateral is concentrated in this region. At December 31, 2015, substantially all of our loans secured by real estate were collateralized by properties located in California. This concentration is considered when determining the adequacy of our allowance for loan losses.

**Nonperforming Assets**

The following table provides information on nonperforming assets, excluding PCI loans, as of December 31 for each of the last five years.

|                                                                                               | <b>2015</b>      | <b>2014</b>      | <b>December 31,<br/>2013</b> | <b>2012</b>      | <b>2011</b>      |
|-----------------------------------------------------------------------------------------------|------------------|------------------|------------------------------|------------------|------------------|
| <i>(Dollars in thousands)</i>                                                                 |                  |                  |                              |                  |                  |
| Nonaccrual loans                                                                              | \$ 8,397         | \$ 11,901        | \$ 14,835                    | \$ 26,688        | \$ 38,828        |
| Troubled debt restructured loans (nonperforming)                                              | 12,622           | 20,285           | 25,119                       | 31,309           | 23,844           |
| OREO                                                                                          | 6,993            | 5,637            | 6,475                        | 14,832           | 13,820           |
| <b>Total nonperforming assets</b>                                                             | <b>\$ 28,012</b> | <b>\$ 37,823</b> | <b>\$ 46,429</b>             | <b>\$ 72,829</b> | <b>\$ 76,492</b> |
| <b>Troubled debt restructured performing loans</b>                                            | <b>\$ 42,687</b> | <b>\$ 53,589</b> | <b>\$ 66,955</b>             | <b>\$ 50,392</b> | <b>\$ 38,554</b> |
| Percentage of nonperforming assets to total loans outstanding, net of deferred fees, and OREO | 0.70%            | 0.99%            | 1.37%                        | 2.23%            | 2.37%            |
| Percentage of nonperforming assets to total assets                                            | 0.37%            | 0.51%            | 0.70%                        | 1.14%            | 1.18%            |

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

At December 31, 2015, loans classified as impaired, excluding PCI loans, totaled \$63.7 million, or 1.62% of total gross loans, compared to \$85.8 million, or 2.32% of total loans at December 31, 2014. The December 31, 2015 balance included nonperforming loans of \$21.0 million. At December 31, 2015, impaired loans which were

**Table of Contents**

restructured in a troubled debt restructure ( TDR ) represented \$55.3 million, of which \$12.6 million were nonperforming and \$42.7 million were performing.

Of the \$63.7 million total impaired loans as of December 31, 2015, \$51.8 million were considered collateral dependent and measured using the fair value of the collateral based on current appraisals (obtained within 1 year). The amount of impaired loans measured using the present value of expected future cash flows discounted at the loans effective rate were \$11.9 million.

**Troubled Debt Restructurings**

Total TDRs were \$55.3 million at December 31, 2015, compared to \$73.9 million at December 31, 2014. Of the \$12.6 million in nonperforming TDRs at December 31, 2015, all were paying in accordance with the modified terms at December 31, 2015. At December 31, 2015, \$42.7 million of performing TDRs were accruing interest as 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 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.

|                                    | December 31, 2015      |                    | December 31, 2014 |                    |
|------------------------------------|------------------------|--------------------|-------------------|--------------------|
|                                    | Balance                | Number of<br>Loans | Balance           | Number of<br>Loans |
|                                    | (Dollars in thousands) |                    |                   |                    |
| Performing TDRs:                   |                        |                    |                   |                    |
| Commercial and industrial          | \$ 939                 | 5                  | \$ 711            | 3                  |
| SBA                                | 681                    | 1                  | 699               | 1                  |
| Real Estate:                       |                        |                    |                   |                    |
| Commercial real estate             | 25,752                 | 13                 | 24,694            | 11                 |
| Construction                       | 7,651                  | 1                  | 7,651             | 1                  |
| SFR mortgage                       | 3,565                  | 11                 | 3,722             | 11                 |
| Dairy & livestock and agribusiness | 3,685                  | 2                  | 15,693            | 8                  |
| Consumer and other                 | 414                    | 1                  | 419               | 1                  |
| Total performing TDRs              | \$ 42,687              | 34                 | \$ 53,589         | 36                 |
| Nonperforming TDRs:                |                        |                    |                   |                    |
| Commercial and industrial          | \$ 652                 | 5                  | \$ 960            | 6                  |
| SBA                                | 321                    | 1                  |                   |                    |
| Real Estate:                       |                        |                    |                   |                    |
| Commercial real estate             | 11,323                 | 4                  | 19,222            | 11                 |
| Construction                       |                        |                    |                   |                    |
| SFR mortgage                       | 326                    | 1                  |                   |                    |
| Dairy & livestock and agribusiness |                        |                    | 103               | 1                  |
| Total nonperforming TDRs           | \$ 12,622              | 11                 | \$ 20,285         | 18                 |
| Total TDRs                         | \$ 55,309              | 45                 | \$ 73,874         | 54                 |

At December 31, 2015 and 2014, \$607,000 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. Total charge-offs on TDRs for 2015 and 2014 were zero and \$1.1 million, respectively.



**Table of Contents****Nonperforming Assets and Delinquencies**

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

|                                                | December 31,<br>2015 | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 |
|------------------------------------------------|----------------------|-----------------------|------------------|-------------------|----------------------|
| <b>Nonperforming loans:</b>                    |                      |                       |                  |                   |                      |
| Commercial and industrial                      | \$ 704               | \$ 1,051              | \$ 903           | \$ 952            | \$ 2,308             |
| SBA                                            | 2,567                | 2,634                 | 2,456            | 2,463             | 2,481                |
| Real estate:                                   |                      |                       |                  |                   |                      |
| Commercial real estate (1)                     | 14,541               | 16,696                | 14,967           | 16,787            | 23,318               |
| Construction (1)                               |                      |                       |                  |                   |                      |
| SFR mortgage                                   | 2,688                | 2,778                 | 3,400            | 2,233             | 3,240                |
| Dairy & livestock and agribusiness             |                      |                       |                  | 103               | 103                  |
| Consumer and other loans                       | 519                  | 489                   | 498              | 463               | 736                  |
| <b>Total</b>                                   | <b>\$ 21,019</b>     | <b>\$ 23,648</b>      | <b>\$ 22,224</b> | <b>\$ 23,001</b>  | <b>\$ 32,186</b>     |
| <b>% of Total gross loans</b>                  | <b>0.52%</b>         | <b>0.62%</b>          | <b>0.59%</b>     | <b>0.62%</b>      | <b>0.84%</b>         |
| <b>Past due 30-89 days:</b>                    |                      |                       |                  |                   |                      |
| Commercial and industrial                      | \$                   | \$                    | \$ 246           | \$ 112            | \$ 978               |
| SBA                                            |                      |                       |                  |                   | 75                   |
| Real estate:                                   |                      |                       |                  |                   |                      |
| Commercial real estate                         | 354                  | 266                   | 1,333            | 35                | 122                  |
| Construction                                   |                      |                       |                  |                   |                      |
| SFR mortgage                                   | 1,082                |                       | 355              | 1,613             | 425                  |
| Dairy & livestock and agribusiness             |                      |                       |                  |                   |                      |
| Consumer and other loans                       |                      | 52                    | 2                | 139               | 81                   |
| <b>Total</b>                                   | <b>\$ 1,436</b>      | <b>\$ 318</b>         | <b>\$ 1,936</b>  | <b>\$ 1,899</b>   | <b>\$ 1,681</b>      |
| <b>% of Total gross loans</b>                  | <b>0.04%</b>         | <b>0.01%</b>          | <b>0.05%</b>     | <b>0.05%</b>      | <b>0.04%</b>         |
| <b>OREO:</b>                                   |                      |                       |                  |                   |                      |
| Commercial and industrial                      | \$                   | \$                    | \$               | \$ 736            | \$ 736               |
| Real estate:                                   |                      |                       |                  |                   |                      |
| Commercial real estate                         | 2,125                | 2,135                 | 2,967            | 1,518             |                      |
| Construction                                   | 4,868                | 4,868                 | 4,868            | 4,868             | 4,901                |
| <b>Total</b>                                   | <b>\$ 6,993</b>      | <b>\$ 7,003</b>       | <b>\$ 7,835</b>  | <b>\$ 7,122</b>   | <b>\$ 5,637</b>      |
| <b>Total nonperforming, past due, and OREO</b> | <b>\$ 29,448</b>     | <b>\$ 30,969</b>      | <b>\$ 31,995</b> | <b>\$ 32,022</b>  | <b>\$ 39,504</b>     |
| <b>% of Total gross loans</b>                  | <b>0.73%</b>         | <b>0.81%</b>          | <b>0.85%</b>     | <b>0.86%</b>      | <b>1.03%</b>         |

(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 \$21.0 million in nonperforming loans, excluding PCI loans, defined as nonaccrual loans and nonperforming TDRs, at December 31, 2015, or 0.52% of total gross loans. This compares to \$32.2 million in nonperforming loans at December 31, 2014. At December 31 2015 six customer relationships comprised \$15.3 million, or 72.74%, of our nonperforming loans at December 31, 2015. Five of these customer relationships are commercial real estate developers (owner/non-owner occupied). The primary collateral for these loans is commercial real estate properties. At December 31, 2015, there was \$371,000 allowance for loan losses specifically allocated to these loans. There were no charge-offs recorded for these customer relationships in 2015.



## **Table of Contents**

We had \$7.0 million in OREO at December 31, 2015, compared to \$5.6 million at December 31, 2014. As of December 31, 2015, we had four OREO properties, compared with four OREO properties at December 31, 2014. During 2015, we added five OREO properties with a carrying value of \$3.6 million and sold five OREO properties with a carrying value of \$2.2 million, realizing a net gain on sale of approximately \$301,000.

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 herein.

### ***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 December 31, 2015, there were no PCI loans considered as nonperforming as described above.

There were no OREO properties as of December 31, 2015 and 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 \$59.2 million as of December 31, 2015. This represents a decrease of \$669,000, or 1.12%, compared to the allowance for loan losses of \$59.8 million as of December 31, 2014. There was a \$5.6 million recapture of provision for loan losses that was recorded for the year ended December 31, 2015, offset by net recoveries of \$5.0 million. This compares to a \$16.1 million loan loss provision recapture, offset by net recoveries of \$690,000 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**

|                                                                          | 2015         | As of and For Year Ended December 31, |              |              |              | 2011 |
|--------------------------------------------------------------------------|--------------|---------------------------------------|--------------|--------------|--------------|------|
|                                                                          |              | 2014                                  | 2013         | 2012         |              |      |
|                                                                          |              | <i>(Dollars in thousands)</i>         |              |              |              |      |
| Allowance for loan losses at beginning of period                         | \$ 59,825    | \$ 75,235                             | \$ 92,441    | \$ 93,964    | \$ 105,259   |      |
| Charge-offs:                                                             |              |                                       |              |              |              |      |
| Commercial and industrial (1)                                            | 411          | 888                                   | 2,491        | 1,158        | 1,459        |      |
| SBA (1)                                                                  | 37           | 50                                    |              | 101          | 637          |      |
| Commercial real estate (1)                                               | 117          | 353                                   |              | 1,873        | 4,650        |      |
| Construction                                                             |              |                                       |              |              | 7,976        |      |
| SFR mortgage                                                             | 215          |                                       | 252          | 642          | 1,104        |      |
| Dairy & livestock and agribusiness                                       |              | 1,061                                 |              | 1,150        | 3,291        |      |
| Consumer and other loans                                                 | 229          | 17                                    | 108          | 283          | 511          |      |
| Total charge-offs                                                        | 1,009        | 2,369                                 | 2,851        | 5,207        | 19,628       |      |
| Recoveries:                                                              |              |                                       |              |              |              |      |
| Commercial and industrial                                                | 319          | 873                                   | 544          | 876          | 243          |      |
| SBA                                                                      | 41           | 114                                   | 215          | 404          | 59           |      |
| Commercial real estate                                                   | 4,330        | 140                                   | 402          | 514          | 606          |      |
| Construction                                                             | 581          | 885                                   | 703          | 1,139        | 757          |      |
| SFR mortgage                                                             | 186          | 401                                   | 367          | (108)        | 142          |      |
| Dairy & livestock and agribusiness                                       | 407          | 492                                   | 109          | 166          | 151          |      |
| Consumer and other loans                                                 | 76           | 154                                   | 55           | 36           | 200          |      |
| Total recoveries                                                         | 5,940        | 3,059                                 | 2,395        | 3,027        | 2,158        |      |
| Net (recoveries) charge-offs                                             | (4,931)      | (690)                                 | 456          | 2,180        | 17,470       |      |
| Other reallocation (2)                                                   |              |                                       |              | 657          | (893)        |      |
| (Recapture of) provision for loan losses                                 | (5,600)      | (16,100)                              | (16,750)     |              | 7,068        |      |
| Allowance for loan losses at end of period                               | \$ 59,156    | \$ 59,825                             | \$ 75,235    | \$ 92,441    | \$ 93,964    |      |
| Summary of reserve for unfunded loan commitments:                        |              |                                       |              |              |              |      |
| Reserve for unfunded loan commitments at beginning of period             | \$ 7,656     | \$ 9,088                              | \$ 8,588     | \$ 9,588     | \$ 10,506    |      |
| Other                                                                    |              | (182)                                 |              |              |              |      |
| (Recapture of) provision for unfunded loan commitments                   | (500)        | (1,250)                               | 500          | (1,000)      | (918)        |      |
| Reserve for unfunded loan commitments at end of period                   | \$ 7,156     | \$ 7,656                              | \$ 9,088     | \$ 8,588     | \$ 9,588     |      |
| Reserve for unfunded loan commitments to total unfunded loan commitments | 0.92%        | 1.05%                                 | 1.45%        | 1.55%        | 1.47%        |      |
| Amount of total loans at end of period (3)                               | \$ 3,927,097 | \$ 3,690,700                          | \$ 3,385,916 | \$ 3,252,313 | \$ 3,219,727 |      |
| Average total loans outstanding (3)                                      | \$ 3,676,897 | \$ 3,458,920                          | \$ 3,223,713 | \$ 3,199,629 | \$ 3,222,450 |      |
| Net (recoveries) charge-offs to average total loans                      | -0.13%       | -0.02%                                | 0.01%        | 0.07%        | 0.54%        |      |
|                                                                          | -0.13%       | -0.02%                                | 0.01%        | 0.07%        | 0.54%        |      |

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

|                                                                          |        |        |        |       |         |
|--------------------------------------------------------------------------|--------|--------|--------|-------|---------|
| Net (recoveries) charge-offs to total loans at end of period             |        |        |        |       |         |
| Allowance for loan losses to average total loans                         | 1.61%  | 1.73%  | 2.33%  | 2.89% | 2.92%   |
| Allowance for loan losses to total loans at end of period                | 1.51%  | 1.62%  | 2.22%  | 2.84% | 2.92%   |
| Net (recoveries) charge-offs to allowance for loan losses                | -8.34% | -1.15% | 0.61%  | 2.36% | 18.59%  |
| Net recoveries (charge-offs) to (recapture of) provision for loan losses | 88.05% | 4.29%  | -2.72% |       | 247.17% |

- (1) SBA loans were reclassified as a separate line item from other loan types as of the respective periods presented.
- (2) During 2012, there was \$657,000 in net recoveries for PCI loans, resulting in a \$657,000 recapture of provision for loan losses on the PCI loans. An offsetting adjustment was recorded to the FDIC loss-sharing asset based on the appropriate asset based on the appropriate loss-sharing percentage.
- (3) Net of deferred loan origination fees, costs and discounts, excluding PCI loans.

## Table of Contents

**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 \$669,000 (1.13%), \$1.5 million (2.59%) and \$3.2 million (4.22%) of the total allowance as of December 31, 2015, 2014 and 2013, respectively.

**General allowance:** The loan portfolio collectively evaluated for impairment under ASC 450-20 is divided into risk rating classes of loan receivables between classified loans (including substandard and doubtful loans) Special Mention loans and Pass loans, and that are further disaggregated into loan segments by loan type with similar risk characteristics. Both the classified and non-classified loan categories are divided into eight (8) specific loan segments. The allowance is provided for each segment based upon that segment's average historical loss experience over an established look back period, adjusted for applicable loss emergence periods (i.e., the amount of time from the point at which a loss is incurred to the point at which the loss is confirmed), and further 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. The above description reflects certain changes made to the Bank's ALLL methodology in the current period described further below. Beginning with the fourth quarter of 2015 and coinciding with the implementation of the new ALLL methodology, the Bank's previous unallocated reserve was absorbed into the qualitative component of the allowance and eliminated.

During the fourth quarter of 2015 the Bank implemented an enhanced ALLL methodology and governance. These enhancements included (i) changes to the look back period, (ii) further aggregation of the loan segments, (iii) updates of the historical loss rates, (iv) updates to the qualitative factors, and (v) updates to the documentation, controls and validation of the ALLL methodology. The look back period was changed from the previous rolling 20-quarters to a through-the-cycle time frame beginning with the first quarter of 2009 through the fourth quarter of 2015. This change encompasses the time period outlined and continues to expand by one quarter until such time that the current economic cycle ends, triggered by independent evidence that a recession has begun. This change was implemented to lengthen the look back period to produce meaningful results that more appropriately reflect the level of incurred losses in the Bank's loan portfolio given the current, extended credit cycle. Similarly, the Bank analyzed its various loan segments and aggregated loans with similar risk characteristics into eight (8) segments in order to capture sufficient loss observations, and to produce more reliable historical loss rates for a given segment. In addition, the Bank enhanced its calculation of loss emergence periods for each loan segment and applied them to the through-the-cycle historical loss rates. The update to the qualitative factor component of the ALLL provided for increased use of quantitative metrics and application to each of the factors utilizing a comparison of current measurements to historical results within the range of the expanded look back period. Based upon the aforementioned changes in the ALLL methodology the documentation, controls, validation and governance processes have been further enhanced to ensure that the overall ALLL process is structured, transparent and repeatable.

The overall historical loss rate calculations were affected by the ALLL enhancements as a result of the noted changes to the loan segmentations, look back period, loss emergence periods, and qualitative factors. The results of the new ALLL methodology are represented in the application of the reserve to each portfolio segment reflected herein and are therefore different from prior periods, including the elimination of the unallocated reserve. As a result of the structural change in the calculation of the Bank's historical loss rates during this period pursuant to the described changes in the ALLL methodology, the Bank experienced a reduction in required reserve balances of \$669,000 and determined that such improvement warranted a \$5.6 million recapture of loan loss provision, which included \$5.0 million in net recoveries, for the year ended December 31, 2015.

**Table of Contents**

While we believe that the allowance at December 31, 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.

The following table provides a summary of the allocation of the allowance for loan losses for specific loan categories at the dates indicated for total loans, excluding PCI loans. The allocations presented should not be interpreted as an indication that loans charged to the allowance for loan losses will occur in these amounts or proportions, or that the portion of the allowance allocated to each loan category, represents the total amount available for future losses that may occur within these categories.

**Allocation of Allowance for Loan Losses**

|                                     | 2015                               |                                                                 | 2014                               |                                                                 | December 31, 2013                  |                                                                 | 2012                               |                                                                 | 2011                               |                                                                 |
|-------------------------------------|------------------------------------|-----------------------------------------------------------------|------------------------------------|-----------------------------------------------------------------|------------------------------------|-----------------------------------------------------------------|------------------------------------|-----------------------------------------------------------------|------------------------------------|-----------------------------------------------------------------|
|                                     | Allowance<br>for<br>Loan<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category | Allowance<br>for<br>Loan<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category | Allowance<br>for<br>Loan<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category | Allowance<br>for<br>Loan<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category | Allowance<br>for<br>Loan<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category |
| <i>(Dollars in thousands)</i>       |                                    |                                                                 |                                    |                                                                 |                                    |                                                                 |                                    |                                                                 |                                    |                                                                 |
| Commercial and industrial           | \$ 8,588                           | 11.0%                                                           | \$ 7,074                           | 10.5%                                                           | \$ 8,502                           | 11.1%                                                           | \$ 8,901                           | 12.0%                                                           | \$ 8,030                           | 10.3%                                                           |
| SBA                                 | 993                                | 2.7%                                                            | 2,557                              | 3.6%                                                            | 2,332                              | 4.0%                                                            | 2,751                              | 4.8%                                                            | 2,624                              | 5.0%                                                            |
| Real estate:                        |                                    |                                                                 |                                    |                                                                 |                                    |                                                                 |                                    |                                                                 |                                    |                                                                 |
| Commercial real estate              | 36,995                             | 67.2%                                                           | 33,373                             | 67.3%                                                           | 39,402                             | 65.0%                                                           | 47,457                             | 61.1%                                                           | 47,841                             | 60.4%                                                           |
| Construction                        | 2,389                              | 1.7%                                                            | 988                                | 1.5%                                                            | 1,305                              | 1.4%                                                            | 2,291                              | 1.8%                                                            | 4,947                              | 2.4%                                                            |
| SFR mortgage                        | 2,103                              | 5.9%                                                            | 2,344                              | 5.5%                                                            | 2,718                              | 5.6%                                                            | 3,448                              | 4.9%                                                            | 4,032                              | 5.4%                                                            |
| Dairy & livestock and agribusiness  | 6,029                              | 7.8%                                                            | 5,479                              | 7.5%                                                            | 11,728                             | 8.7%                                                            | 18,696                             | 10.3%                                                           | 17,278                             | 10.8%                                                           |
| Municipal lease finance receivables | 1,153                              | 1.9%                                                            | 1,412                              | 2.1%                                                            | 2,335                              | 2.6%                                                            | 1,588                              | 3.2%                                                            | 2,403                              | 3.5%                                                            |
| Consumer and other loans            | 906                                | 1.8%                                                            | 1,262                              | 2.0%                                                            | 960                                | 1.6%                                                            | 1,170                              | 1.9%                                                            | 1,590                              | 2.2%                                                            |
| Unallocated (1)                     |                                    |                                                                 | 5,336                              |                                                                 | 5,953                              |                                                                 | 6,139                              |                                                                 | 5,219                              |                                                                 |
| <b>Total</b>                        | <b>\$ 59,156</b>                   | <b>100.0%</b>                                                   | <b>\$ 59,825</b>                   | <b>100.0%</b>                                                   | <b>\$ 75,235</b>                   | <b>100.0%</b>                                                   | <b>\$ 92,441</b>                   | <b>100.0%</b>                                                   | <b>\$ 93,964</b>                   | <b>100.0%</b>                                                   |

- (1) Based upon changes to our ALLL methodology, as described earlier in this document, beginning with the fourth quarter of 2015 and coinciding with the implementation of the new ALLL methodology, the Bank's previous unallocated reserve was absorbed into the qualitative component of the allowance.

**Deposits**

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

**Table of Contents**

Total deposits were \$5.92 billion at December 31, 2015. This represented an increase of \$312.6 million, or 5.58%, over total deposits of \$5.60 billion at December 31, 2014. This increase was due to organic growth primarily from our Centers and the addition of the DeNovo Centers in Oxnard, San Diego, and Santa Barbara. The average balance of deposits by category and the average effective interest rates paid on deposits is summarized for the periods presented in the table below.

|                              | For the Year Ended December 31, |       |                    |                 |              |       |
|------------------------------|---------------------------------|-------|--------------------|-----------------|--------------|-------|
|                              | 2015                            |       | 2014               |                 | 2013         |       |
|                              | Balance                         | Rate  | Average<br>Balance | Average<br>Rate | Balance      | Rate  |
|                              | <i>(Dollars in thousands)</i>   |       |                    |                 |              |       |
| Noninterest-bearing deposits | \$ 3,159,989                    |       | \$ 2,802,490       |                 | \$ 2,452,689 |       |
| Interest-bearing deposits    |                                 |       |                    |                 |              |       |
| Investment checking          | 353,650                         | 0.06% | 340,042            | 0.06%           | 308,935      | 0.05% |
| Money market                 | 1,354,856                       | 0.25% | 1,272,175          | 0.25%           | 1,080,080    | 0.28% |
| Savings                      | 290,095                         | 0.10% | 274,526            | 0.10%           | 263,298      | 0.11% |
| Time deposits                | 735,045                         | 0.19% | 713,813            | 0.18%           | 698,905      | 0.19% |
| Total deposits               | \$ 5,893,635                    |       | \$ 5,403,046       |                 | \$ 4,803,907 |       |

The amount of noninterest-bearing deposits in relation to total deposits is an integral element in achieving a low cost of funds. Average noninterest-bearing deposits totaled \$3.2 billion for 2015, representing an increase of \$357.5 million, or 12.76%, from average demand deposits of \$2.80 billion for 2014. Average noninterest-bearing deposits represented 53.62% of total average deposits for 2015, compared to 51.87% of total average deposits for 2014.

Average savings deposits, which include savings, interest-bearing demand, and money market accounts, were \$2.0 billion for 2015, representing an increase of \$111.9 million, or 5.93%, from average savings deposits of \$1.89 billion for 2014.

Average time deposits totaled \$735.0 million for 2015, representing an increase of \$21.2 million, or 2.97%, from total average time deposits of \$713.8 million for 2014.

The following table provides the remaining maturities of large denomination (\$250,000 or more) time deposits, including public funds, at December 31, 2015.

**Maturity Distribution of Large Denomination Time Deposits**

|                                 | December 31, 2015             |
|---------------------------------|-------------------------------|
|                                 | <i>(Dollars in thousands)</i> |
| 3 months or less                | \$ 333,313                    |
| Over 3 months through 6 months  | 44,457                        |
| Over 6 months through 12 months | 23,256                        |
| Over 12 months                  | 17,006                        |
| Total                           | \$ 418,032                    |

**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 Bank). 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 total funding (total deposits plus borrowed funds), was 10.05% for 2015, compared to 13.18% for 2014.



**Table of Contents**

The following table summarizes information about our term FHLB advances, repurchase agreements and other borrowings outstanding as of and for the periods presented.

|                                             | Repurchase<br>Agreements | FHLB Advances<br>(Dollars in thousands) | Other<br>Borrowings | Total      |
|---------------------------------------------|--------------------------|-----------------------------------------|---------------------|------------|
| <b>At December 31, 2015</b>                 |                          |                                         |                     |            |
| Amount outstanding                          | \$ 690,704               | \$                                      | \$ 46,000           | \$ 736,704 |
| Weighted-average interest rate              | 0.24%                    |                                         | 0.28%               | 0.24%      |
| <b>For the year ended December 31, 2015</b> |                          |                                         |                     |            |
| Highest amount at month-end                 | \$ 690,704               | \$ 199,501                              | \$ 46,000           | \$ 936,205 |
| Daily-average amount outstanding            | \$ 628,821               | \$ 29,516                               | \$ 275              | \$ 658,612 |
| Weighted-average interest rate              | 0.23%                    | 4.75%                                   | 0.21%               | 0.44%      |
| <b>At December 31, 2014</b>                 |                          |                                         |                     |            |
| Amount outstanding                          | \$ 563,627               | \$ 199,479                              | \$ 46,000           | \$ 809,105 |
| Weighted-average interest rate              | 0.24%                    | 4.52%                                   | 0.10%               | 1.29%      |
| <b>For the year ended December 31, 2014</b> |                          |                                         |                     |            |
| Highest amount at month-end                 | \$ 726,063               | \$ 199,479                              | \$ 46,000           | \$ 971,542 |
| Daily-average amount outstanding            | \$ 619,147               | \$ 199,351                              | \$ 1,414            | \$ 819,912 |
| Weighted-average interest rate              | 0.25%                    | 4.52%                                   | 0.12%               | 1.29%      |
| <b>At December 31, 2013</b>                 |                          |                                         |                     |            |
| Amount outstanding                          | \$ 643,251               | \$ 199,206                              | \$ 69,000           | \$ 911,458 |
| Weighted-average interest rate              | 0.29%                    | 4.52%                                   | 0.06%               | 1.20%      |
| <b>For the year ended December 31, 2013</b> |                          |                                         |                     |            |
| Highest amount at month-end                 | \$ 643,251               | \$ 199,206                              | \$ 69,000           | \$ 911,458 |
| Daily-average amount outstanding            | \$ 543,656               | \$ 199,079                              | \$ 12,554           | \$ 755,289 |
| Weighted-average interest rate              | 0.28%                    | 4.52%                                   | 0.16%               | 1.40%      |

At December 31, 2015, our borrowings included \$690.7 million of repurchase agreements, zero in term FHLB advances, and \$46.0 million in other short-term borrowings. At December 31, 2014, our borrowings included \$199.5 million in term FHLB advances, \$563.6 million in repurchase agreements and other short-term borrowings of \$46.0 million.

At December 31, 2015, borrowed funds (customer repurchase agreements, FHLB Advances and other borrowings) totaled \$736.7 million. This represented a decrease of \$72.4 million, or 8.95%, from total borrowed funds of \$809.1 million at December 31, 2014. On February 23, 2015 we redeemed \$200.0 million of our FHLB advances, which carried a fixed rate of 4.52% and was set to mature in November of 2016. The repayment of this advance, which resulted in a \$13.9 million pre-tax debt termination expense as reflected in other operating expense, was funded from Citizens Business Bank deposits. At December 31, 2015, we had \$46 million overnight borrowings with the FHLB at a cost of 28 basis points.

We also offer a repurchase agreement product to 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 December 31, 2015 and December 31, 2014, total customer repurchases were \$690.7 million and \$563.6 million, respectively, with a weighted average interest rate of 0.24% for both years.

At December 31, 2015, \$2.91 billion of loans and \$2.81 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.

**Table of Contents*****Aggregate Contractual Obligations***

The following table summarizes the aggregate contractual obligations as of December 31, 2015.

|                                    |                     | Maturity by Period    |                                          |                                     |                       |
|------------------------------------|---------------------|-----------------------|------------------------------------------|-------------------------------------|-----------------------|
|                                    |                     |                       | One<br>Year<br>Through<br>Three<br>Years | Four Years<br>Through Five<br>Years | Over<br>Five<br>Years |
|                                    | Total               | Less Than One<br>Year |                                          |                                     |                       |
| <i>(Dollars in thousands)</i>      |                     |                       |                                          |                                     |                       |
| Deposits (1)                       | \$ 5,917,260        | \$ 5,891,321          | \$ 11,224                                | \$ 6,102                            | \$ 8,613              |
| Customer repurchase agreements (1) | 690,704             | 690,704               |                                          |                                     |                       |
| Junior subordinated debentures (1) | 25,774              |                       |                                          |                                     | 25,774                |
| Deferred compensation              | 11,269              | 664                   | 661                                      | 457                                 | 9,487                 |
| Operating leases                   | 18,592              | 5,307                 | 8,405                                    | 3,445                               | 1,435                 |
| Advertising agreements             | 2,385               | 985                   | 1,400                                    |                                     |                       |
| <b>Total</b>                       | <b>\$ 6,665,984</b> | <b>\$ 6,588,981</b>   | <b>\$ 21,690</b>                         | <b>\$ 10,004</b>                    | <b>\$ 45,309</b>      |

(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 which carried a fixed rate of 4.52%.

At December 31, 2015 we had \$46.0 million in short-term borrowings with the FHLB at a cost of 28 basis points, compared to \$46.0 million at a cost of 10 basis points at December 31, 2014.

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.

**Table of Contents****Off-Balance Sheet Arrangements**

The following table summarizes the off-balance sheet items at December 31, 2015.

|                                        |            | Maturity by Period       |                               |                                |                        |
|----------------------------------------|------------|--------------------------|-------------------------------|--------------------------------|------------------------|
|                                        | Total      | Less Than<br>One<br>Year | One Year<br>to Three<br>Years | Four Years<br>to Five<br>Years | After<br>Five<br>Years |
| (Dollars in thousands)                 |            |                          |                               |                                |                        |
| Commitments to extend credit:          |            |                          |                               |                                |                        |
| Commercial and industrial              | \$ 339,678 | \$ 254,039               | \$ 72,521                     | \$ 7,171                       | \$ 5,947               |
| SBA                                    | 318        | 21                       | 297                           |                                |                        |
| Real estate:                           |            |                          |                               |                                |                        |
| Commercial real estate                 | 98,295     | 15,054                   | 15,963                        | 56,237                         | 11,041                 |
| Construction                           | 83,241     | 46,689                   | 36,552                        |                                |                        |
| Dairy & livestock and agribusiness (1) | 158,906    | 136,833                  | 22,073                        |                                |                        |
| Consumer and other loans               | 63,522     | 7,091                    | 7,685                         | 8,569                          | 40,177                 |
| Total commitments to extend credit     | 743,960    | 459,727                  | 155,091                       | 71,977                         | 57,165                 |
| Obligations under letters of credit    | 35,083     | 31,878                   | 3,205                         |                                |                        |
| Total                                  | \$ 779,043 | \$ 491,605               | \$ 158,296                    | \$ 71,977                      | \$ 57,165              |

(1) Total commitments to extend credit to agribusiness were \$15.8 million at December 31, 2015.

As of December 31, 2015, we had commitments to extend credit of approximately \$744.0 million, and obligations under letters of credit of \$35.1 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 recorded a recapture of provision for unfunded loan commitments of \$500,000 for 2015, compared to \$1.3 million for 2014. The Company had a reserve for unfunded loan commitments of \$7.2 million as of December 31, 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 third 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.

**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 total equity was \$923.4 million at December 31, 2015. This represented an increase of \$45.3 million, or 5.16%, from total equity of \$878.1 million at December 31, 2014. The increase in 2015 resulted from \$99.1 million in net earnings, and \$7.4 million for shares issued pursuant to our stock-based compensation plan, offset by \$51.0 million for cash dividends declared on common stock and a \$10.2 million decrease in other comprehensive income, net of tax, resulting from the net change in fair value of our investment securities portfolio.



## Table of Contents

During 2015, the Board of Directors of CVB declared quarterly cash dividends totaling \$0.48 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 2015, there were no repurchased shares of common stock outstanding. As of December 31, 2015, we have 7,420,678 shares of our common stock remaining that are eligible for repurchase.

The Bank and the Company are required to meet risk-based capital standards set by their respective regulatory authorities. The risk-based capital standards require the achievement of a minimum total risk-based capital ratio of 8.0%, a Tier 1 risk-based capital ratio of 6.0% and a common equity Tier 1 capital ratio of 4.5%. In addition, the regulatory authorities require the highest rated institutions to maintain a minimum leverage ratio of 4.0%. To be considered "well-capitalized" for bank regulatory purposes, the Bank and the Company are required to have a common equity Tier 1 capital ratio equal to or greater than 6.5%, a Tier 1 risk-based capital ratio equal to or greater than 8%, a total risk-based capital ratio equal to or greater than 10% and a Tier 1 leverage ratio equal to or greater than 5%. At December 31, 2015, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios required to be considered "well-capitalized" for regulatory purposes. For further information about capital requirements and our capital ratios, see Item 1. Business Regulation and Supervision Capital Adequacy Requirements.

At December 31, 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 risk-based and leverage capital ratios for the periods presented.

|                                    |                               |                         | December 31, 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%                   | 11.22%                           | 11.11%                 | 10.86%                           | 10.77%                 |
| Common equity Tier 1 capital ratio | 4.50%                         | 6.50%                   | 16.49%                           | 16.81%                 | N/A                              | N/A                    |
| Tier 1 risk-based capital ratio    | 6.00%                         | 8.00%                   | 16.98%                           | 16.81%                 | 16.99%                           | 16.85%                 |
| Total risk-based capital ratio     | 8.00%                         | 10.00%                  | 18.23%                           | 18.06%                 | 18.24%                           | 18.11%                 |

## **Table of Contents**

### **RISK MANAGEMENT**

All financial institutions must manage and control a variety of business risks that can significantly affect their financial performance. Our Board of Directors (Board) and executive management team have overall and ultimate responsibility for management of these risks, which they carry out through committees with specific and well-defined risk management functions. The Risk Management Plan that we have adopted seeks to implement the proper control and management of key risk factors inherent in the operation of the Company and the Bank. Some of the key risks that we must manage are credit risks, asset/liability, interest rate and market risks, counterparty risk, transaction risk, compliance risk, strategic risk, cybersecurity risk, price risk and foreign exchange risk. These specific risk factors are not mutually exclusive. It is recognized that any product or service offered by us may expose the Bank to one or more of these risks. Our Risk Management Committee and Risk Management Division monitor these risks to minimize exposure to the Company. The Board and its committees work closely with management in overseeing risk. Each Board committee receives reports and information regarding risk issues directly from management.

#### ***Credit Risk Management***

Loans represent the largest component of assets on our balance sheet and their related credit risk is among the most significant risks we manage. We define credit risk as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Credit risk is found in all activities where success depends on a counter party, issuer, or borrower performance. Credit risk arises through the extension of loans and leases, certain securities, and letters of credit.

Severe hurricanes, storms, earthquakes, drought and other weather conditions, as well as natural disasters and problems related to possible climate changes, may from time-to-time cause or create the risk of damage to facilities, buildings, property or other assets of Bank customers, borrowers or municipal debt issuers. This could in turn affect their financial condition or results of operations and as a consequence their ability or capacity to repay debt or fulfill other obligations to the Bank. While we do not currently have reason to believe that any of the Bank's loans or municipal securities are materially impaired as a result of such damage, there can be no assurance that this will continue to be the case, particularly where recent storms and natural disasters whose impact is still being evaluated by the concerned parties.

Credit risk in the investment portfolio and correspondent bank accounts is in part addressed through defined limits in the Company's policy statements. In addition, certain securities carry insurance to enhance the credit quality of the bond. Limitations on industry concentration, aggregate customer borrowings, geographic boundaries and standards on loan quality also are designed to reduce loan credit risk. Senior Management, Directors' Committees, and the Board of Directors are provided with information to appropriately identify, measure, control and monitor the credit risk of the Company.

The general loan policy is updated annually and approved by the Board of Directors. It prescribes underwriting guidelines and procedures for all loan categories in which the Bank participates to establish risk tolerance and parameters that are communicated throughout the Bank to ensure consistent and uniform lending practices. The underwriting guidelines include, among other things, approval limitation and hierarchy, documentation standards, loan-to-value limits, debt coverage ratio, overall credit-worthiness of the borrower, guarantor support, etc. All loan requests considered by the Bank should be for a clearly defined legitimate purpose with a determinable primary source, as well as alternate sources of repayment. All loans should be supported by appropriate documentation including, current financial statements, credit reports, collateral information, guarantor asset verification, tax returns, title reports, appraisals (where appropriate), and other documents of quality that will support the credit.

The major lending categories are commercial and industrial loans, SBA loans, owner-occupied and non owner-occupied commercial real estate loans, construction loans, dairy and livestock loans, agricultural loans,

## **Table of Contents**

residential real estate loans, and various consumer loan products. Loans underwritten to borrowers within these diverse categories require underwriting and documentation suited to the unique characteristics and inherent risks involved.

Commercial and industrial loans require credit structures that are tailored to the specific purpose of the business loan, involving a thorough analysis of the borrower's business, cash flow, collateral, industry risks, economic risks, credit, character, and guarantor support. Owner-occupied real estate loans are primarily based upon the capacity and stability of the cash flow generated by the occupying business and the market value of the collateral, among other things. Non owner-occupied real estate is typically underwritten to the income produced by the subject property and many considerations unique to the various types of property (i.e. office, retail, warehouse, shopping center, medical, etc.), as well as, the financial support provided by sponsors in recourse transactions. Construction loans will often depend on the specific characteristics of the project, the market for the specific development, real estate values, and the equity and financial strength of the sponsors. Dairy and livestock loans and agricultural loans are largely predicated on the revenue cycles and demand for milk and crops, commodity prices, collateral values of herd, feed, and income-producing dairies or croplands, and the financial support of the guarantors. Underwriting of residential real estate and consumer loans are generally driven by personal income and debt service capacity, credit history and scores, and collateral values.

SBA loans require credit structures that conform to the various requirements of the SBA programs specific to the type of loan request and the Bank's loan policy as it relates to these loans. The SBA 7(a) loans are similar to the commercial and industrial loans that are tailored to the specific purpose of the business loan, involving a thorough analysis of the borrower's business, cash flow, collateral, industry risks, economic risks, credit, character, and guarantor support for both the Bank and the SBA. Once granted the SBA 7(a) loans require the Bank to follow SBA servicing guidelines to maintain the SBA guaranty which typically ranges from 50% to 75% depending on the type of 7(a) loan. SBA 504 loans are similar to the Bank's Owner-occupied real estate loans. As such they are primarily based upon the capacity and stability of the cash flow generated by the occupying business and the market value of the collateral, among other things. When the Bank funds an SBA 504 transaction, which includes the 50% first trust deed loan and the 40% second trust deed loan, the initial risk is centered in completing the SBA's requirements to provide for the payoff of the second trust deed loan from the subordinated debenture. Once the 504 second is paid off, the remaining first trust deed loan is then managed under the same requirements applied to the Bank's owner-occupied commercial real estate loan. It should be noted that both the SBA 7(a) and 504 programs provide loans for commercial real estate acquisition. However, the terms and advances rates available under the 7(a) program are outside of the Bank's standard loan programs and risk profile and therefore require a credit enhancement in the form of the SBA guaranty. Additionally, the interest rates for the 7(a) program are typically variable and can adjust as often as monthly with quarterly adjustment the most typical. SBA 504 loan interest rates for the first trust deed loan are at the Bank's discretion and subject to competitive pressures from other banks.

Implicit in lending activities is the risk that losses will occur and that the amount of such losses will vary over time. Consequently, we maintain an allowance for loan losses by charging a provision for loan losses to earnings. Loans, including impaired loans, determined to be losses are charged against the allowance for loan losses. Our allowance for loan losses is maintained at a level considered by us to be appropriate to provide for estimated probable losses inherent in the existing portfolio. In this regard, it is important to note that the Bank's practice with regard to impaired loans, including modified loans or troubled debt restructurings that are classified as impaired, is to generally charge off any impairment amount against the ALLL upon evaluating the loan using one of the three methods described in ASC 310-10-35 at the time a probable loss becomes recognized. As such, the Bank's specific allowance for impaired loans, including troubled debt restructurings, is relatively low as a percentage of impaired loans outstanding since any known impairment amount will generally have been charged off.

The allowance for loan losses is based upon estimates of probable losses inherent in the loan and lease portfolio. The nature of the process by which we determine the appropriate allowance for loan losses requires the

## **Table of Contents**

exercise of considerable judgment. The amount actually observed in respect of these losses can vary significantly from the estimated amounts. We employ a systematic methodology that is intended to reduce the differences between estimated and actual losses.

Central to our credit risk management is its loan risk rating system. The originating credit officer assigns borrowers an initial risk rating, which is reviewed and possibly changed by credit management. The risk rating is based primarily on an analysis of each borrower's financial capacity in conjunction with industry and economic trends. Credit approvals are made based upon our evaluation of the 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 may be adjusted as necessary.

Loans are risk rated into the following categories: Pass, Pass Watch List, Special Mention, Substandard, Doubtful, and Loss. Each of these groups is assessed and appropriate amounts used in determining the adequacy of our allowance for losses. The Impaired and Doubtful loans are analyzed on an individual basis for allowance amounts. The other categories have formulae used to determine the needed allowance amount.

The Company obtains a quarterly independent credit review by engaging an outside party to review a sample of our loans and leases. The primary purpose of this review is to evaluate our existing loan ratings and provide an assessment as to the effectiveness of our allowance process.

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers all loans. The systematic methodology consists of two major phases.

In the first phase, individual loans are reviewed to identify loans for impairment. A loan is generally considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan. A loan for which there is an insignificant delay in the amount of payments is not considered an impaired loan. Utilizing one of the three methods described in ASC 310-10-35-22, impairment is measured based on either the expected future cash flows discounted at each loan's effective interest rate, the fair value of the loan's collateral if the loan is collateral dependent, or an observable market price of the loan (if one exists). If 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 Bank evaluates a loan's collectability from information developed through our loan risk rating system and process, and other sources of information that assist management in monitoring loan performance (e.g. past due loan reports). The Bank then identifies loans for evaluation of impairment and establishes specific allowances in cases where we have identified significant conditions or circumstances related to a credit that we believe indicates the probability that a loss has been incurred. We perform a detailed analysis of these loans, including, but not limited to, cash flows, appraisals of the collateral, conditions of the marketplace for liquidating the collateral and assessment of the guarantors. We then determine the impairment under ASC 310-10, which requires judgment and estimates, and allocate a portion of the allowance for losses as a specific allowance for each of these loans, or charge off the impairment amount as described above. The eventual outcomes may differ from the estimates used to determine the impairment amount.

The second phase is conducted by evaluating or segmenting the remainder of the loan portfolio into groups or pools of loans with similar characteristics in accordance with ASC No. 450-10, Contingencies. In this second phase, groups or pools of homogeneous loans are reviewed to determine a portfolio formula allowance. In the case of the portfolio formula allowance, homogeneous portfolios, such as small business loans, consumer loans, agricultural loans, and real estate loans, are aggregated or pooled in determining the appropriate allowance. The risk assessment process in this case emphasizes trends in the different portfolios for delinquency, loss, and other behavioral characteristics of the subject portfolios.

## **Table of Contents**

Included in this second phase is our consideration of known relevant internal and external factors that may affect a loan's collectability. This includes our estimates of the amounts necessary for concentrations, economic uncertainties, the volatility of the market value of collateral, and other relevant factors. We perform an evaluation of various conditions, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. The conditions evaluated include, but are not limited to the following conditions that existed as of the balance sheet date:

then-existing general economic and business conditions affecting the key lending areas of the Company,

then-existing economic and business conditions of areas outside the lending areas, such as other sections of the United States,

credit quality trends (including trends in past due loans, adversely graded loans, and nonperforming loans expected to result from existing conditions),

collateral values, including changes in the value of underlying collateral for collateral-dependent loans.

the existence and effect of any concentrations of credit, and changes in the level of such concentrations,

changes in lending policies and procedures

changes in loan volumes,

specific industry conditions within portfolio segments,

recent loss experience in particular segments of the portfolio,

duration of the current business cycle,

the effect of external factors such as legal and regulatory requirements, including bank regulatory examination results and findings of the Company's external credit examiners.

We review these conditions in discussion with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, our estimate of the effect of such condition may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, our evaluation of the inherent loss related to such condition is reflected in the second phase of the allowance. Although we have allocated a portion of the allowance to specific loan categories, the appropriateness of the allowance must be considered in its entirety.

Refer to additional discussion concerning loans, nonperforming assets, allowance for loan losses and related tables under the Analysis of Financial Condition contained herein.

## **ASSET/LIABILITY AND MARKET RISK MANAGEMENT**

***Liquidity and Cash Flow***

Liquidity risk is the risk to earnings or capital resulting from our inability to meet obligations when they come due without incurring unacceptable losses. It includes the ability to manage unplanned decreases or changes in funding sources and to recognize or address changes in market conditions that affect our ability to liquidate assets quickly and with minimum loss of value. Factors considered in liquidity risk management are stability of the deposit base; marketability, maturity, and pledging of investments; and the demand for credit.

## **Table of Contents**

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.

Management has a Liquidity Committee that meets quarterly. The Committee analyzes the cash flows from loans, investments, deposits and borrowings. In addition, the Company has a Balance Sheet Management Committee of the Board of Directors that meets monthly to review the Company's balance sheet position and liquidity which includes, but is not limited to a: (i) Liquidity Report; (ii) Capital Volatility Report; (iii) Investment Portfolio Activities Report; (iv) Sources and Uses of Funds Report and (v) Balance Sheet Management Policy Report. On a periodic basis, projected cash flows are analyzed and stressed to determine potential liquidity issues. A contingency plan contains the steps the Company would take to mitigate a liquidity crisis. Results of the cash flows are reported to the Balance Sheet Management Committee on a periodic basis.

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 2015, the loan to deposit ratio averaged 64.17%, compared to an average ratio of 66.61% for 2014 and 70.64% for 2013. The ratio of loans to deposits and customer repurchases averaged 57.99% for 2015, 59.76% for 2014 and 63.46% for 2013.

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 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 December 31, 2015, without approval of the California DBO approximately \$152.5 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 December 31, 2015, neither the Bank nor CVB had any material commitments for capital expenditures.

For the Bank, sources of funds 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 \$105.6 million for 2015, compared to \$87.7 million and \$111.8 million for 2014 and 2013, respectively. The increase in cash provided by operating activities was primarily attributed to an increase in interest and dividends received and decreases in interest paid and payments to vendors, employees and others, partially offset by a decrease in service charges and other fees received.

**Table of Contents**

Net cash used in investing activities totaled \$300.7 million for 2015, compared to \$268.5 million and \$378.5 million for 2014 and 2013, respectively. The increase in cash used in investing activities for 2015 was primarily the result of increases in loan and lease finance receivables and investment in interest-earning balances with other depository institutions, partially offset by a decrease in purchases of available-for-sale investment securities and an increase in proceeds from the repayment and maturity of investment securities.

Net cash provided by financing activities totaled \$195.4 million for 2015, compared to \$191.9 million and \$262.9 million for 2014 and 2013, respectively. The increase in cash provided by financing activities for 2015 was primarily due to increases in customer repurchase agreements, partially offset by the \$200 million repayment of FHLB advance and a decrease in deposits.

At December 31, 2015, cash and cash equivalents totaled \$106.1 million. This represented an increase of \$329,000, or 0.31%, from \$105.8 million at December 31, 2014.

**Market Risk**

In the normal course of its business activities, we are exposed to market risks, including price and liquidity risk. Market risk is the potential for loss from adverse changes in market rates and prices, such as interest rates (interest rate risk). Liquidity risk arises from the possibility that we may not be able to satisfy current or future commitments or that we may be more reliant on alternative funding sources such as long-term debt. Financial products that expose us to market risk include securities, loans, deposits, debt, and derivative financial instruments.

The table below provides the actual balances as of December 31, 2015 of interest-earning assets and interest-bearing liabilities, including the average rate earned or incurred for 2015, the projected contractual maturities over the next five years, and the estimated fair value of each category determined using available market information and appropriate valuation methodologies.

|                                                                                | December 31,<br>2015 | Average<br>Rate | Maturing     |            |             |              |              | Five Years<br>and<br>Beyond | Estimated<br>Fair<br>Value |
|--------------------------------------------------------------------------------|----------------------|-----------------|--------------|------------|-------------|--------------|--------------|-----------------------------|----------------------------|
|                                                                                |                      |                 | One Year     | Two Years  | Three Years | Four Years   |              |                             |                            |
| <i>(Dollars in thousands)</i>                                                  |                      |                 |              |            |             |              |              |                             |                            |
| <b>Interest-earning assets:</b>                                                |                      |                 |              |            |             |              |              |                             |                            |
| Investment securities available-for-sale (1)                                   | \$ 2,368,646         | 2.50%           | \$ 77,239    | \$ 103,286 | \$ 233,183  | \$ 1,288,149 | \$ 666,789   |                             | \$ 2,368,646               |
| Investment securities held-to-maturity (1)                                     | 850,989              | 2.94%           | 129,617      | 28,788     | 25,140      | 32,861       | 634,583      |                             | 853,039                    |
| Investment in FHLB stock                                                       | 17,588               | 13.35%          |              |            |             |              | 17,588       |                             | 17,588                     |
| Interest-earning deposits due from Federal Reserve and with other institutions | 36,016               | 0.31%           | 35,767       | 249        |             |              |              |                             | 36,016                     |
| Loans and lease finance receivables (2)                                        | 4,020,809            | 4.79%           | 673,199      | 239,426    | 201,965     | 203,563      | 2,702,656    |                             | 3,971,329                  |
| Total interest-earning assets                                                  | \$ 7,294,048         |                 | \$ 915,822   | \$ 371,749 | \$ 460,288  | \$ 1,524,573 | \$ 4,021,616 |                             | \$ 7,246,618               |
| <b>Interest-bearing liabilities:</b>                                           |                      |                 |              |            |             |              |              |                             |                            |
| Interest-bearing deposits                                                      | \$ 2,667,086         | 0.19%           | \$ 2,641,147 | \$ 9,754   | \$ 1,470    | \$ 1,591     | \$ 13,124    |                             | \$ 2,666,186               |
| Borrowings                                                                     | 736,704              | 0.44%           | 736,704      |            |             |              |              |                             | 736,575                    |
| Junior subordinated debentures                                                 | 25,774               | 1.70%           |              |            |             |              | 25,774       |                             | 27,210                     |
| Total interest-bearing liabilities                                             | \$ 3,429,564         |                 | \$ 3,377,851 | \$ 9,754   | \$ 1,470    | \$ 1,591     | \$ 38,898    |                             | \$ 3,429,971               |

(1) These include mortgage-backed securities which generally prepay before maturity.

(2) Gross loans, net of deferred loan fees. Average rate does not reflect discount accretion on PCI loans. The estimated fair value is net of PCI discount and allowance for loan losses.

---

**Table of Contents**

***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 repricing 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/repricing gap analysis. This analysis measures, at specific time intervals, the differences between interest-earning assets and interest-bearing liabilities for which repricing opportunities will occur. A positive difference, or gap, indicates that interest-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 following tables provide the Bank's maturity/repricing gap analysis at December 31, 2015 and 2014. We had a negative cumulative 180-day gap of \$908.0 million and a negative cumulative 365-days gap of \$306.3 million at December 31, 2015. This represented a decrease of \$209.2 million, over the 180-day cumulative negative gap of \$1.1 billion at December 31, 2014. In theory, this would indicate that at December 31, 2015, \$908.0 million more in liabilities than assets would re-price if there were a change in interest rates over the next 180 days. If interest rates increase, the negative gap would tend to result in a lower net interest margin. If interest rates decrease, the negative gap would tend to result in an increase in the net interest margin. However, we do have the ability to anticipate the increase in deposit rates, and the ability to extend interest-bearing liabilities, offsetting, in part, the negative gap.

**Table of Contents****Asset and Liability Maturity/Repricing Gap**

|                                                   | December 31, 2015      |                          |              |               |              |
|---------------------------------------------------|------------------------|--------------------------|--------------|---------------|--------------|
|                                                   | Over 180 days          |                          |              |               |              |
|                                                   | 90 days or less        | Over 90 days to 180 days | to 365 days  | Over 365 days | Total        |
|                                                   | (Dollars in thousands) |                          |              |               |              |
| Interest-earning assets:                          |                        |                          |              |               |              |
| Interest-earning deposits with other institutions | \$ 14,522              | \$ 1,245                 | \$ 20,000    | \$ 249        | \$ 36,016    |
| Investment securities at carrying value           | 188,537                | 169,004                  | 318,522      | 2,543,572     | 3,219,635    |
| Gross loans, net of deferred fees                 | 1,157,744              | 224,151                  | 340,174      | 2,298,740     | 4,020,809    |
| Total                                             | \$ 1,360,803           | \$ 394,400               | \$ 678,696   | \$ 4,842,561  | \$ 7,276,460 |
| Interest-bearing liabilities                      |                        |                          |              |               |              |
| Savings deposits                                  | \$ 1,293,210           | \$                       | \$           | \$ 663,388    | \$ 1,956,598 |
| Time deposits                                     | 516,320                | 91,167                   | 77,062       | 25,939        | 710,488      |
| FHLB advances and other borrowings                | 736,704                |                          |              |               | 736,704      |
| Junior subordinated debentures                    | 25,774                 |                          |              |               | 25,774       |
| Total                                             | \$ 2,572,008           | \$ 91,167                | \$ 77,062    | \$ 689,327    | \$ 3,429,564 |
| Period GAP                                        | \$ (1,211,205)         | \$ 303,233               | \$ 601,634   | \$ 4,153,234  | \$ 3,846,896 |
| Cumulative GAP                                    | \$ (1,211,205)         | \$ (907,972)             | \$ (306,338) | \$ 3,846,896  |              |

|                                                   | December 31, 2014      |                                |                                 |               |              |
|---------------------------------------------------|------------------------|--------------------------------|---------------------------------|---------------|--------------|
|                                                   |                        | Over<br>90 days to<br>180 days | Over 180 days<br>to<br>365 days | Over 365 days | Total        |
|                                                   | (Dollars in thousands) |                                |                                 |               |              |
| Interest-earning assets:                          |                        |                                |                                 |               |              |
| Interest-earning deposits with other institutions | \$ 12,027              | \$ 1,288                       | \$ 21,458                       | \$ 3,083      | \$ 37,856    |
| Investment securities at carrying value           | 157,015                | 132,592                        | 289,840                         | 2,559,239     | 3,138,686    |
| Gross loans, net of deferred fees                 | 1,083,302              | 187,297                        | 355,433                         | 2,198,164     | 3,824,196    |
| Total                                             | \$ 1,252,344           | \$ 321,177                     | \$ 666,731                      | \$ 4,760,486  | \$ 7,000,738 |
| Interest-bearing liabilities                      |                        |                                |                                 |               |              |
| Savings deposits                                  | \$ 1,374,131           | \$ 29,695                      | \$ 54,966                       | \$ 503,294    | \$ 1,962,086 |
| Time deposits                                     | 550,829                | 100,681                        | 100,639                         | 24,058        | 776,207      |
| FHLB advances and other borrowings                | 609,627                |                                |                                 | 199,479       | 809,106      |
| Junior subordinated debentures                    | 25,774                 |                                |                                 |               | 25,774       |
| Total                                             | \$ 2,560,361           | \$ 130,376                     | \$ 155,605                      | \$ 726,831    | \$ 3,573,173 |
| Period GAP                                        | \$ (1,308,017)         | \$ 190,801                     | \$ 511,126                      | \$ 4,033,655  | \$ 3,427,565 |
| Cumulative GAP                                    | \$ (1,308,017)         | \$ (1,117,216)                 | \$ (606,090)                    | \$ 3,427,565  |              |

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

**Table of Contents**

increase or decrease in the net interest margin solely as a result of the differences between repricing opportunities of interest-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 \$2.43 billion, or 75%, of the total investment portfolio at December 31, 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 December 31, 2015.

| <b>Simulated Rate Changes</b> | <b>Estimated Net Interest Income<br/>Sensitivity (1)</b> |
|-------------------------------|----------------------------------------------------------|
| + 200 basis points            | -2.32%                                                   |
| - 100 basis points            | -1.50%                                                   |

(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 the balance sheet is generally well matched with a slight asset 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.

**Counterparty Risk**

Recent developments in the financial markets have placed an increased awareness of Counterparty Risks. These risks occur when a financial institution has an indebtedness or potential for indebtedness to another financial institution. We have assessed our Counterparty Risk with the following results:

We do not have any investments in the preferred stock of any other company.

We have one issuance of a trust preferred security totaling \$5.0 million with a large financial institution.

## **Table of Contents**

Most of our investment securities are either municipal securities, callable agencies or securities backed by mortgages, Fannie Mae, Freddie Mac, SBA or FHLB.

All of our commercial line insurance policies are with companies with the highest AM Best ratings of A or above.

We have no significant exposure to our Cash Surrender Value of Life Insurance since the Cash Surrender Value balance is with insurance companies that carry an AM Best rating of A- or greater and one company is rated B.

We have no significant Counterparty exposure related to derivatives such as interest rate swaps with a major financial institution as our agreement requires the Counterparty to post cash collateral for mark-to-market balances due to us.

We believe our risk of loss associated with our counterparty borrowers related to interest rate swaps is generally mitigated as the loans with swaps are underwritten to take into account potential additional exposure.

We have \$381.0 million in Fed Funds lines of credit with other banks. All of these banks are major U.S. banks, each with over \$20.0 billion in assets. We rely on these funds for overnight borrowings. At December 31, 2015, we had \$46.0 million in short-term borrowings.

Our secured borrowing capacity with the FHLB was \$2.58 billion, of which \$2.58 billion was available as of December 31, 2015.

### ***Transaction Risk***

Transaction risk is the risk to earnings or capital arising from problems in service, activity or product delivery. This risk is significant within any bank and is interconnected with other risk categories in most activities throughout the Company. Transaction risk is a function of internal controls, information systems, associate integrity, and operating processes. It arises daily throughout the Company as transactions are processed. It pervades all divisions, departments and centers and is inherent in all products and services we offer.

In general, transaction risk is defined as high, medium or low by the Company. The audit plan ensures that high risk areas are reviewed annually. We utilize internal auditors and independent audit firms to test key controls of operational processes and to audit information systems, compliance management program, loan review and trust services.

The key to monitoring transaction risk is in the design, documentation and implementation of well-defined procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met.

### ***Compliance Risk***

Compliance risk is the risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain products or activities of the Bank's customers may be ambiguous or untested. Compliance risk exposes us to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can also lead to a diminished reputation, reduced business value, limited business opportunities, lessened expansion potential, and lack of contract enforceability.

There is no single or primary source of compliance risk. It is inherent in every activity. Frequently, it blends into operational risk and transaction risk. A portion of this risk is sometimes referred to as legal risk. This is not limited solely to risk from failure to comply with consumer protection laws; it encompasses all laws, as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of banking, traditional and non-traditional.



## **Table of Contents**

Our Risk Management Policy and Program and the Code of Ethical Conduct are cornerstones for controlling compliance risk. An integral part of controlling this risk is the proper training of associates. The Chief Risk Officer is responsible for developing and executing a comprehensive compliance training program. The Chief Risk Officer seeks to provide our associates with adequate training commensurate to their job functions to ensure compliance with banking laws and regulations.

Our Risk Management Policy and Program includes a risk-based audit program aimed at identifying internal control deficiencies and weaknesses. The Compliance Management Program includes two levels of review. One is in-depth audits performed by our internal audit department under the direction of the Chief Auditor and supplemented by independent external firms, and the other is periodic monitoring performed by the Risk Management Division. Annually, an Audit Plan for the Company is developed and presented for approval to the Audit Committee of the Board.

The Company utilizes independent external firms to conduct compliance audits as a means of identifying weaknesses in the compliance program. The annual Audit also includes a review of selected centers and departments.

The Risk Management Division conducts periodic monitoring of our compliance efforts with a special focus on those areas that expose us to compliance risk. The purpose of the periodic monitoring is to verify whether our associates are adhering to established policies and procedures. Any material exceptions identified are brought forward to the appropriate department head, the Audit Committee and the Risk Management Committee.

We recognize that customer complaints can often identify weaknesses in our compliance program which could expose us to risk. Therefore, we attempt to ensure that all complaints are given prompt attention. Our Compliance Management Policy and Program include provisions on how customer complaints are to be addressed. The Chief Risk Officer reviews formal complaints to determine if a significant compliance risk exists and communicates those findings to the Compliance Management and Risk Management Committees.

### ***Strategic Risk***

Strategic risk is the risk to earnings or capital arising from adverse decisions or improper implementation of strategic decisions. This risk is a function of the compatibility between an organization's goals, the resources deployed against those goals and the quality of implementation.

Strategic risks are identified as part of the strategic planning process. Offsite strategic planning sessions, with members of the Board of Directors and Senior Leadership, are held annually. The strategic review consists of an economic assessment, competitive analysis, industry outlook and legislative and regulatory review.

A primary measurement of strategic risk is peer group analysis. Key performance ratios are compared to three separate peer groups to identify any sign of weakness and potential opportunities. The peer group consists of:

1. Banks of comparable size
2. High performing banks
3. A list of specific banks

Another measure is the comparison of the actual results of previous strategic initiatives against the expected results established prior to implementation of each strategy.

## **Table of Contents**

### ***Cybersecurity Risk***

Cybersecurity and fraud risk refers to the risk of failures, interruptions of services, or breaches of security with respect to the Company's or the Bank's communication, information, operations, devices, financial control, customer internet banking, customer information, email, data processing systems, or other bank or third party applications. The ability of the Company's customers to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches. In addition, the Company and the Bank rely primarily on third party providers to develop, manage, maintain and protect these systems and applications. Any such failures, interruptions or fraud or security breaches, depending on the scope, duration, affected system(s) or customer(s), could expose the Company and/or the Bank to financial loss, reputation damage, litigation, or regulatory action. While we have implemented various measures which seek to protect our Company, our customers' information and the Bank from the risk of fraud, data security breaches or service interruptions, there can be no assurance that these measures will be effective in preventing breaches or losses for us or our customers.

### ***Price and Foreign Exchange Risk***

Price risk arises from changes in market factors that affect the value of traded instruments. Foreign exchange risk is the risk to earnings or capital arising from movements in foreign exchange rates.

Our current exposure to price risk is nominal. We do not have trading accounts. Consequently, the level of price risk within the investment portfolio is limited to the need to sell securities for reasons other than trading.

We maintain deposit accounts with various foreign banks. Our Interbank Liability Policy seeks to limit the balance in any of these accounts to an amount that does not in our judgment present a significant risk to our earnings from changes in the value of foreign currencies.

Our asset liability model seeks to calculate the market value of the Bank's equity. In addition, management prepares, on a monthly basis, a capital volatility report that compares changes in the market value of the investment portfolio. We have as our target to always be well-capitalized by regulatory standards.

The Balance Sheet Management Policy requires the submission of a Fair Value Matrix Report to the Balance Sheet Management Committee on a quarterly basis. The report seeks to calculate the economic value of equity under different interest rate scenarios, revealing the level or price risk of the Bank's interest sensitive asset and liability portfolios.

### **ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Market risk is the risk of loss from adverse changes in the market prices and interest rates. Our market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities. We currently do not enter into futures, forwards, or option contracts. For quantitative and qualitative disclosures about market risks in our portfolio, see "Asset/Liability Management and Interest Rate Sensitivity Management" included in Item 7 "Management's Discussion and Analysis of Financial Condition and the Results of Operations" presented elsewhere in this report. 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.

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
CVB Financial Corp.

**Index to Consolidated Financial Statements  
and Financial Statement Schedules**

|                                                                                                                                                                  | <b>Page</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Consolidated Financial Statements                                                                                                                                |             |
| <u>Consolidated Balance Sheets December 31, 2015 and 2014</u>                                                                                                    | 93          |
| <u>Consolidated Statements of Earnings and Comprehensive Income Years Ended December 31, 2015, 2014 and 2013</u>                                                 | 94          |
| <u>Consolidated Statements of Stockholders Equity Three Years Ended December 31, 2015, 2014 and 2013</u>                                                         | 95          |
| <u>Consolidated Statements of Cash Flows Years Ended December 31, 2015, 2014 and 2013</u>                                                                        | 96          |
| <u>Notes to Consolidated Financial Statements</u>                                                                                                                | 98          |
| <u>Report of Independent Registered Public Accounting Firm</u>                                                                                                   | 87          |
| All schedules are omitted because they are not applicable, not material or because the information is included in the financial statements or the notes thereto. |             |

For information about the location of management's annual reports on internal control, our financial reporting and the audit report of KPMG LLP thereon. See Item 9A. Controls and Procedures.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**  
None

**ITEM 9A. CONTROLS AND PROCEDURES**

**1) Management's Report on Internal Control over Financial Reporting**

Management of CVB Financial Corp., together with its consolidated subsidiaries (the "Company"), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

As of December 31, 2015, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2015 is effective. KPMG LLP, an independent registered public accounting firm, has issued their report on the effectiveness of internal control over financial reporting as of December 31, 2015.

---

**Table of Contents**

**2) Auditor attestation**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

CVB Financial Corp.:

We have audited CVB Financial Corp. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CVB Financial Corp. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CVB Financial Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVB Financial Corp. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of earnings and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California

February 29, 2016

**Table of Contents**

**3) Changes in Internal Control over Financial Reporting**

We maintain controls and procedures designed to ensure that information is recorded and reported in all filings of financial reports. Such information is reported to our management, including our Chief Executive Officer and Chief Financial Officer to allow timely and accurate disclosure based on the definition of disclosure controls and procedures in SEC Rule 13a-15(e) and 15d-15(e).

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer. Based on the foregoing, our Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

During the fiscal quarter ended December 31, 2015, there have been no changes in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

**ITEM 9B. *OTHER INFORMATION***

None.

**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Except as hereinafter noted, the information concerning directors and executive officers of the Company, corporate governance and our audit committee financial experts is incorporated by reference from the section entitled Discussion of Proposals recommended by the Board Proposal 1: Election of Directors and Beneficial Ownership Reporting Compliance, Corporate Governance Principles and Board Matters, and Audit Committee of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year. For information concerning the executive officers of the Company, see Item I of Part I hereto.

The Company has adopted a Code of Ethics that applies to all of the Company's employees, including the Company's principal executive officer, the principal financial officer, accounting officers, and all employees who perform these functions. A copy of the Code of Ethics is available to any person without charge by submitting a request to the Company's Chief Financial Officer at 701 N. Haven Avenue, Suite 350, Ontario, CA 91764. If the Company shall amend its Code of Ethics as applies to the principal executive officer, principal financial officer, principal accounting officer or controller (or persons performing similar functions) or shall grant a waiver from any provision of the code of ethics to any such person, the Company shall disclose such amendment or waiver on its website at [www.cbbank.com](http://www.cbbank.com) under the tab Investor Relations.

**ITEM 11. EXECUTIVE COMPENSATION**

Information concerning management remuneration and transactions is incorporated by reference from the section entitled Election of Directors and Executive Compensation Certain Relationships and Related Transactions of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table summarizes information as of December 31, 2015 relating to our equity compensation plans pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

**Equity Compensation Plan Information**

| Plan category                                              | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a) |           | Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b) |  | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)(c)) |
|------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------|----------------------------------------------------------------------------------|--|------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                            |                                                                                                  |           |                                                                                  |  |                                                                                                                                                |
| Equity compensation plans approved by security holders     | 1,288,438                                                                                        | \$        | 11.00                                                                            |  | 843,392                                                                                                                                        |
| Equity compensation plans not approved by security holders |                                                                                                  | \$        |                                                                                  |  |                                                                                                                                                |
| <b>Total</b>                                               | <b>1,288,438</b>                                                                                 | <b>\$</b> | <b>11.00</b>                                                                     |  | <b>843,392</b>                                                                                                                                 |

Information concerning security ownership of certain beneficial owners and management is incorporated by reference from the sections entitled Stock Ownership of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.



**Table of Contents**

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information concerning certain relationships and related transactions with management and others and information regarding director independence is incorporated by reference from the section entitled Executive Compensation Certain Relationships and Related Transactions and Director Independence of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information concerning principal accounting fees and services is incorporated by reference from the section entitled Ratification of Appointment of Independent Public Accountants of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

**Table of Contents**

**PART IV**

**ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***  
**Financial Statements**

**(a) (1) *All Financial Statements***

Reference is made to the Index to Financial Statements on page 86 for a list of financial statements filed as part of this Annual Report on Form 10-K.

**(2) *Financial Statement Schedules***

Reference is made to the Index to Financial Statements on page 86 for the listing of supplementary financial statement schedules required by this item.

**(3) *Exhibits***

The listing of exhibits required by this item is set forth in the Index to Exhibits on page 154 of this Annual Report on Form 10-K.

**(b) *Exhibits***

See Index to Exhibits on Page 154 of this Form 10-K.

**(c) *Financial Statement Schedules***

There are no financial statement schedules required by Regulation S-X that have been excluded from the annual report to shareholders.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, on the 29th day of February 2016.

CVB FINANCIAL CORP.

By: /s/ CHRISTOPHER D. MYERS  
Christopher D. Myers  
*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| <b>Signature</b>                                         | <b>Title</b>                                                                        | <b>Date</b>       |
|----------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------|
| /s/ RAYMOND V. O BRIEN III<br><br>Raymond V. O Brien     | Chairman of the Board                                                               | February 29, 2016 |
| /s/ GEORGE. A. BORBA, JR.<br><br>George A. Borba, Jr.    | Vice Chairman                                                                       | February 29, 2016 |
| /s/ STEPHEN A. DEL GUERCIO<br><br>Stephen A. Del Guercio | Director                                                                            | February 29, 2016 |
| /s/ ROBERT M. JACOBY<br><br>Robert M. Jacoby             | Director                                                                            | February 29, 2016 |
| /s/ KRISTINA M. LESLIE<br><br>Kristina M. Leslie         | Director                                                                            | February 29, 2016 |
| /s/ HAL W. OSWALT<br><br>Hal W. Oswalt                   | Director                                                                            | February 29, 2016 |
| /s/ SAN E. VACCARO<br><br>San E. Vaccaro                 | Director                                                                            | February 29, 2016 |
| /s/ CHRISTOPHER D. MYERS<br><br>Christopher D. Myers     | Director, President and<br>Chief Executive Officer<br>(Principal Executive Officer) | February 29, 2016 |
| /s/ RICHARD C. THOMAS                                    | Chief Financial Officer                                                             | February 29, 2016 |

Edgar Filing: CVB FINANCIAL CORP - Form 10-K

Richard C. Thomas

(Principal Financial and  
Accounting Officer)

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(Dollars in thousands, except share amounts)*

|                                                                                                                                                         | <b>December 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|
| <b>Assets</b>                                                                                                                                           |                              |                              |
| Cash and due from banks                                                                                                                                 | \$ 102,772                   | \$ 95,030                    |
| Interest-earning balances due from Federal Reserve                                                                                                      | 3,325                        | 10,738                       |
| Total cash and cash equivalents                                                                                                                         | 106,097                      | 105,768                      |
| Interest-earning balances due from depository institutions                                                                                              | 32,691                       | 27,118                       |
| Investment securities available-for-sale, at fair value (with amortized cost of \$2,337,715 at December 31, 2015, and \$3,083,582 at December 31, 2014) | 2,368,646                    | 3,137,158                    |
| Investment securities held-to-maturity (with fair value of \$853,039 at December 31, 2015, and \$2,177 at December 31, 2014)                            | 850,989                      | 1,528                        |
| Investment in stock of Federal Home Loan Bank (FHLB)                                                                                                    | 17,588                       | 25,338                       |
| Loans and lease finance receivables                                                                                                                     | 4,016,937                    | 3,817,067                    |
| Allowance for loan losses                                                                                                                               | (59,156)                     | (59,825)                     |
| Net loans and lease finance receivables                                                                                                                 | 3,957,781                    | 3,757,242                    |
| Premises and equipment, net                                                                                                                             | 31,382                       | 33,591                       |
| Bank owned life insurance                                                                                                                               | 130,956                      | 126,927                      |
| Accrued interest receivable                                                                                                                             | 22,732                       | 23,194                       |
| Intangibles                                                                                                                                             | 2,265                        | 3,214                        |
| Goodwill                                                                                                                                                | 74,244                       | 74,244                       |
| Other real estate owned                                                                                                                                 | 6,993                        | 5,637                        |
| Income taxes                                                                                                                                            | 47,251                       | 31,461                       |
| Other assets                                                                                                                                            | 21,585                       | 25,500                       |
| <b>Total assets</b>                                                                                                                                     | <b>\$ 7,671,200</b>          | <b>\$ 7,377,920</b>          |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                             |                              |                              |
| Deposits:                                                                                                                                               |                              |                              |
| Noninterest-bearing                                                                                                                                     | \$ 3,250,174                 | \$ 2,866,365                 |
| Interest-bearing                                                                                                                                        | 2,667,086                    | 2,738,293                    |
| Total deposits                                                                                                                                          | 5,917,260                    | 5,604,658                    |
| Customer repurchase agreements                                                                                                                          | 690,704                      | 563,627                      |
| FHLB advances                                                                                                                                           |                              | 199,479                      |
| Other borrowings                                                                                                                                        | 46,000                       | 46,000                       |
| Accrued interest payable                                                                                                                                | 264                          | 1,161                        |
| Deferred compensation                                                                                                                                   | 11,269                       | 10,291                       |
| Junior subordinated debentures                                                                                                                          | 25,774                       | 25,774                       |
| Payable for securities purchased                                                                                                                        | 1,696                        |                              |
| Other liabilities                                                                                                                                       | 54,834                       | 48,821                       |
| <b>Total liabilities</b>                                                                                                                                | <b>6,747,801</b>             | <b>6,499,811</b>             |

# Edgar Filing: CVB FINANCIAL CORP - Form 10-K

## Commitments and Contingencies

### Stockholders' Equity

|                                                                                  |                     |                     |
|----------------------------------------------------------------------------------|---------------------|---------------------|
| Common stock, authorized, 225,000,000 shares without par; issued and outstanding |                     |                     |
| 106,384,982 at December 31, 2015, and 105,893,216 at December 31, 2014           | 502,571             | 495,220             |
| Retained earnings                                                                | 399,919             | 351,814             |
| Accumulated other comprehensive income, net of tax                               | 20,909              | 31,075              |
| <b>Total stockholders' equity</b>                                                | <b>923,399</b>      | <b>878,109</b>      |
| <b>Total liabilities and stockholders' equity</b>                                | <b>\$ 7,671,200</b> | <b>\$ 7,377,920</b> |

See accompanying notes to the consolidated financial statements.

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME***(Dollars in thousands, except per share amounts)*

|                                                                         | <b>For the Year Ended December 31,</b> |                |                |
|-------------------------------------------------------------------------|----------------------------------------|----------------|----------------|
|                                                                         | <b>2015</b>                            | <b>2014</b>    | <b>2013</b>    |
| Interest income:                                                        |                                        |                |                |
| Loans and leases, including fees                                        | \$ 185,663                             | \$ 181,619     | \$ 179,631     |
| Investment securities:                                                  |                                        |                |                |
| Investment securities available-for-sale                                | 63,190                                 | 68,214         | 50,211         |
| Investment securities held-to-maturity                                  | 9,018                                  | 164            | 188            |
| <b>Total investment income</b>                                          | <b>72,208</b>                          | <b>68,378</b>  | <b>50,399</b>  |
| Dividends from FHLB stock                                               | 2,774                                  | 2,130          | 2,033          |
| Federal funds sold                                                      | 634                                    | 427            | 221            |
| Interest-earning deposits with other institutions                       | 234                                    | 349            | 489            |
| <b>Total interest income</b>                                            | <b>261,513</b>                         | <b>252,903</b> | <b>232,773</b> |
| Interest expense:                                                       |                                        |                |                |
| Deposits                                                                | 5,266                                  | 4,977          | 4,887          |
| Borrowings                                                              | 2,867                                  | 10,991         | 10,999         |
| Junior subordinated debentures                                          | 438                                    | 421            | 621            |
| <b>Total interest expense</b>                                           | <b>8,571</b>                           | <b>16,389</b>  | <b>16,507</b>  |
| Net interest income before recapture of provision for loan losses       | 252,942                                | 236,514        | 216,266        |
| Recapture of provision for loan losses                                  | (5,600)                                | (16,100)       | (16,750)       |
| <b>Net interest income after recapture of provision for loan losses</b> | <b>258,542</b>                         | <b>252,614</b> | <b>233,016</b> |
| Noninterest income:                                                     |                                        |                |                |
| Service charges on deposit accounts                                     | 15,567                                 | 15,778         | 15,923         |
| Trust and investment services                                           | 8,642                                  | 8,118          | 8,071          |
| Bankcard services                                                       | 3,094                                  | 3,386          | 3,481          |
| BOLI income                                                             | 2,561                                  | 2,428          | 2,511          |
| Gain on sale of loans                                                   | 732                                    | 6,001          |                |
| (Loss) gain on sale of securities, net                                  | (22)                                   |                | 2,094          |
| Decrease in FDIC loss sharing asset, net                                | (902)                                  | (3,591)        | (12,860)       |
| Gain on OREO, net                                                       | 416                                    | 1,020          | 3,131          |
| Other                                                                   | 3,395                                  | 3,272          | 2,936          |
| <b>Total noninterest income</b>                                         | <b>33,483</b>                          | <b>36,412</b>  | <b>25,287</b>  |
| Noninterest expense:                                                    |                                        |                |                |
| Salaries and employee benefits                                          | 78,878                                 | 77,118         | 71,015         |
| Occupancy and equipment                                                 | 14,892                                 | 15,264         | 14,504         |
| Professional services                                                   | 6,188                                  | 6,018          | 5,709          |
| Software licenses and maintenance                                       | 3,930                                  | 4,464          | 4,671          |
| Promotion                                                               | 5,015                                  | 5,195          | 4,681          |
| (Recapture of) provision for unfunded loan commitments                  | (500)                                  | (1,250)        | 500            |
| Amortization of intangible assets                                       | 949                                    | 1,137          | 1,127          |
| Debt termination expense                                                | 13,870                                 |                |                |
| OREO expense                                                            | 443                                    | 307            | 856            |

# Edgar Filing: CVB FINANCIAL CORP - Form 10-K

|                                                                                            |                  |                   |                  |
|--------------------------------------------------------------------------------------------|------------------|-------------------|------------------|
| Insurance reimbursements                                                                   |                  | (372)             | (4,155)          |
| Acquisition related expenses                                                               | 475              | 1,973             |                  |
| Other                                                                                      | 16,519           | 16,375            | 15,120           |
| <b>Total noninterest expense</b>                                                           | <b>140,659</b>   | <b>126,229</b>    | <b>114,028</b>   |
| Earnings before income taxes                                                               | 151,366          | 162,797           | 144,275          |
| Income taxes                                                                               | 52,221           | 58,776            | 48,667           |
| <b>Net earnings</b>                                                                        | <b>\$ 99,145</b> | <b>\$ 104,021</b> | <b>\$ 95,608</b> |
| <b>Other comprehensive income:</b>                                                         |                  |                   |                  |
| Unrealized (loss) gain on securities arising during the period                             | \$ (17,550)      | \$ 69,661         | \$ (88,562)      |
| Less: Reclassification adjustment for net loss (gain) on securities included in net income | 22               |                   | (2,094)          |
| Other comprehensive (loss) income, before tax                                              | (17,528)         | 69,661            | (90,656)         |
| Less: Income tax benefit (expense) related to items of other comprehensive (loss) income   | 7,362            | (29,256)          | 38,075           |
| Other comprehensive (loss) income, net of tax                                              | (10,166)         | 40,405            | (52,581)         |
| <b>Comprehensive income</b>                                                                | <b>\$ 88,979</b> | <b>\$ 144,426</b> | <b>\$ 43,027</b> |
| Basic earnings per common share                                                            | \$ 0.93          | \$ 0.98           | \$ 0.91          |
| Diluted earnings per common share                                                          | \$ 0.93          | \$ 0.98           | \$ 0.91          |
| Cash dividends declared per common share                                                   | \$ 0.480         | \$ 0.400          | \$ 0.385         |

See accompanying notes to the consolidated financial statements.

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY***(Dollars and shares in thousands)*

|                                                             | <b>Common<br/>Shares<br/>Outstanding</b> | <b>Common<br/>Stock</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Total</b> |
|-------------------------------------------------------------|------------------------------------------|-------------------------|------------------------------|------------------------------------------------------------------|--------------|
| <b>Balance, January 1, 2013</b>                             | 104,890                                  | \$ 484,709              | \$ 235,010                   | \$ 43,251                                                        | \$ 762,970   |
| Repurchase of common stock                                  | (42)                                     | (559)                   |                              |                                                                  | (559)        |
| Exercise of stock options                                   | 428                                      | 4,517                   |                              |                                                                  | 4,517        |
| Tax benefit from exercise of stock options                  |                                          | 475                     |                              |                                                                  | 475          |
| Shares issued pursuant to stock-based compensation plan     | 94                                       | 1,926                   |                              |                                                                  | 1,926        |
| Cash dividends declared on common stock (\$0.385 per share) |                                          |                         | (40,469)                     |                                                                  | (40,469)     |
| Net earnings                                                |                                          |                         | 95,608                       |                                                                  | 95,608       |
| Other comprehensive loss                                    |                                          |                         |                              | (52,581)                                                         | (52,581)     |
| <b>Balance, December 31, 2013</b>                           | 105,370                                  | 491,068                 | 290,149                      | (9,330)                                                          | 771,887      |
| Repurchase of common stock                                  | (384)                                    | (5,474)                 |                              |                                                                  | (5,474)      |
| Exercise of stock options                                   | 512                                      | 5,522                   |                              |                                                                  | 5,522        |
| Tax benefit from exercise of stock options                  |                                          | 1,116                   |                              |                                                                  | 1,116        |
| Shares issued pursuant to stock-based compensation plan     | 395                                      | 2,988                   |                              |                                                                  | 2,988        |
| Cash dividends declared on common stock (\$0.400 per share) |                                          |                         | (42,356)                     |                                                                  | (42,356)     |
| Net earnings                                                |                                          |                         | 104,021                      |                                                                  | 104,021      |
| Other comprehensive income                                  |                                          |                         |                              | 40,405                                                           | 40,405       |
| <b>Balance, December 31, 2014</b>                           | 105,893                                  | 495,220                 | 351,814                      | 31,075                                                           | 878,109      |
| Repurchase of common stock                                  | (54)                                     | (834)                   |                              |                                                                  | (834)        |
| Exercise of stock options                                   | 449                                      | 5,144                   |                              |                                                                  | 5,144        |
| Tax benefit from exercise of stock options                  |                                          | 308                     |                              |                                                                  | 308          |
| Shares issued pursuant to stock-based compensation plan     | 97                                       | 2,733                   |                              |                                                                  | 2,733        |
| Cash dividends declared on common stock (\$0.480 per share) |                                          |                         | (51,040)                     |                                                                  | (51,040)     |
| Net earnings                                                |                                          |                         | 99,145                       |                                                                  | 99,145       |
| Other comprehensive loss                                    |                                          |                         |                              | (10,166)                                                         | (10,166)     |
| <b>Balance, December 31, 2015</b>                           | 106,385                                  | \$ 502,571              | \$ 399,919                   | \$ 20,909                                                        | \$ 923,399   |

See accompanying notes to the consolidated financial statements.

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Dollars in thousands)*

|                                                                       | For the Year Ended December 31, |            |            |
|-----------------------------------------------------------------------|---------------------------------|------------|------------|
|                                                                       | 2015                            | 2014       | 2013       |
| <b>Cash Flows from Operating Activities</b>                           |                                 |            |            |
| Interest and dividends received                                       | \$ 277,593                      | \$ 263,878 | \$ 244,205 |
| Service charges and other fees received                               | 29,604                          | 34,527     | 30,494     |
| Interest paid                                                         | (9,467)                         | (16,067)   | (16,616)   |
| Net cash paid to vendors, employees and others                        | (132,499)                       | (134,913)  | (93,076)   |
| Income taxes paid                                                     | (58,500)                        | (58,589)   | (53,200)   |
| (Payments to) proceeds from FDIC, loss share agreement                | (1,089)                         | (1,134)    | 4          |
| Net cash provided by operating activities                             | 105,642                         | 87,702     | 111,811    |
| <b>Cash Flows from Investing Activities</b>                           |                                 |            |            |
| Proceeds from redemption of FHLB stock                                | 7,750                           | 10,413     | 24,320     |
| Net change in interest-earning balances from depository institutions  | (5,573)                         | 53,687     |            |
| Proceeds from sale of investment securities available-for-sale        | 975                             |            | 99,155     |
| Proceeds from repayment of investment securities available-for-sale   | 395,430                         | 349,473    | 414,881    |
| Proceeds from maturity of investment securities available-for-sale    | 128,709                         | 75,916     | 80,546     |
| Purchases of investment securities available-for-sale                 | (694,630)                       | (805,544)  | (920,657)  |
| Proceeds from repayment of investment securities held-to-maturity     | 23,677                          |            |            |
| Proceeds from maturity of investment securities held-to-maturity      | 27,348                          |            |            |
| Net increase in loan and lease finance receivables                    | (189,707)                       | (16,767)   | (87,276)   |
| Proceeds from sale of loans                                           | 3,629                           | 9,668      |            |
| Proceeds from sales of premises and equipment                         | 926                             | 663        | 25         |
| Purchase of premises and equipment                                    | (1,869)                         | (1,893)    | (2,421)    |
| Proceeds from sales of other real estate owned                        | 2,587                           | 5,825      | 12,971     |
| Cash acquired on purchase of American Security Bank, net of cash paid |                                 | 50,038     |            |
| Net cash used in investing activities                                 | (300,748)                       | (268,521)  | (378,456)  |
| <b>Cash Flows from Financing Activities</b>                           |                                 |            |            |
| Net increase in other deposits                                        | 378,321                         | 291,005    | 149,271    |
| Net (decrease) increase in time deposits                              | (65,719)                        | 44,647     | (32,627)   |
| Repayment of FHLB advances                                            | (200,000)                       |            |            |
| Repayment of junior subordinated debentures                           |                                 |            | (41,238)   |
| Net (decrease) increase in other borrowings                           |                                 | (23,000)   | 43,000     |
| Net increase (decrease) in customer repurchase agreements             | 127,077                         | (79,624)   | 170,007    |
| Cash dividends on common stock                                        | (48,862)                        | (42,298)   | (29,939)   |
| Repurchase of common stock                                            | (834)                           | (5,474)    | (559)      |
| Proceeds from exercise of stock options                               | 5,144                           | 5,522      | 4,517      |
| Tax benefit related to exercise of stock options                      | 308                             | 1,116      | 475        |
| Net cash provided by financing activities                             | 195,435                         | 191,894    | 262,907    |
| <b>Net increase in cash and cash equivalents</b>                      | 329                             | 11,075     | (3,738)    |
| <b>Cash and cash equivalents, beginning of period</b>                 | 105,768                         | 94,693     | 98,431     |
| <b>Cash and cash equivalents, end of period</b>                       | \$ 106,097                      | \$ 105,768 | \$ 94,693  |



**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)***(Dollars in thousands)*

|                                                                                     | For the Year Ended December 31, |            |            |
|-------------------------------------------------------------------------------------|---------------------------------|------------|------------|
|                                                                                     | 2015                            | 2014       | 2013       |
| <b>Reconciliation of Net Earnings to Net Cash Provided by Operating Activities</b>  |                                 |            |            |
| Net earnings                                                                        | \$ 99,145                       | \$ 104,021 | \$ 95,608  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                 |            |            |
| Gain on sale of loans                                                               | (732)                           | (6,001)    |            |
| Loss (gain) on sale of investment securities                                        | 22                              |            | (2,094)    |
| Loss (gain) on sale of premises and equipment, net                                  | 177                             | 66         | (14)       |
| Gain on sale of other real estate owned                                             | (384)                           | (957)      | (3,048)    |
| Amortization of capitalized prepayment penalty on borrowings                        | 521                             | 273        | 272        |
| Increase in bank owned life insurance                                               | (4,029)                         | (2,314)    | (2,435)    |
| Net amortization of premiums and discounts on investment securities                 | 19,540                          | 21,020     | 27,064     |
| Accretion of PCI discount                                                           | (4,032)                         | (5,825)    | (12,856)   |
| Recapture of provision for loan losses                                              | (5,600)                         | (16,100)   | (16,750)   |
| (Recapture of) provision for unfunded loan commitments                              | (500)                           | (1,250)    | 500        |
| Valuation adjustment on other real estate owned                                     | 162                             | 65         | 489        |
| Change in FDIC loss share asset                                                     | 902                             | 3,591      | 12,860     |
| (Payments to) proceeds from FDIC, loss share agreement                              | (1,089)                         | (1,134)    | 4          |
| Stock-based compensation                                                            | 2,733                           | 2,988      | 1,926      |
| Depreciation and amortization, net                                                  | (1,995)                         | 559        | 2,449      |
| Change in accrued interest receivable                                               | 462                             | (419)      | 304        |
| Change in accrued interest payable                                                  | (897)                           | 5          | (382)      |
| Change in other assets and liabilities                                              | 1,236                           | (10,886)   | 7,914      |
| Total adjustments                                                                   | 6,497                           | (16,319)   | 16,203     |
| Net cash provided by operating activities                                           | \$ 105,642                      | \$ 87,702  | \$ 111,811 |
| <b>Supplemental Disclosure of Non-cash Investing Activities</b>                     |                                 |            |            |
| Securities purchased and not settled                                                | \$ 1,696                        | \$         | \$ 3,533   |
| Transfer of loans to other real estate owned                                        | \$ 3,721                        | \$ 1,963   | \$ 1,492   |
| Transfer of loans held for investment to loans held-for-sale                        | \$                              | \$         | \$ 3,667   |
| Transfer of AFS securities to HTM securities                                        | \$ 898,598                      | \$         | \$         |

See accompanying notes to the consolidated financial statements.

**Table of Contents**

**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**THREE YEARS ENDED DECEMBER 31, 2015**

**1. BUSINESS**

The consolidated financial statements include the accounts of CVB Financial Corp. (referred to herein on an unconsolidated basis as "CVB" and on a consolidated basis as "we," "our" or the "Company") and its wholly owned subsidiary: Citizens Business Bank (the "Bank" or "CBB") after elimination of all intercompany transactions and balances. The Company has one inactive subsidiary, Chino Valley Bancorp. The Company is also the common stockholder of CVB Statutory Trust III. CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, *Consolidation*, this trust does not meet the criteria for consolidation.

The Company's primary operations are related to traditional banking activities. This includes the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank also provides trust and investment-related services to customers through its CitizensTrust Division. The Bank's customers consist primarily of small to mid-sized businesses and individuals located in San Bernardino County, Riverside County, Los Angeles County, Orange County, San Diego County, Ventura County, Santa Barbara, and the Central Valley area of California. The Bank operates 40 Business Financial Centers, eight Commercial Banking Centers, and three trust offices. The Company opened a new Commercial Banking Center in Santa Barbara in January 2016. The Company is headquartered in the city of Ontario, California.

On October 14, 2015, we announced that we have entered into a merger agreement with County Commerce Bank, pursuant to which County Commerce Bank will merge into Citizens Business Bank when the transaction closes. County Commerce Bank is headquartered in Ventura County with four branch locations in Ventura County with total assets of approximately \$250 million. This acquisition would extend our geographic footprint northward into the central coast of California. We expect to close this announced acquisition in the first quarter of 2016.

**2. BASIS OF PRESENTATION**

The accompanying 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-K 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 financial reporting.

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Segments** The Company's operating business units have been divided into two reportable segments: (i) Business Financial and Commercial Banking Centers ("Centers") and (ii) Treasury. The Business Financial and Commercial Banking Centers lines of business generally consist of loans, deposits, and fee generating products and services that the Bank offers to its clients and prospects. The other segment is Treasury, which manages the investment portfolio of the Company. The Company's remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in "Other." Refer to Note 21 *Business Segments* of these consolidated financial statements.

## **Table of Contents**

The internal reporting of the Company considers all business units. Funds are allocated to each business unit based on its need to fund assets (use of funds) or its need to invest funds (source of funds). Net income is determined based on the actual net income of the business unit plus the allocated income or expense based on the sources and uses of funds for each business unit. Noninterest income and noninterest expense are those items directly attributable to a business unit.

**Cash and cash equivalents** Cash on hand, cash items in the process of collection, and amounts due from correspondent banks, the Federal Reserve Bank and interest-bearing balances due from depository institutions with initial terms of ninety days or less, are included in Cash and cash equivalents.

**Investment Securities** The Company classifies as held-to-maturity ( HTM ) those debt securities that the Company has the positive intent and ability to hold to maturity. Securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available-for-sale ( AFS ). Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized gains and losses being included in current earnings. Available-for-sale securities are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects, presented as a separate component of stockholders' equity. Realized gains and losses on sales of securities are recognized in earnings at the time of sale and are determined on a specific-identification basis. Purchase premiums and discounts are recognized in interest income using the effective-yield method over the estimated terms of the securities. For mortgage-backed securities ( MBS ), the amortization or accretion is based on estimated average lives of the securities. The lives of these securities can fluctuate based on the amount of prepayments received on the underlying collateral of the securities. The Company's investment in the Federal Home Loan Bank of San Francisco ( FHLB ) stock is carried at cost.

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

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

**Loans Held-for-Sale** Loans held-for-sale include loans transferred from our held-for-investment portfolio when a decision is made to sell a loan(s) and are reported at the lower of cost or fair value. If a reduction in value is required at time of the transfer, a charge-off is recorded against the allowance for loan losses ( ALLL ). Normally a formal marketing strategy or plan for sale is developed at the time the decision to sell the loan(s) is made. Any subsequent decline in value or any subsequent gain on sale of the loan(s) is recorded in current earnings and reported as part of other noninterest income. Gains or losses on the sale of loans that are held-for-sale are recognized at the time of sale and determined by the difference between net sale proceeds and the net book value of the loans.

**Loans and Lease Finance Receivables** Loans and lease finance receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal

## **Table of Contents**

balance outstanding, less deferred net loan origination fees and purchase price discounts. Purchase Credit Impaired ( PCI ) loans are those loans that when we acquired them were deemed to be impaired. PCI loans are included in total loans and lease finance receivables as of December 31, 2015. Refer to Note 7 *Loans and Lease Finance Receivables and Allowance for Loan Losses* for total loans, excluding PCI loans, by type and to Note 6 *Acquired SJB Assets and FDIC Loss Sharing Asset* for PCI loans by type.

In the ordinary course of business, the Company enters into commitments to extend credit to its customers. To the extent that such commitments are unfunded, the related unfunded amounts are not reflected in the accompanying consolidated financial statements.

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

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

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

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

## **Table of Contents**

When determining whether or not a loan modification is a TDR under ASC 310-40, the Company evaluates loan modification requests from borrowers experiencing financial difficulties on a case-by-case basis. Any such modifications granted are unique to the borrower's circumstances. Because of the Company's focus on the commercial lending sector, each business customer has unique attributes, which in turn means that modifications of loans to those customers are not easily categorized by type, key features, or other terms, but are evaluated individually based on all relevant facts and circumstances pertaining to the modification request and the borrower's/guarantor's financial condition at the time of the request. The evaluation of whether or not a borrower is experiencing financial difficulties will include, among other relevant factors considered by the Company, a review of significant factors such as (i) whether the borrower is in default on any of its debt, (ii) whether the borrower is experiencing payment delinquency, (iii) whether the global cash flows of the borrower and the owner guarantor(s) of the borrower have diminished below what is necessary to service existing debt obligations, (iv) whether the borrower's forecasted cash flows will be insufficient to service the debt in future periods or in accordance with the contractual terms of the existing agreement through maturity, (v) whether the borrower is unable to refinance the subject debt from other financing sources with similar terms, and (vi) whether the borrower is in jeopardy as a going-concern and/or considering bankruptcy. In any case, the debtor is presumed to be experiencing financial difficulties if the Company determines it is probable the debtor will default on the original loan if the modification is not granted.

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

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

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

The frequency of payments due;

The debt's original contractual maturity; or

The debt's original expected duration.

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

## **Table of Contents**

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

The Company's policy is to record a specific valuation allowance, which is included in the allowance for loan losses, or to charge off that portion of an impaired loan that represents the impairment or shortfall amount as determined utilizing one of the three methods described in ASC 310-10-35-22. Impairment on non-collateral dependent restructured loans is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. The impairment amount, if any, is generally charged off and recorded against the allowance for loan losses at the time impairment is measurable and a probable loss is determined. As a result, most of the TDRs have no specific allowance allocated because, consistent with the Company's stated practice, any impairment is typically charged off in the period in which it is identified. The Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, the Company may also measure impairment based on an observable market price for the loan, or the value of the collateral, for collateral dependent loans. Impairment on collateral dependent restructured loans is measured by determining the amount by which our recorded investment in the impaired loan exceeds the fair value of the collateral less estimated selling costs. The fair value is generally determined by one or more appraisals of the collateral, performed by a Company-approved third-party independent appraiser. The majority of impaired loans that are collateral dependent are charged off down to their estimated fair value of the collateral (less selling costs) at each reporting date based on current appraised value.

Appraisals of the collateral for impaired collateral dependent loans are typically ordered at the time the loan is identified as showing signs of inherent weakness. These appraisals are normally updated at least annually, or more frequently, if there are concerns or indications that the value of the collateral may have changed significantly since the previous appraisal. On an exception basis, a specific valuation allowance is recorded on collateral dependent impaired loans when a current appraisal is not yet available, a recent appraisal is still under review or on single-family residential (SFR) mortgage loans if the loans are currently under review for a loan modification. Such valuation allowances are generally based on previous appraisals adjusted for current market conditions, based on preliminary appraisal values that are still being reviewed or for SFR mortgage loans under review for modification on an appraisal or indications of comparable home sales from external sources.

Charge-offs of unsecured consumer loans are recorded when the loan reaches 120 days past due or sooner as circumstances indicate. Except for the charge-offs of unsecured consumer loans, the charge-off policy is applied consistently across all portfolio segments. Impaired single-family mortgage loans that have been modified in accordance with the various government modification programs are also measured based on the present value of the expected cash flows discounted at the loan's pre-modification interest rate. The Company recognizes the change in present value attributable to the passage of time as interest income on such performing SFR mortgage loans and the amount of interest income recognized to date has been insignificant.

**Provision and Allowance for Loan Losses** The allowance for loan losses is 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. 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 loan 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 loan losses.

## **Table of Contents**

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

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

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

In the first phase, individual loans are reviewed to identify loans for impairment. Impairment is measured based on the Company's policy for impaired loans for collateral dependent loans. If the Company determines that the fair value of the collateral is less than the recorded investment in the loan, the Company either recognizes an impairment reserve as a specific allowance, or charges off the impaired balance if it is determined that such amount represents a confirmed loss. Loans determined to be impaired are excluded from the formula allowance so as not to double count the loss exposure.

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

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

Periodically, we assess various attributes utilized in adjusting our historical loss factors to reflect current economic conditions. The methodology is consistently applied across all the portfolio segments taking into account the applicable historical loss rates and the qualitative factors applicable to each pool of loans.

## **Table of Contents**

During the fourth quarter of 2015 the Bank implemented an enhanced ALLL methodology and governance. These enhancements included (i) changes to the look back period, (ii) further aggregation of the loan segments, (iii) updates of the historical loss rates, (iv) updates to the qualitative factors, and (v) updates to the documentation, controls and validation of the ALLL methodology. The look back period was changed from the previous rolling 20-quarters to a through-the-cycle time frame beginning with the first quarter of 2009 through the fourth quarter of 2015. This change encompasses the time period outlined and continues to expand by one quarter until such time that the current economic cycle ends, triggered by independent evidence that a recession has begun. This change was implemented to lengthen the look back period to produce meaningful results that more appropriately reflect the level of incurred losses in the Bank's loan portfolio given the current, extended credit cycle. Similarly, the Bank analyzed its various loan segments and aggregated loans with similar risk characteristics into eight (8) segments in order to capture sufficient loss observations, and to produce more reliable historical loss rates for a given segment. In addition, the Bank enhanced its calculation of loss emergence periods for each loan segment and applied them to the through-the-cycle historical loss rates. The update to the qualitative factor component of the ALLL provided for increased use of quantitative metrics and application to each of the factors utilizing a comparison of current measurements to historical results within the range of the expanded look back period. Based upon the aforementioned changes in the ALLL methodology the documentation, controls, validation and governance processes have been further enhanced to ensure that the overall ALLL process is structured, transparent and repeatable.

***Purchase Credit Impaired Loans*** PCI loans are those loans that we acquired in the San Joaquin Bank (SJB) acquisition for which we were covered for reimbursement for a substantial portion of any future losses under the terms of the FDIC loss sharing agreement. We account for PCI loans under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (acquired impaired loan accounting) when (i) we acquire loans deemed to be impaired when there is evidence of credit deterioration since their origination and it is probable at the date of acquisition that we would be unable to collect all contractually required payments and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition. Acquired impaired loans are accounted for individually or in pools of loans based on common risk characteristics. The excess of the loan's or pool's scheduled contractual principal and interest payments over all cash flows expected at acquisition is the nonaccretable difference. The remaining amount, representing the excess of the loan's cash flows expected to be collected over the fair value is the accretable yield (accreted into interest income over the remaining life of the loan or pool). Refer to Note 6 *Acquired SJB Assets and FDIC Loss Sharing Asset* for PCI loans by type at December 31, 2015.

A provision for loan losses on the PCI portfolio will be recorded if there is deterioration in the expected cash flows on PCI loans as a result of deteriorated credit quality, compared to those previously. The portion of the loss on SJB loans reimbursable from the FDIC was recorded in noninterest income as a decrease in the FDIC loss sharing asset. Decreases in expected cash flows on the acquired impaired loans as of the measurement date compared to previously estimated are recognized by recording a provision for loan losses on acquired impaired loans. Loans accounted for as part of a pool are measured based on the expected cash flows of the entire pool.

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

**Table of Contents**

The FDIC loss sharing asset was initially recorded at fair value which represents the present value of the estimated cash payments from the FDIC for future losses on covered loans. The ultimate collectability of this asset was dependent upon the performance of the underlying covered loans, the passage of time and claims paid by the FDIC. The loss estimates used in calculating the FDIC loss sharing asset were determined on the same basis as the loss estimates on the related covered loans and was the present value of the cash flows the Company expected to collect from the FDIC under the loss sharing agreement. The difference between the present value and the undiscounted cash flows the Company expected to collect from the FDIC was accreted (or amortized) into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset was adjusted for any changes in expected cash flows based on covered loan performance. Any increases in the cash flows of covered loans over those expected reduced the FDIC indemnification asset and any decreases in the cash flows of covered loans over those acquired decreased the FDIC indemnification asset, with the remaining balance amortized on the same basis as the discount, not to exceed its remaining contract life. These increases and decreases to the FDIC indemnification asset were recorded as adjustments to noninterest income. As the loss sharing agreement for commercial loans expired on October 16, 2014, the expected reimbursement from the FDIC under the shared-loss agreements has decreased and a net payable to the FDIC was included in other liabilities December 31, 2015.

**Other Real Estate Owned** Other real estate owned ( OREO ) represents real estate acquired through foreclosure in lieu of repayment of commercial and real estate loans and is stated at fair value, less estimated costs to sell (fair value at time of foreclosure). Loan balances in excess of fair value of the real estate acquired at the date of acquisition are charged against the allowance for loan losses. Any subsequent operating expenses or income, reduction in estimated values, and gains or losses on disposition of such properties are charged to current operations. Gain recognition upon disposition of a property is dependent on the sale having met certain criteria relating to the buyer's initial investment in the property sold.

**Premises and Equipment** Premises and equipment are stated at cost, less accumulated depreciation, which is provided for in amounts sufficient to relate the cost of depreciable assets to operations over the estimated service lives of the respective asset and are computed on a straight-line basis. The ranges of useful lives of the principal classes of assets are as follows:

|                                   |                                                                       |
|-----------------------------------|-----------------------------------------------------------------------|
| Bank premises                     | 15 – 39 years                                                         |
| Leasehold improvements            | Shorter of estimated economic lives of 15 years or term of the lease. |
| Computer equipment                | 3 – 5 years                                                           |
| Furniture, fixtures and equipment | 5 – 7 years                                                           |

Long-lived assets are reviewed periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The existence of impairment is based on undiscounted cash flows. To the extent impairment exists, the impairment is calculated as the difference in fair value of assets and their carrying value. The impairment loss, if any, would be recorded in noninterest expense.

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

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheets. Based on the Company's annual impairment test, there was zero recorded impairment as of December 31, 2015.

## **Table of Contents**

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

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

**Bank Owned Life Insurance** The Company invests in Bank-Owned Life Insurance ( BOLI ). BOLI involves the purchasing of life insurance by the Company on a select group of employees. The Company is the owner and primary beneficiary of these policies. BOLI is recorded as an asset at the cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other noninterest income and are not subject to income tax for as long as they are held for the life of the covered employee.

**Income Taxes** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the tax law. Based on historical and future expected taxable earnings and available strategies, the Company considers the future realization of these deferred tax assets more likely than not.

The tax effects from an uncertain tax position are recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of other operating expense.

**Earnings per Common Share** The Company calculates earnings per common share ( EPS ) using the two-class method. The two-class method requires the Company to present EPS as if all of the earnings for the period are distributed to common shareholders and any participating securities. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities. The Company grants restricted shares under the 2008 Equity Incentive Plan that qualify as participating securities. Restricted shares issued under this plan are entitled to dividends at the same rate as common stock. A reconciliation of the numerator and the denominator used in the computation of basic and diluted earnings per common share is included in Note 17 *Earnings Per Share Reconciliation* of these consolidated financial statements.

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

At December 31, 2015, the Company had three stock-based employee compensation plans. The Company accounts for stock compensation using the modified prospective method. Under this method, awards that are

## **Table of Contents**

granted, modified, or settled after December 31, 2005, are measured at fair value as of the grant date with compensation costs recognized over the vesting period on a straight-lined basis. Also under this method, unvested stock awards as of January 1, 2006 are recognized over the remaining service period with no change in historical reported earnings.

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

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

Additional information is included in Note 18 *Stock Option Plans and Restricted Stock Awards* of the consolidated financial statements included herein.

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

***Statement of Cash Flows*** Cash and cash equivalents, as reported in the statements of cash flows, include cash and due from banks, interest-bearing balances due from depository institutions and federal funds sold with original maturities of three months or less. Cash flows from loans and deposits are reported net.

***CitizensTrust*** This division provides trust, investment and brokerage related services and asset management, as well as financial planning, estate planning, retirement planning, and business succession planning services. CitizensTrust services its clients through three offices in Southern California: Pasadena, Ontario and Newport Beach. At December 31, 2015, CitizensTrust had approximately \$2.42 billion in assets under management and administration, including \$1.88 billion in assets under management. The amount of these funds and the related liability have not been recorded in the accompanying consolidated balance sheets because they are not assets or liabilities of the Bank or Company, with the exception of any funds held on deposit with the Bank.

***Use of Estimates in the Preparation of Financial Statements*** The preparation of financial statements in conformity with 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.

***Other Contingencies*** In the ordinary course of business, the Company becomes involved in litigation. Based upon the Company's internal records and discussions with legal counsel, the Company records reserves as appropriate, for estimates of the probable outcome of all cases brought against the Company. Except as discussed in Note 15 *Commitments and Contingencies* at December 31, 2015, the Company does not have any litigation reserves and is not aware of any material pending legal action or complaints asserted against the Company.

## **Table of Contents**

**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 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.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period-Adjustments. ASU 2015-16 eliminates the requirement for an acquirer to retrospectively adjust the financial statement for measurement-period adjustments that occur in periods after a business combination is consummated. ASU 2015-16 will be effective for the first interim period within annual reporting periods beginning after December 15, 2015. 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. BUSINESS COMBINATIONS**

### ***American Security Bank Acquisition ( ASB )***

On May 15, 2014, the Bank acquired all of the assets and assumed all of the liabilities of ASB for \$57.0 million in cash. As a result, ASB was merged with CBB, the principal subsidiary of CVB. The Company believes this transaction serves to further expand its footprint in Southern California. At close, ASB had five branches located in the Southern California communities of: Newport Beach, Laguna Niguel, Corona, Lancaster, and Apple Valley. ASB also had two electronic branch vestibules in the High Desert area of California and a loan production office in Ontario, California. In the latter half of the third quarter of 2014, branch locations were consolidated and the two electronic banking vestibules were closed. By the end of 2014, the integration of ASB into CBB was completed. This included personnel decisions, center consolidations and system conversions.

Goodwill of \$19.1 million from the acquisition represents the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired.

The total fair value of assets acquired approximated \$436.4 million, which included \$117.8 million in cash and cash due from banks, \$44.5 million in investment securities available for sale, \$1.9 million in FHLB stock, \$242.7 million in loans receivable, \$4.8 million in fixed assets, \$2.1 million in core deposit intangible assets acquired, \$1.6 million in OREO, and \$1.8 million in other assets. The total fair value of liabilities assumed was \$379.4 million, which included \$378.4 million in deposits and \$1.0 million in other liabilities. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of May 15, 2014. The assets acquired and liabilities assumed have been accounted for under the purchase accounting method. The final purchase price allocation was completed in the fourth quarter of 2014.

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

For the year ended December 31, 2015 and 2014, the Company incurred non-recurring merger related expenses associated with the ASB acquisition of zero and \$2.0 million, respectively.

**Table of Contents****5. INVESTMENT SECURITIES**

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

|                                             | December 31, 2015      |                                     |                                     |               |                  |
|---------------------------------------------|------------------------|-------------------------------------|-------------------------------------|---------------|------------------|
|                                             | Amortized<br>Cost      | Gross<br>Unrealized<br>Holding Gain | Gross<br>Unrealized<br>Holding Loss | Fair<br>Value | Total<br>Percent |
|                                             | (Dollars in thousands) |                                     |                                     |               |                  |
| Investment securities available-for-sale:   |                        |                                     |                                     |               |                  |
| Government agency/GSEs                      | \$ 5,752               | \$                                  | \$ (7)                              | \$ 5,745      | 0.24%            |
| Residential mortgage-backed securities      | 1,788,857              | 26,001                              | (1,761)                             | 1,813,097     | 76.55%           |
| CMOs/REMICs residential                     | 380,166                | 4,689                               | (1,074)                             | 383,781       | 16.20%           |
| Municipal bonds                             | 157,940                | 3,036                               | (3)                                 | 160,973       | 6.80%            |
| Other securities                            | 5,000                  | 50                                  |                                     | 5,050         | 0.21%            |
| Total available-for-sale securities         | \$ 2,337,715           | \$ 33,776                           | \$ (2,845)                          | \$ 2,368,646  | 100.00%          |
| Investment securities held-to-maturity (1): |                        |                                     |                                     |               |                  |
| Government agency/GSEs                      | \$ 293,338             | \$ 1,176                            | \$ (734)                            | \$ 293,780    | 34.47%           |
| Residential mortgage-backed securities      | 232,053                |                                     | (1,293)                             | 230,760       | 27.27%           |
| CMO                                         | 1,284                  | 569                                 |                                     | 1,853         | 0.15%            |
| Municipal bonds                             | 324,314                | 3,051                               | (719)                               | 326,646       | 38.11%           |
| Total held-to-maturity securities           | \$ 850,989             | \$ 4,796                            | \$ (2,746)                          | \$ 853,039    | 100.00%          |

|                                             | December 31, 2014      |                                     |                                     |               |                  |
|---------------------------------------------|------------------------|-------------------------------------|-------------------------------------|---------------|------------------|
|                                             | Amortized<br>Cost      | Gross<br>Unrealized<br>Holding Gain | Gross<br>Unrealized<br>Holding Loss | Fair<br>Value | Total<br>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 available-for-sale securities         | \$ 3,083,582           | \$ 65,754                           | \$ (12,178)                         | \$ 3,137,158  | 100.00%          |
| Investment securities held-to-maturity (1): |                        |                                     |                                     |               |                  |
| CMO                                         | \$ 1,528               | \$ 649                              | \$                                  | \$ 2,177      | 100.00%          |
| Total held-to-maturity securities           | \$ 1,528               | \$ 649                              | \$                                  | \$ 2,177      | 100.00%          |

(1) Securities held-to-maturity are presented in the consolidated balance sheets at amortized cost.

During the quarter ended September 30, 2015, investment securities were transferred from the available-for-sale security portfolio to the held-to-maturity security portfolio. Transfers of securities into the held-to-maturity category from the available-for-sale category are transferred at fair value at the date of transfer. The fair value of these securities at the date of transfer was \$898.6 million. The unrealized holding gain or

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

loss at the date of transfer is retained in AOCI and in the carrying value of the held-to-maturity securities. The net unrealized holding gain at the date of transfer was \$3.9 million after-tax and will continue to be reported in AOCI and amortized over the remaining life of the securities as a yield adjustment.

**Table of Contents**

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

|                                                  | 2015      | For the Year Ended December 31,<br>2014 | 2013      |
|--------------------------------------------------|-----------|-----------------------------------------|-----------|
|                                                  |           | (Dollars in thousands)                  |           |
| Investment securities available-for-sale:        |           |                                         |           |
| Taxable                                          | \$ 48,854 | \$ 47,301                               | \$ 28,186 |
| Tax-advantaged                                   | 14,336    | 20,913                                  | 22,025    |
| Investment securities held-to-maturity:          |           |                                         |           |
| Taxable                                          | 4,451     | 164                                     | 188       |
| Tax-advantaged                                   | 4,567     |                                         |           |
| Total interest income from investment securities | \$ 72,208 | \$ 68,378                               | \$ 50,399 |

Approximately 85% of the total investment securities portfolio at December 31, 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 December 31, 2015 and 2014. At December 31, 2015, the Bank had \$1.5 million in CMOs backed by whole loans issued by private-label companies (non-government sponsored).

There was a \$22,000 realized loss for the year ended December 31, 2015, compared to zero realized gains or losses for the year ended December 31, 2014 and \$2.1 million realized gains for the year ended December 31, 2013.

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 December 31, 2015 and 2014. Management has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary.

|                                           | Less Than 12 Months |                                          | December 31, 2015<br>12 Months or Longer |                                          | Total      |                                          |
|-------------------------------------------|---------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------|------------------------------------------|
|                                           | Fair Value          | Gross<br>Unrealized<br>Holding<br>Losses | Fair Value                               | Gross<br>Unrealized<br>Holding<br>Losses | Fair Value | Gross<br>Unrealized<br>Holding<br>Losses |
|                                           |                     |                                          |                                          |                                          |            | (Dollars in thousands)                   |
| Investment securities available-for-sale: |                     |                                          |                                          |                                          |            |                                          |
| Government agency/GSEs                    | \$ 5,745            | \$ (7)                                   | \$                                       | \$                                       | \$ 5,745   | \$ (7)                                   |
| Residential mortgage-backed securities    | 437,699             | (1,761)                                  |                                          |                                          | 437,699    | (1,761)                                  |
| CMOs/REMICs residential                   | 171,923             | (1,074)                                  |                                          |                                          | 171,923    | (1,074)                                  |
| Municipal bonds                           | 398                 | (2)                                      | 5,961                                    | (1)                                      | 6,359      | (3)                                      |
| Other securities                          |                     |                                          |                                          |                                          |            |                                          |
| Total available-for-sale securities       | \$ 615,765          | \$ (2,844)                               | \$ 5,961                                 | \$ (1)                                   | \$ 621,726 | \$ (2,845)                               |
| Investment securities held-to-maturity:   |                     |                                          |                                          |                                          |            |                                          |
| Government agency/GSEs                    | \$ 84,495           | \$ (734)                                 | \$                                       | \$                                       | \$ 84,495  | \$ (734)                                 |
| Residential mortgage-backed securities    | 230,760             | (1,293)                                  |                                          |                                          | 230,760    | (1,293)                                  |
| CMO                                       |                     |                                          |                                          |                                          |            |                                          |
| Municipal bonds                           | 110,119             | (719)                                    |                                          |                                          | 110,119    | (719)                                    |
| Other securities                          |                     |                                          |                                          |                                          |            |                                          |
| Total held-to-maturity securities         | \$ 425,374          | \$ (2,746)                               | \$                                       | \$                                       | \$ 425,374 | \$ (2,746)                               |



**Table of Contents**

|                                           | Less Than 12 Months                      |       | December 31, 2014<br>12 Months or Longer |           | Total                                    |           |
|-------------------------------------------|------------------------------------------|-------|------------------------------------------|-----------|------------------------------------------|-----------|
|                                           | Gross<br>Unrealized<br>Holding<br>Losses |       | Gross<br>Unrealized<br>Holding<br>Losses |           | Gross<br>Unrealized<br>Holding<br>Losses |           |
|                                           | Fair Value                               |       | Fair Value                               |           | Fair Value                               |           |
| (Dollars in thousands)                    |                                          |       |                                          |           |                                          |           |
| Investment securities 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 available-for-sale securities       | \$ 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.

*Government Agency & Government-Sponsored Enterprise ( GSE )* The government agency bonds are backed by the full faith and credit of agencies of the U.S. Government. While the Government-Sponsored Enterprise bonds are not expressly guaranteed by the U.S. Government, they are currently being supported by the U.S. Government under a conservatorship arrangement. As of December 31, 2015, approximately \$215.6 million in U.S. government agency bonds were callable. These securities are bullet securities, that is, they have a defined maturity date on which the principal is paid. The contractual term of these investments provides that the Company will receive the face value of the bond at maturity which will equal the amortized cost of the bond. Interest is received throughout the life of the security. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the bonds.

*Mortgage-Backed Securities ( MBS ) and CMOs/REMICs* Most of the Company's mortgage-backed and CMOs/REMICs securities are issued by Government Agencies or Government-Sponsored Enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying residential mortgages. All mortgage-backed securities are considered to be rated investment grade with a weighted average life of approximately 4.3 years. Of the total MBS/CMO, 99.94% have the implied guarantee of U.S. Government-Sponsored Agencies and Enterprises. The remaining 0.06% are issued by banks. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the bonds. There were no credit-related OTTI recognized in earnings for the years ended December 31, 2015 and 2014.

*Municipal Bonds* The majority of the our municipal bonds, with maturities of approximately 8.4 years, are insured by the largest U.S. bond insurance companies. The Company diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Company's exposure to any single adverse event. The decline in fair value is attributable to the changes in interest rates and not credit quality. Since the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized costs. These investments are not considered other than temporarily impaired at December 31, 2015.

**Table of Contents**

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

At December 31, 2015 and 2014, investment securities having a carrying value of approximately \$2.81 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 December 31, 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.

|                                        | December 31, 2015             |                     |                   |                   |
|----------------------------------------|-------------------------------|---------------------|-------------------|-------------------|
|                                        | Available-for-sale            |                     | Held-to-maturity  |                   |
|                                        | Amortized<br>Cost             | Fair<br>Value       | Amortized<br>Cost | Fair<br>Value     |
|                                        | <i>(Dollars in thousands)</i> |                     |                   |                   |
| Due in one year or less                | \$ 13,758                     | \$ 13,980           | \$                | \$                |
| Due after one year through five years  | 1,967,040                     | 1,993,960           | 153,226           | 153,004           |
| Due after five years through ten years | 129,268                       | 130,620             | 376,604           | 376,113           |
| Due after ten years                    | 227,649                       | 230,086             | 321,159           | 323,922           |
| <b>Total investment securities</b>     | <b>\$ 2,337,715</b>           | <b>\$ 2,368,646</b> | <b>\$ 850,989</b> | <b>\$ 853,039</b> |

The investment in FHLB stock is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through December 31, 2015.

**6. Acquired SJB ASSETS AND FDIC LOSS SHARING ASSET*****FDIC Assisted Acquisition***

On October 16, 2009, the Bank acquired SJB and entered into a loss sharing agreements with the FDIC that is more fully discussed in the Note 3 *Summary of Significant Accounting Policies* included herein. 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 are accounted for as 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 was the negative goodwill resulting from the acquired assets and liabilities recognized at fair value.

At December 31, 2015, the remaining discount associated with the PCI loans approximated \$3.9 million. Based on the Company's regular forecast of expected cash flows from these loans, approximately \$2.1 million of the related discount is expected to accrete into interest income over the remaining average lives of the respective pools, which approximates 3 years. The loss sharing agreement for commercial loans expired October 16, 2014.

**Table of Contents**

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

|                                     | December 31,                  |            |
|-------------------------------------|-------------------------------|------------|
|                                     | 2015                          | 2014       |
|                                     | <i>(Dollars in thousands)</i> |            |
| Commercial and industrial           | \$ 7,473                      | \$ 14,605  |
| SBA                                 | 393                           | 1,110      |
| Real estate:                        |                               |            |
| Commercial real estate              | 81,786                        | 109,350    |
| Construction                        |                               |            |
| SFR mortgage                        | 193                           | 205        |
| Dairy & livestock and agribusiness  | 1,429                         | 4,890      |
| Municipal lease finance receivables |                               |            |
| Consumer and other loans            | 2,438                         | 3,336      |
| Gross PCI loans                     | 93,712                        | 133,496    |
| Less: Purchase accounting discount  | (3,872)                       | (7,129)    |
| Gross PCI loans, net of discount    | 89,840                        | 126,367    |
| Less: Allowance for PCI loan losses |                               |            |
| Net PCI loans                       | \$ 89,840                     | \$ 126,367 |

**Credit Quality Indicators**

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

|                       | December 31,                  |            |
|-----------------------|-------------------------------|------------|
|                       | 2015                          | 2014       |
|                       | <i>(Dollars in thousands)</i> |            |
| Pass                  | \$ 24,210                     | \$ 26,706  |
| Watch list            | 52,191                        | 77,371     |
| Special mention       | 11,142                        | 8,203      |
| Substandard           | 6,169                         | 21,216     |
| Doubtful & loss       |                               |            |
| Total PCI gross loans | \$ 93,712                     | \$ 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 discussed in Note 3 *Summary of Significant Accounting Policies*, included herein. As of December 31, 2015 and 2014, there were no allowances for loan losses recorded for PCI loans.

**Table of Contents****FDIC Loss Sharing (Liability) Asset**

The following table summarizes the activity related to the FDIC loss sharing (liability) asset for the periods presented.

|                                                    | <b>For the Year Ended December 31,</b> |             |
|----------------------------------------------------|----------------------------------------|-------------|
|                                                    | <b>2015</b>                            | <b>2014</b> |
|                                                    | <i>(Dollars in thousands)</i>          |             |
| Balance, beginning of period                       | \$ 299                                 | \$ 4,764    |
| FDIC share of additional losses, net of recoveries | (902)                                  | 342         |
| Cash paid to FDIC, net                             | 1,089                                  | 1,134       |
| Net amortization (1)                               |                                        | (3,932)     |
| Other reductions, net                              | (715)                                  | (2,009)     |
| Balance, end of period                             | \$ (229)                               | \$ 299      |

(1) Net amortization included accelerated amortization as a result of loans being paid off in full, sold, or transferred to OREO. Through December 31, 2015, the Bank has submitted claims to the FDIC for net losses on PCI loans totaling \$120.1 million.

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

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

|                                                             | <b>December 31,</b>           |              |
|-------------------------------------------------------------|-------------------------------|--------------|
|                                                             | <b>2015</b>                   | <b>2014</b>  |
|                                                             | <i>(Dollars in thousands)</i> |              |
| Commercial and industrial                                   | \$ 434,099                    | \$ 390,011   |
| SBA                                                         | 106,867                       | 134,265      |
| Real estate:                                                |                               |              |
| Commercial real estate                                      | 2,643,184                     | 2,487,803    |
| Construction                                                | 68,563                        | 55,173       |
| SFR mortgage                                                | 233,754                       | 205,124      |
| Dairy & livestock and agribusiness                          | 305,509                       | 279,173      |
| Municipal lease finance receivables                         | 74,135                        | 77,834       |
| Consumer and other loans                                    | 69,278                        | 69,884       |
| Gross loans, excluding PCI loans                            | 3,935,389                     | 3,699,267    |
| Less: Deferred loan fees, net                               | (8,292)                       | (8,567)      |
| Gross loans, excluding PCI loans, net of deferred loan fees | 3,927,097                     | 3,690,700    |
| Less: Allowance for loan losses                             | (59,156)                      | (59,825)     |
| Net loans, excluding PCI loans                              | 3,867,941                     | 3,630,875    |
| PCI Loans                                                   | 93,712                        | 133,496      |
| Discount on PCI loans                                       | (3,872)                       | (7,129)      |
| PCI loans, net                                              | 89,840                        | 126,367      |
| Total loans and lease finance receivables                   | \$ 3,957,781                  | \$ 3,757,242 |



## **Table of Contents**

As of December 31, 2015, 67.16% of the total gross loan portfolio (excluding PCI loans) consisted of commercial real estate loans and 1.74% 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 December 31, 2015, \$173.0 million, or 6.54% 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 \$128.4 million for loans secured by dairy & livestock land and \$44.6 million for loans secured by agricultural land at December 31, 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 December 31, 2015, dairy & livestock and agribusiness loans of \$305.5 million was comprised of \$287.0 million for dairy & livestock loans and \$18.5 million for agribusiness loans, compared to \$268.1 million for dairy & livestock loans and \$11.1 million for agribusiness loans at December 31, 2014.

At December 31, 2015, the Company held approximately \$1.97 billion of total fixed rate loans, including PCI loans.

At December 31, 2015 and 2014, loans totaling \$2.91 billion and \$2.78 billion, respectively, were pledged to secure the borrowings and available lines of credit from the FHLB and the Federal Reserve Bank.

There were no outstanding loans held-for-sale as of December 31, 2015 and 2014.

### ***Credit Quality Indicators***

Central to our credit risk management is our loan risk rating system. The originating credit officer assigns each loan an initial risk rating, which is reviewed and confirmed or changed, as appropriate, by credit management. Approvals are made based upon the amount of inherent credit risk specific to the transaction and are reviewed for appropriateness by senior line and credit management personnel. Credits are monitored by line and credit management personnel for deterioration in a borrower's financial condition, which would impact the ability of the borrower to perform under the contract. Risk ratings are adjusted as necessary.

Loans are risk rated into the following categories (Credit Quality Indicators): Pass, 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 that 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 as 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.

## Table of Contents

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.

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

|                                        | December 31, 2015             |            |                    |             |                    |              |
|----------------------------------------|-------------------------------|------------|--------------------|-------------|--------------------|--------------|
|                                        | Pass                          | Watch List | Special<br>Mention | Substandard | Doubtful &<br>Loss | Total        |
|                                        | <i>(Dollars in thousands)</i> |            |                    |             |                    |              |
| Commercial and industrial              | \$ 299,436                    | \$ 99,215  | \$ 33,000          | \$ 2,403    | \$ 45              | \$ 434,099   |
| SBA                                    | 65,827                        | 21,614     | 13,169             | 4,854       | 1,403              | 106,867      |
| Real estate:                           |                               |            |                    |             |                    |              |
| Commercial real estate                 |                               |            |                    |             |                    |              |
| Owner occupied                         | 638,026                       | 134,088    | 54,758             | 11,481      |                    | 838,353      |
| Non-owner occupied                     | 1,545,688                     | 195,927    | 26,170             | 37,046      |                    | 1,804,831    |
| Construction                           |                               |            |                    |             |                    |              |
| Speculative                            | 31,999                        | 6,187      |                    | 7,651       |                    | 45,837       |
| Non-speculative                        | 22,726                        |            |                    |             |                    | 22,726       |
| SFR mortgage                           | 209,518                       | 17,689     | 3,556              | 2,991       |                    | 233,754      |
| Dairy & livestock and agribusiness     | 131,026                       | 154,621    | 19,862             |             |                    | 305,509      |
| Municipal lease finance receivables    | 44,805                        | 24,389     | 4,941              |             |                    | 74,135       |
| Consumer and other loans               | 53,027                        | 11,817     | 1,618              | 2,708       | 108                | 69,278       |
| Total gross loans, excluding PCI loans | \$ 3,042,078                  | \$ 665,547 | \$ 157,074         | \$ 69,134   | \$ 1,556           | \$ 3,935,389 |

|                                        | December 31, 2014             |            |                    |             |                    |              |
|----------------------------------------|-------------------------------|------------|--------------------|-------------|--------------------|--------------|
|                                        | Pass                          | Watch List | Special<br>Mention | Substandard | Doubtful &<br>Loss | Total        |
|                                        | <i>(Dollars in thousands)</i> |            |                    |             |                    |              |
| 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       |
| Total gross loans, excluding PCI loans | \$ 2,711,718                  | \$ 663,346 | \$ 185,119         | \$ 136,940  | \$ 2,144           | \$ 3,699,267 |

**Table of Contents****Allowance for Loan Losses**

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

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers the Bank's overall loan portfolio. Refer to Note 3 *Summary of Significant Accounting Policies* for a more detailed discussion concerning the allowance for loan losses.

Management believes that the ALLL was appropriate at December 31, 2015 and 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, excluding PCI loans, by portfolio segment for the periods presented.

|                                     | For the Year Ended December 31, 2015      |                        |            |                                                    |                                           |
|-------------------------------------|-------------------------------------------|------------------------|------------|----------------------------------------------------|-------------------------------------------|
|                                     | Ending<br>Balance<br>December 31,<br>2014 | Charge-offs            | Recoveries | (Recapture of)<br>Provision for<br>Loan Losses (1) | Ending<br>Balance<br>December 31,<br>2015 |
|                                     |                                           | (Dollars in thousands) |            |                                                    |                                           |
| Commercial and industrial           | \$ 7,074                                  | \$ (411)               | \$ 319     | \$ 1,606                                           | \$ 8,588                                  |
| SBA                                 | 2,557                                     | (37)                   | 41         | (1,568)                                            | 993                                       |
| Real estate:                        |                                           |                        |            |                                                    |                                           |
| Commercial real estate              | 33,373                                    | (117)                  | 4,330      | (591)                                              | 36,995                                    |
| Construction                        | 988                                       |                        | 581        | 820                                                | 2,389                                     |
| SFR mortgage                        | 2,344                                     | (215)                  | 186        | (212)                                              | 2,103                                     |
| Dairy & livestock and agribusiness  | 5,479                                     |                        | 407        | 143                                                | 6,029                                     |
| Municipal lease finance receivables | 1,412                                     |                        |            | (259)                                              | 1,153                                     |
| Consumer and other loans            | 1,262                                     | (229)                  | 76         | (203)                                              | 906                                       |
| Unallocated (1)                     | 5,336                                     |                        |            | (5,336)                                            |                                           |
| Total allowance for loan losses     | \$ 59,825                                 | \$ (1,009)             | \$ 5,940   | \$ (5,600)                                         | \$ 59,156                                 |

|                                     | For the Year Ended December 31, 2014      |             |                        |                                                |                                           |
|-------------------------------------|-------------------------------------------|-------------|------------------------|------------------------------------------------|-------------------------------------------|
|                                     | Ending<br>Balance<br>December 31,<br>2013 | Charge-offs | Recoveries             | (Recapture of)<br>Provision for<br>Loan Losses | Ending<br>Balance<br>December 31,<br>2014 |
|                                     |                                           |             | (Dollars in thousands) |                                                |                                           |
| Commercial and industrial           | \$ 8,502                                  | \$ (888)    | \$ 873                 | \$ (1,413)                                     | \$ 7,074                                  |
| SBA                                 | 2,332                                     | (50)        | 114                    | 161                                            | 2,557                                     |
| Real estate:                        |                                           |             |                        |                                                |                                           |
| Commercial real estate              | 39,402                                    | (353)       | 140                    | (5,816)                                        | 33,373                                    |
| Construction                        | 1,305                                     |             | 885                    | (1,202)                                        | 988                                       |
| SFR mortgage                        | 2,718                                     |             | 401                    | (775)                                          | 2,344                                     |
| Dairy & livestock and agribusiness  | 11,728                                    | (1,061)     | 492                    | (5,680)                                        | 5,479                                     |
| Municipal lease finance receivables | 2,335                                     |             |                        | (923)                                          | 1,412                                     |
| Consumer and other loans            | 960                                       | (17)        | 154                    | 165                                            | 1,262                                     |
| Unallocated (1)                     | 5,953                                     |             |                        | (617)                                          | 5,336                                     |
| Total allowance for loan losses     | \$ 75,235                                 | \$ (2,369)  | \$ 3,059               | \$ (16,100)                                    | \$ 59,825                                 |

- (1) Based upon changes to our ALLL methodology, as described earlier in this document, beginning with the fourth quarter of 2015 and coinciding with the implementation of the new ALLL methodology, the Bank's previous unallocated reserve was absorbed into the qualitative component of the allowance.

**Table of Contents**

|                                     | For the Year Ended December 31, 2013      |             |                                      |                                                | Ending<br>Balance<br>December 31,<br>2013 |
|-------------------------------------|-------------------------------------------|-------------|--------------------------------------|------------------------------------------------|-------------------------------------------|
|                                     | Ending<br>Balance<br>December 31,<br>2012 | Charge-offs | Recoveries<br>(Dollars in thousands) | (Recapture of)<br>Provision for<br>Loan Losses |                                           |
| Commercial and industrial           | \$ 8,901                                  | \$ (2,491)  | \$ 544                               | \$ 1,548                                       | \$ 8,502                                  |
| SBA                                 | 2,751                                     |             | 215                                  | (634)                                          | 2,332                                     |
| Real estate:                        |                                           |             |                                      |                                                |                                           |
| Commercial real estate              | 47,457                                    |             | 402                                  | (8,457)                                        | 39,402                                    |
| Construction                        | 2,291                                     |             | 703                                  | (1,689)                                        | 1,305                                     |
| SFR mortgage                        | 3,448                                     | (252)       | 367                                  | (845)                                          | 2,718                                     |
| Dairy & livestock and agribusiness  | 18,696                                    |             | 109                                  | (7,077)                                        | 11,728                                    |
| Municipal lease finance receivables | 1,588                                     |             |                                      | 747                                            | 2,335                                     |
| Consumer and other loans            | 1,170                                     | (108)       | 55                                   | (157)                                          | 960                                       |
| Unallocated                         | 6,139                                     |             |                                      | (186)                                          | 5,953                                     |
| Total allowance for loan losses     | \$ 92,441                                 | \$ (2,851)  | \$ 2,395                             | \$ (16,750)                                    | \$ 75,235                                 |

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.

|                                     | December 31, 2015                              |                                             |                                             |                                                |
|-------------------------------------|------------------------------------------------|---------------------------------------------|---------------------------------------------|------------------------------------------------|
|                                     | Recorded Investment in Loans                   |                                             | Allowance for Loan Losses                   |                                                |
|                                     | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated for<br>Impairment | Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment |
|                                     | (Dollars in thousands)                         |                                             |                                             |                                                |
| Commercial and industrial           | \$ 1,643                                       | \$ 432,456                                  | \$ 626                                      | \$ 7,962                                       |
| SBA                                 | 3,248                                          | 103,619                                     | 10                                          | 983                                            |
| Real estate:                        |                                                |                                             |                                             |                                                |
| Commercial real estate              | 40,293                                         | 2,602,891                                   |                                             | 36,995                                         |
| Construction                        | 7,651                                          | 60,912                                      | 13                                          | 2,376                                          |
| SFR mortgage                        | 6,253                                          | 227,501                                     | 20                                          | 2,083                                          |
| Dairy & livestock and agribusiness  | 3,685                                          | 301,824                                     |                                             | 6,029                                          |
| Municipal lease finance receivables |                                                | 74,135                                      |                                             | 1,153                                          |
| Consumer and other loans            | 933                                            | 68,345                                      |                                             | 906                                            |
| Unallocated                         |                                                |                                             |                                             |                                                |
| Total                               | \$ 63,706                                      | \$ 3,871,683                                | \$ 669                                      | \$ 58,487                                      |

**Table of Contents**

|                                     | December 31, 2014                                                           |                                             |                                                                          |                                             |
|-------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------|
|                                     | Recorded Investment in Loans<br>Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated for<br>Impairment | Allowance for Loan Losses<br>Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated for<br>Impairment |
|                                     | <i>(Dollars in thousands)</i>                                               |                                             |                                                                          |                                             |
| Commercial and industrial           | \$ 3,020                                                                    | \$ 386,991                                  | \$ 615                                                                   | \$ 6,459                                    |
| SBA                                 | 3,180                                                                       | 131,085                                     | 296                                                                      | 2,261                                       |
| Real estate:                        |                                                                             |                                             |                                                                          |                                             |
| Commercial real estate              | 48,011                                                                      | 2,439,792                                   | 154                                                                      | 33,219                                      |
| Construction                        | 7,651                                                                       | 47,522                                      |                                                                          | 988                                         |
| SFR mortgage                        | 6,979                                                                       | 198,145                                     | 35                                                                       | 2,309                                       |
| Dairy & livestock and agribusiness  | 15,796                                                                      | 263,377                                     |                                                                          | 5,479                                       |
| Municipal lease finance receivables |                                                                             | 77,834                                      |                                                                          | 1,412                                       |
| Consumer and other loans            | 1,155                                                                       | 58,749                                      | 449                                                                      | 813                                         |
| Unallocated                         |                                                                             | 9,980                                       |                                                                          | 5,336                                       |
| Total                               | \$ 85,792                                                                   | \$ 3,613,475                                | \$ 1,549                                                                 | \$ 58,276                                   |

**Past Due and Nonperforming Loans**

We seek to manage asset quality and control credit risk through diversification of the loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank's Credit Management Division is in charge of monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. Reviews of nonperforming, past due loans and larger credits, designed to identify potential charges to the allowance for loan losses, and to determine the adequacy of the allowance, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers and any guarantors, the value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors. Refer to Note 3 *Summary of Significant Accounting Policies* for additional discussion concerning the Bank's policy for past due and nonperforming loans.

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

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

**Table of Contents**

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

|                                        | 30-59<br>Days Past<br>Due | 60-89<br>Days Past<br>Due | December 31, 2015                 |                                          | Current      | Total Loans<br>and Financing<br>Receivables |
|----------------------------------------|---------------------------|---------------------------|-----------------------------------|------------------------------------------|--------------|---------------------------------------------|
|                                        |                           |                           | Total Past<br>Due and<br>Accruing | Nonaccrual (1)<br>(Dollars in thousands) |              |                                             |
| Commercial and industrial              | \$                        | \$                        | \$                                | \$ 704                                   | \$ 433,395   | \$ 434,099                                  |
| SBA                                    |                           |                           |                                   | 2,567                                    | 104,300      | 106,867                                     |
| Real estate:                           |                           |                           |                                   |                                          |              |                                             |
| Commercial real estate                 |                           |                           |                                   |                                          |              |                                             |
| Owner occupied                         |                           |                           |                                   | 4,174                                    | 834,179      | 838,353                                     |
| Non-owner occupied                     | 354                       |                           | 354                               | 10,367                                   | 1,794,110    | 1,804,831                                   |
| Construction                           |                           |                           |                                   |                                          |              |                                             |
| Speculative (2)                        |                           |                           |                                   |                                          | 45,837       | 45,837                                      |
| Non-speculative                        |                           |                           |                                   |                                          | 22,726       | 22,726                                      |
| SFR mortgage                           | 1,082                     |                           | 1,082                             | 2,688                                    | 229,984      | 233,754                                     |
| Dairy & livestock and agribusiness     |                           |                           |                                   |                                          | 305,509      | 305,509                                     |
| Municipal lease finance receivables    |                           |                           |                                   |                                          | 74,135       | 74,135                                      |
| Consumer and other loans               |                           |                           |                                   | 519                                      | 68,759       | 69,278                                      |
| Total gross loans, excluding PCI Loans | \$ 1,436                  | \$                        | \$ 1,436                          | \$ 21,019                                | \$ 3,912,934 | \$ 3,935,389                                |

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

|                                        | 30-59<br>Days Past<br>Due | 60-89<br>Days Past<br>Due | December 31, 2014                 |                                          | Current      | Total Loans<br>and Financing<br>Receivables |
|----------------------------------------|---------------------------|---------------------------|-----------------------------------|------------------------------------------|--------------|---------------------------------------------|
|                                        |                           |                           | Total Past<br>Due and<br>Accruing | Nonaccrual (1)<br>(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 (2)                        |                           |                           |                                   |                                          | 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.

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

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

**Table of Contents****Impaired Loans**

At December 31, 2015, the Company had impaired loans, excluding PCI loans, of \$63.7 million. Of this amount, there was \$14.5 million of nonaccrual commercial real estate loans, \$2.7 million of nonaccrual SFR mortgage loans, \$2.6 million of nonaccrual SBA loans, \$704,000 of nonaccrual commercial and industrial loans, and \$519,000 of nonaccrual consumer and other loans. These impaired loans included \$55.3 million of loans whose terms were modified in a troubled debt restructuring, of which \$12.6 million are classified as nonaccrual. The remaining balance of \$42.7 million consisted of 34 loans performing according to the restructured terms. The impaired loans had a specific allowance of \$669,000 at December 31, 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 type of loans, as and for the periods presented.

|                                            | As of and For the Year Ended<br>December 31, 2015 |                                |                      |                                   |                                  |
|--------------------------------------------|---------------------------------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                            | Recorded<br>Investment                            | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <i>(Dollars in thousands)</i>              |                                                   |                                |                      |                                   |                                  |
| <b>With no related allowance recorded:</b> |                                                   |                                |                      |                                   |                                  |
| Commercial and industrial                  | \$ 1,017                                          | \$ 1,894                       | \$                   | \$ 1,122                          | \$ 38                            |
| SBA                                        | 3,207                                             | 3,877                          |                      | 3,333                             | 51                               |
| Real estate:                               |                                                   |                                |                      |                                   |                                  |
| Commercial real estate                     |                                                   |                                |                      |                                   |                                  |
| Owner occupied                             | 6,252                                             | 7,445                          |                      | 6,718                             | 97                               |
| Non-owner occupied                         | 34,041                                            | 37,177                         |                      | 34,639                            | 1,787                            |
| Construction                               |                                                   |                                |                      |                                   |                                  |
| Speculative                                |                                                   |                                |                      |                                   |                                  |
| Non-speculative                            |                                                   |                                |                      |                                   |                                  |
| SFR mortgage                               | 5,665                                             | 6,453                          |                      | 5,771                             | 109                              |
| Dairy & livestock and agribusiness         | 3,685                                             | 3,684                          |                      | 3,687                             | 177                              |
| Municipal lease finance receivables        |                                                   |                                |                      |                                   |                                  |
| Consumer and other loans                   | 890                                               | 1,454                          |                      | 922                               | 17                               |
| Total                                      | 54,757                                            | 61,984                         |                      | 56,192                            | 2,276                            |
| <b>With a related allowance recorded:</b>  |                                                   |                                |                      |                                   |                                  |
| Commercial and industrial                  | 626                                               | 695                            | 626                  | 637                               |                                  |
| SBA                                        | 41                                                | 47                             | 10                   | 45                                |                                  |
| Real estate:                               |                                                   |                                |                      |                                   |                                  |
| Commercial real estate                     |                                                   |                                |                      |                                   |                                  |
| Owner occupied                             |                                                   |                                |                      |                                   |                                  |
| Non-owner occupied                         |                                                   |                                |                      |                                   |                                  |
| Construction                               |                                                   |                                |                      |                                   |                                  |
| Speculative                                | 7,651                                             | 7,651                          | 13                   | 7,651                             | 388                              |
| Non-speculative                            |                                                   |                                |                      |                                   |                                  |
| SFR mortgage                               | 588                                               | 640                            | 20                   | 607                               | 12                               |
| Dairy & livestock and agribusiness         |                                                   |                                |                      |                                   |                                  |
| Municipal lease finance receivables        |                                                   |                                |                      |                                   |                                  |
| Consumer and other loans                   | 43                                                | 45                             |                      | 45                                |                                  |
| Total                                      | 8,949                                             | 9,078                          | 669                  | 8,985                             | 400                              |
| Total impaired loans                       | \$ 63,706                                         | \$ 71,062                      | \$ 669               | \$ 65,177                         | \$ 2,676                         |



**Table of Contents**

|                                            | As of and For the Year Ended<br>December 31, 2014 |                                |                      |                                   |                                  |
|--------------------------------------------|---------------------------------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                            | Recorded<br>Investment                            | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <i>(Dollars in thousands)</i>              |                                                   |                                |                      |                                   |                                  |
| <b>With no related allowance recorded:</b> |                                                   |                                |                      |                                   |                                  |
| Commercial and industrial                  | \$ 2,391                                          | \$ 3,624                       | \$                   | \$ 2,487                          | \$ 41                            |
| SBA                                        | 1,853                                             | 2,197                          |                      | 1,886                             | 53                               |
| Real estate:                               |                                                   |                                |                      |                                   |                                  |
| Commercial real estate                     |                                                   |                                |                      |                                   |                                  |
| Owner occupied                             | 16,961                                            | 18,166                         |                      | 18,027                            | 938                              |
| Non-owner occupied                         | 30,068                                            | 38,156                         |                      | 30,133                            | 723                              |
| Construction                               |                                                   |                                |                      |                                   |                                  |
| Speculative                                | 7,651                                             | 7,651                          |                      | 7,651                             | 310                              |
| Non-speculative                            |                                                   |                                |                      |                                   |                                  |
| SFR mortgage                               | 6,512                                             | 7,493                          |                      | 6,566                             | 110                              |
| Dairy & livestock and agribusiness         | 15,796                                            | 17,587                         |                      | 19,060                            | 1,057                            |
| Municipal lease finance receivables        |                                                   |                                |                      |                                   |                                  |
| Consumer and other loans                   | 673                                               | 1,094                          |                      | 623                               | 2                                |
| Total                                      | 81,905                                            | 95,968                         |                      | 86,433                            | 3,234                            |
| <b>With a related allowance recorded:</b>  |                                                   |                                |                      |                                   |                                  |
| Commercial and industrial                  | 629                                               | 698                            | 615                  | 552                               |                                  |
| SBA                                        | 1,327                                             | 1,591                          | 296                  | 714                               |                                  |
| Real estate:                               |                                                   |                                |                      |                                   |                                  |
| Commercial real estate                     |                                                   |                                |                      |                                   |                                  |
| Owner occupied                             |                                                   |                                |                      |                                   |                                  |
| Non-owner occupied                         | 982                                               | 1,278                          | 154                  | 573                               |                                  |
| Construction                               |                                                   |                                |                      |                                   |                                  |
| Speculative                                |                                                   |                                |                      |                                   |                                  |
| Non-speculative                            |                                                   |                                |                      |                                   |                                  |
| SFR mortgage                               | 467                                               | 484                            | 35                   | 474                               |                                  |
| Dairy & livestock and agribusiness         |                                                   |                                |                      |                                   |                                  |
| Municipal lease finance receivables        |                                                   |                                |                      |                                   |                                  |
| Consumer and other loans                   | 482                                               | 508                            | 449                  | 285                               |                                  |
| Total                                      | 3,887                                             | 4,559                          | 1,549                | 2,598                             |                                  |
| Total impaired loans                       | \$ 85,792                                         | \$ 100,527                     | \$ 1,549             | \$ 89,031                         | \$ 3,234                         |

**Table of Contents**

|                                            | As of and For the Year Ended<br>December 31, 2013 |                                |                      |                                   |                                  |
|--------------------------------------------|---------------------------------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                            | Recorded<br>Investment                            | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <i>(Dollars in thousands)</i>              |                                                   |                                |                      |                                   |                                  |
| <b>With no related allowance recorded:</b> |                                                   |                                |                      |                                   |                                  |
| Commercial and industrial                  | \$ 3,055                                          | \$ 3,843                       | \$                   | \$ 3,248                          | \$ 66                            |
| SBA                                        | 1,613                                             | 2,084                          |                      | 1,717                             |                                  |
| Real estate:                               |                                                   |                                |                      |                                   |                                  |
| Commercial real estate                     |                                                   |                                |                      |                                   |                                  |
| Owner occupied                             | 13,041                                            | 14,133                         |                      | 13,463                            | 548                              |
| Non-owner occupied                         | 20,399                                            | 26,155                         |                      | 21,313                            | 817                              |
| Construction                               |                                                   |                                |                      |                                   |                                  |
| Speculative                                | 17,617                                            | 18,408                         |                      | 18,043                            | 310                              |
| Non-speculative                            | 9,201                                             | 9,201                          |                      | 9,217                             | 572                              |
| SFR mortgage                               | 10,919                                            | 12,516                         |                      | 10,408                            | 103                              |
| Dairy & livestock and agribusiness         | 17,702                                            | 17,702                         |                      | 19,205                            | 434                              |
| Municipal lease finance receivables        |                                                   |                                |                      |                                   |                                  |
| Consumer and other loans                   | 385                                               | 445                            |                      | 389                               |                                  |
| <b>Total</b>                               | <b>93,932</b>                                     | <b>104,487</b>                 |                      | <b>97,003</b>                     | <b>2,850</b>                     |
| <b>With a related allowance recorded:</b>  |                                                   |                                |                      |                                   |                                  |
| Commercial and industrial                  | 293                                               | 301                            | 293                  | 305                               |                                  |
| SBA                                        | 72                                                | 78                             | 72                   | 81                                |                                  |
| Real estate:                               |                                                   |                                |                      |                                   |                                  |
| Commercial real estate                     |                                                   |                                |                      |                                   |                                  |
| Owner occupied                             |                                                   |                                |                      |                                   |                                  |
| Non-owner occupied                         |                                                   |                                |                      |                                   |                                  |
| Construction                               |                                                   |                                |                      |                                   |                                  |
| Speculative                                |                                                   |                                |                      |                                   |                                  |
| Non-speculative                            |                                                   |                                |                      |                                   |                                  |
| SFR mortgage                               | 486                                               | 489                            | 103                  | 479                               |                                  |
| Dairy & livestock and agribusiness         | 12,110                                            | 12,783                         | 2,702                | 13,377                            | 209                              |
| Municipal lease finance receivables        |                                                   |                                |                      |                                   |                                  |
| Consumer and other loans                   | 16                                                | 19                             | 4                    | 18                                |                                  |
| <b>Total</b>                               | <b>12,977</b>                                     | <b>13,670</b>                  | <b>3,174</b>         | <b>14,260</b>                     | <b>209</b>                       |
| <b>Total impaired loans</b>                | <b>\$ 106,909</b>                                 | <b>\$ 118,157</b>              | <b>\$ 3,174</b>      | <b>\$ 111,263</b>                 | <b>\$ 3,059</b>                  |

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 December 31, 2015 and 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 loan commitments at the same time it evaluates credit risk associated with the loan and lease portfolio. The Company recorded a recapture of the reserve for unfunded loan commitments of \$500,000 for the year ended

**Table of Contents**

December 31, 2015, compared with a recapture of provision for unfunded loan commitments of \$1.3 million for the year ended December 31, 2014 and a provision for unfunded loan commitments of \$500,000 for the year ended December 31, 2013. As of December 31, 2015 and December 31, 2014, the balance in this reserve was \$7.2 million and \$7.7 million, respectively, and was included in other liabilities.

**Troubled Debt Restructurings**

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, Troubled Debt Restructurings*, included herein.

As of December 31, 2015, there were \$55.3 million of loans classified as a TDR, of which \$12.6 million were nonperforming and \$42.7 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 December 31, 2015, performing TDRs were comprised of 13 commercial real estate loans of \$25.8 million, one construction loan of \$7.7 million, two dairy & livestock and agribusiness loans of \$3.7 million, 11 SFR mortgage loans of \$3.6 million, five commercial and industrial loans of \$939,000, one consumer loan of \$414,000 and one SBA loan of \$681,000. There were no loans removed from TDR classification for the years ended December 31, 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 \$607,000 and \$726,000 of specific allowance to TDRs as of December 31, 2015 and December 31, 2014, respectively.

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

|                                  | <b>For the Year Ended December 31,</b> |                  |
|----------------------------------|----------------------------------------|------------------|
|                                  | <b>2015</b>                            | <b>2014 (1)</b>  |
|                                  | <i>(Dollars in thousands)</i>          |                  |
| <b>Performing TDRs:</b>          |                                        |                  |
| Beginning balance                | \$ 53,589                              | \$ 66,955        |
| New modifications                | 3,689                                  | 462              |
| Payoffs and payments, net        | (15,235)                               | (14,527)         |
| TDRs returned to accrual status  | 644                                    | 699              |
| TDRs placed on nonaccrual status |                                        |                  |
| Ending balance                   | \$ 42,687                              | \$ 53,589        |
| <b>Nonperforming TDRs:</b>       |                                        |                  |
| Beginning balance                | \$ 20,285                              | \$ 25,119        |
| New modifications                | 661                                    | 4,372            |
| Charge-offs                      |                                        | (1,061)          |
| Transfer to OREO                 | (842)                                  |                  |
| Payoffs and payments, net        | (6,838)                                | (7,446)          |
| TDRs returned to accrual status  | (644)                                  | (699)            |
| TDRs placed on nonaccrual status |                                        |                  |
| Ending balance                   | \$ 12,622                              | \$ 20,285        |
| <b>Total TDRs</b>                | <b>\$ 55,309</b>                       | <b>\$ 73,874</b> |

(1) New modifications for the year ended December 31, 2014 included six 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 Year Ended December 31, 2015                      |                                                            |                                                               |                                                         |  |
|-------------------------------------------|--------------------|-----------------------------------------------------------|------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------|--|
|                                           | Number of<br>Loans | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Outstanding<br>Recorded<br>Investment at<br>December 31, 2015 | Financial Effect<br>Resulting From<br>Modifications (2) |  |
| (Dollars in thousands)                    |                    |                                                           |                                                            |                                                               |                                                         |  |
| Commercial and industrial:                |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   |                    | \$                                                        | \$                                                         | \$                                                            | \$                                                      |  |
| Change in amortization period or maturity | 1                  | 203                                                       | 203                                                        | 203                                                           | 203                                                     |  |
| SBA:                                      |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   |                    |                                                           |                                                            |                                                               |                                                         |  |
| Change in amortization period or maturity | 1                  | 330                                                       | 330                                                        | 320                                                           |                                                         |  |
| Real estate:                              |                    |                                                           |                                                            |                                                               |                                                         |  |
| Commercial real estate:                   |                    |                                                           |                                                            |                                                               |                                                         |  |
| Owner occupied                            |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   |                    |                                                           |                                                            |                                                               |                                                         |  |
| Change in amortization period or maturity | 2                  | 823                                                       | 823                                                        | 821                                                           |                                                         |  |
| Non-owner occupied                        |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   | 1                  | 2,376                                                     | 2,376                                                      | 2,316                                                         |                                                         |  |
| Change in amortization period or maturity | 1                  | 280                                                       | 280                                                        | 280                                                           |                                                         |  |
| SFR mortgage:                             |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   | 1                  | 322                                                       | 322                                                        | 326                                                           |                                                         |  |
| Change in amortization period or maturity |                    |                                                           |                                                            |                                                               |                                                         |  |
| Total loans                               | 7                  | \$ 4,334                                                  | \$ 4,334                                                   | \$ 4,266                                                      | \$ 203                                                  |  |

|                                                | Number of<br>Loans | For the Year Ended December 31, 2014                      |                                                            |                                                               |        | Financial Effect<br>Resulting From<br>Modifications (2) |
|------------------------------------------------|--------------------|-----------------------------------------------------------|------------------------------------------------------------|---------------------------------------------------------------|--------|---------------------------------------------------------|
|                                                |                    | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Outstanding<br>Recorded<br>Investment at<br>December 31, 2014 |        |                                                         |
|                                                |                    | (Dollars in thousands)                                    |                                                            |                                                               |        |                                                         |
|                                                |                    |                                                           |                                                            |                                                               |        |                                                         |
| <b>Commercial and industrial:</b>              |                    |                                                           |                                                            |                                                               |        |                                                         |
| Interest rate reduction (3) (4)                | 3                  | \$ 553                                                    | \$ 553                                                     | \$ 522                                                        | \$ 185 |                                                         |
| Change in amortization period or maturity      |                    |                                                           |                                                            |                                                               |        |                                                         |
| <b>Real estate:</b>                            |                    |                                                           |                                                            |                                                               |        |                                                         |
| <b>Commercial real estate:</b>                 |                    |                                                           |                                                            |                                                               |        |                                                         |
| Owner occupied                                 |                    |                                                           |                                                            |                                                               |        |                                                         |
| Interest rate reduction (3)                    | 1                  | 199                                                       | 199                                                        | 187                                                           |        |                                                         |
| Change in amortization period or maturity      |                    |                                                           |                                                            |                                                               |        |                                                         |
| Non-owner occupied                             |                    |                                                           |                                                            |                                                               |        |                                                         |
| Interest rate reduction (3)                    | 3                  | 3,573                                                     | 3,573                                                      | 3,469                                                         |        |                                                         |
| Change in amortization period or maturity      |                    |                                                           |                                                            |                                                               |        |                                                         |
| <b>Dairy &amp; livestock and agribusiness:</b> |                    |                                                           |                                                            |                                                               |        |                                                         |
| Interest rate reduction                        |                    |                                                           |                                                            |                                                               |        |                                                         |
| Change in amortization period or maturity      |                    |                                                           |                                                            |                                                               |        |                                                         |
| <b>Consumer:</b>                               |                    |                                                           |                                                            |                                                               |        |                                                         |
| Interest rate reduction (4)                    | 1                  | 421                                                       | 421                                                        | 419                                                           |        |                                                         |
| Change in amortization period or maturity      |                    |                                                           |                                                            |                                                               |        |                                                         |
|                                                |                    |                                                           |                                                            |                                                               |        |                                                         |
| Total loans                                    | 8                  | \$ 4,746                                                  | \$ 4,746                                                   | \$ 4,597                                                      | \$ 185 |                                                         |



**Table of Contents**

|                                           |                    | For the Year Ended December 31, 2013                      |                                                            |                                                               |                                                         |  |
|-------------------------------------------|--------------------|-----------------------------------------------------------|------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------|--|
|                                           | Number<br>of Loans | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Outstanding<br>Recorded<br>Investment at<br>December 31, 2013 | Financial Effect<br>Resulting From<br>Modifications (2) |  |
| (Dollars in thousands)                    |                    |                                                           |                                                            |                                                               |                                                         |  |
| Commercial and industrial:                |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   |                    | \$                                                        | \$                                                         | \$                                                            | \$                                                      |  |
| Change in amortization period or maturity | 4                  | 621                                                       | 621                                                        | 570                                                           | 95                                                      |  |
| Real estate:                              |                    |                                                           |                                                            |                                                               |                                                         |  |
| Commercial real estate:                   |                    |                                                           |                                                            |                                                               |                                                         |  |
| Owner occupied                            |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   |                    |                                                           |                                                            |                                                               |                                                         |  |
| Change in amortization period or maturity | 1                  | 168                                                       | 168                                                        | 138                                                           |                                                         |  |
| Non-owner occupied                        |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   |                    |                                                           |                                                            |                                                               |                                                         |  |
| Change in amortization period or maturity |                    |                                                           |                                                            |                                                               |                                                         |  |
| Construction:                             |                    |                                                           |                                                            |                                                               |                                                         |  |
| Speculative                               |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   |                    |                                                           |                                                            |                                                               |                                                         |  |
| Change in amortization period or maturity |                    |                                                           |                                                            |                                                               |                                                         |  |
| SFR mortgage:                             |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   | 3                  | 1,365                                                     | 1,365                                                      | 1,349                                                         |                                                         |  |
| Change in amortization period or maturity |                    |                                                           |                                                            |                                                               |                                                         |  |
| Dairy & livestock and agribusiness:       |                    |                                                           |                                                            |                                                               |                                                         |  |
| Interest rate reduction                   |                    |                                                           |                                                            |                                                               |                                                         |  |
| Change in amortization period or maturity | 10                 | 26,915                                                    | 26,915                                                     | 22,662                                                        | 149                                                     |  |
| Total loans                               | 18                 | \$ 29,069                                                 | \$ 29,069                                                  | \$ 24,719                                                     | \$ 244                                                  |  |

(1) The tables above exclude modified loans that were paid off prior to the end of the period.

(2) Financial effects resulting from modifications represent charge-offs and specific allowance recorded at modification date.

(3) New modifications for the year ended December 31, 2014 included six TDRs acquired from ASB.

(4) New modifications for the year ended December 31, 2014 included three TDRs that include both an interest rate reduction and a maturity extension.

As of December 31, 2015, 2014 and 2013, there were no loans that were previously modified as a troubled debt restructuring within the previous 12 months that subsequently defaulted during each of the years ended December 31, 2015, 2014 and 2013, respectively.

**Table of Contents****8. OTHER REAL ESTATE OWNED**

The following table summarizes the activity related to total OREO for the periods presented.

|                              | <b>For the Year Ended December 31,</b> |             |
|------------------------------|----------------------------------------|-------------|
|                              | <b>2015</b>                            | <b>2014</b> |
|                              | <i>(Dollars in thousands)</i>          |             |
| Balance, beginning of period | \$ 5,637                               | \$ 6,979    |
| Additions                    | 3,721                                  | 3,591       |
| Dispositions                 | (2,203)                                | (4,868)     |
| Valuation adjustments        | (162)                                  | (65)        |
| Balance, end of period       | \$ 6,993                               | \$ 5,637    |

**9. GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table presents the changes in the carrying amount of goodwill for the periods presented.

|                                   | <b>As of and for the Year Ended December 31,</b> |             |
|-----------------------------------|--------------------------------------------------|-------------|
|                                   | <b>2015</b>                                      | <b>2014</b> |
|                                   | <i>(Dollars in thousands)</i>                    |             |
| Balance, beginning of period      | \$ 74,244                                        | \$ 55,097   |
| Addition from the ASB acquisition |                                                  | 19,147      |
| Balance, end of period            | \$ 74,244                                        | \$ 74,244   |

The following summarizes activity of amortizable core deposit intangible ( CDI ) assets for the for the periods presented.

|                                                   | <b>As of and For the Year Ended December 31,</b> |                                 |                       |                         |                                 |                       |
|---------------------------------------------------|--------------------------------------------------|---------------------------------|-----------------------|-------------------------|---------------------------------|-----------------------|
|                                                   | <b>2015</b>                                      |                                 | <b>2014</b>           |                         |                                 |                       |
|                                                   | <b>Gross CDI Amount</b>                          | <b>Accumulated Amortization</b> | <b>Net CDI Amount</b> | <b>Gross CDI Amount</b> | <b>Accumulated Amortization</b> | <b>Net CDI Amount</b> |
|                                                   | <i>(Dollars in thousands)</i>                    |                                 |                       |                         |                                 |                       |
| Balance of intangible assets, beginning of period | \$ 34,089                                        | \$ (30,875)                     | \$ 3,214              | \$ 31,999               | \$ (29,738)                     | \$ 2,261              |
| Additions due to acquisitions                     |                                                  |                                 |                       | 2,090                   |                                 |                       |
| Balance of intangible assets, end of period       | \$ 34,089                                        | \$ (31,824)                     | \$ 2,265              | \$ 34,089               | \$ (30,875)                     | \$ 3,214              |
| Aggregate amortization expense:                   |                                                  |                                 |                       |                         |                                 |                       |
| For year ended December 31,                       | \$ 949                                           |                                 |                       | \$ 1,137                |                                 |                       |
| Estimated Amortization Expense:                   |                                                  |                                 |                       |                         |                                 |                       |
| For the year ending December 31, 2016             | \$ 737                                           |                                 |                       |                         |                                 |                       |
| For the year ending December 31, 2017             | 631                                              |                                 |                       |                         |                                 |                       |
| For the year ending December 31, 2018             | 562                                              |                                 |                       |                         |                                 |                       |
| For the year ending December 31, 2019             | 335                                              |                                 |                       |                         |                                 |                       |
| Thereafter                                        |                                                  |                                 |                       |                         |                                 |                       |

At December 31, 2015 the weighted average remaining life of intangible assets is approximately 1.2 years.



**Table of Contents****10. PREMISES AND EQUIPMENT**

Premises and equipment were comprised of the following for the periods presented.

|                                           | 2015 | As of December 31,<br>(Dollars in thousands) | 2014      |
|-------------------------------------------|------|----------------------------------------------|-----------|
| Land                                      | \$   | 8,425                                        | \$ 8,425  |
| Bank premises                             |      | 48,251                                       | 48,481    |
| Furniture and equipment                   |      | 36,265                                       | 39,272    |
| Premises and equipment, gross             |      | 92,941                                       | 96,178    |
| Accumulated depreciation and amortization |      | (61,559)                                     | (62,587)  |
| Premises and equipment, net               | \$   | 31,382                                       | \$ 33,591 |

*Leases*

The Company leases land and buildings under operating leases for varying periods extending to 2026, at which time the Company can exercise options that could extend certain leases through 2036. The future minimum annual rental payments required for leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2015, excluding property taxes and insurance, are as follows:

| Year:      | As of December 31, 2015<br>(Dollars in thousands) |
|------------|---------------------------------------------------|
| 2016       | \$ 5,307                                          |
| 2017       | 4,905                                             |
| 2018       | 3,500                                             |
| 2019       | 2,213                                             |
| 2020       | 1,232                                             |
| Thereafter | 1,435                                             |
| Total      | \$ 18,592                                         |

Total rental expense for the Company was approximately \$5.5 million, \$5.7 million and \$5.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**11. OTHER ASSETS**

Other assets were comprised of the following for the periods presented.

|                     | 2015 | As of December 31,<br>(Dollars in thousands) | 2014     |
|---------------------|------|----------------------------------------------|----------|
| Prepaid expenses    | \$   | 4,104                                        | \$ 4,109 |
| Interest rate swaps |      | 9,344                                        | 10,080   |
| Other assets        |      | 8,137                                        | 11,311   |

|       |    |        |    |        |
|-------|----|--------|----|--------|
| Total | \$ | 21,585 | \$ | 25,500 |
|-------|----|--------|----|--------|

## Table of Contents

### 12. INCOME TAXES

Income tax expense consists of the following.

|                               | For the Year Ended December 31, |           |           |
|-------------------------------|---------------------------------|-----------|-----------|
|                               | 2015                            | 2014      | 2013      |
|                               | <i>(Dollars in thousands)</i>   |           |           |
| Current provision:            |                                 |           |           |
| Federal                       | \$ 40,021                       | \$ 38,957 | \$ 38,881 |
| State                         | 17,040                          | 15,968    | 13,996    |
|                               | 57,061                          | 54,925    | 52,877    |
| Deferred provision/(benefit): |                                 |           |           |
| Federal                       | (3,443)                         | 2,534     | (3,260)   |
| State                         | (1,397)                         | 1,317     | (950)     |
|                               | (4,840)                         | 3,851     | (4,210)   |
| Total                         | \$ 52,221                       | \$ 58,776 | \$ 48,667 |

Income tax asset consists of the following.

|           | As of December 31,            |           |
|-----------|-------------------------------|-----------|
|           | 2015                          | 2014      |
|           | <i>(Dollars in thousands)</i> |           |
| Current:  |                               |           |
| Federal   | \$ 7,414                      | \$ 4,522  |
| State     | 2,998                         | 4,437     |
|           | 10,402                        | 8,959     |
| Deferred: |                               |           |
| Federal   | 28,799                        | 18,304    |
| State     | 8,050                         | 4,198     |
|           | 36,849                        | 22,502    |
| Total     | \$ 47,251                     | \$ 31,461 |

**Table of Contents**

The components of the net deferred tax asset are as follows.

|                                               | As of December 31,     |           |
|-----------------------------------------------|------------------------|-----------|
|                                               | 2015                   | 2014      |
|                                               | (Dollars in thousands) |           |
| <b>Federal</b>                                |                        |           |
| Deferred tax assets:                          |                        |           |
| Bad debt and credit loss deduction            | \$ 23,180              | \$ 23,805 |
| Depreciation                                  | 121                    |           |
| Net operating loss carryforward               | 562                    | 672       |
| Deferred compensation                         | 3,642                  | 3,300     |
| Other intangibles                             |                        | 5         |
| PCI loans                                     | 10,572                 | 23,667    |
| FDIC loss sharing asset                       | 210                    |           |
| California franchise tax                      | 2,613                  | 3,461     |
| Other, net                                    | 3,897                  | 6,140     |
| Gross deferred tax asset                      | 44,797                 | 61,050    |
| Deferred tax liabilities:                     |                        |           |
| Depreciation                                  |                        | 4,019     |
| Intangibles acquisitions                      | 868                    | 1,858     |
| FDIC loss sharing asset                       |                        | 13,831    |
| FHLB Stock                                    | 2,747                  | 3,913     |
| Deferred income                               | 2,745                  | 2,430     |
| Unrealized gain on investment securities, net | 9,638                  | 16,695    |
| Gross deferred tax liability                  | 15,998                 | 42,746    |
| Net deferred tax asset federal                | \$ 28,799              | \$ 18,304 |
| <b>State</b>                                  |                        |           |
| Deferred tax assets:                          |                        |           |
| Bad debt and credit loss deduction            | \$ 7,172               | \$ 6,014  |
| Depreciation                                  | 440                    |           |
| Net operating loss carryforward               |                        | 34        |
| Deferred compensation                         | 1,127                  | 1,030     |
| Other intangibles                             |                        | 668       |
| PCI loans                                     | 3,242                  |           |
| FDIC loss sharing asset                       | 97                     | 6,498     |
| Other, net                                    | 1,206                  | 1,911     |
| Gross deferred tax asset                      | 13,284                 | 16,155    |
| Deferred tax liabilities:                     |                        |           |
| Depreciation                                  |                        | 589       |
| Intangibles acquisitions                      | 269                    |           |
| PCI loans                                     |                        | 4,389     |
| FHLB Stock                                    | 851                    | 797       |
| Deferred income                               | 762                    | 374       |
| Unrealized gain on investment securities, net | 3,352                  | 5,808     |
| Gross deferred tax liability                  | 5,234                  | 11,957    |

# Edgar Filing: CVB FINANCIAL CORP - Form 10-K

|                        |       |    |       |    |       |
|------------------------|-------|----|-------|----|-------|
| Net deferred tax asset | state | \$ | 8,050 | \$ | 4,198 |
|------------------------|-------|----|-------|----|-------|

130

**Table of Contents**

A reconciliation of the statutory income tax rate to the consolidated effective income tax rate follows.

|                                               | 2015                          |         | For the Year Ended December 31,<br>2014 |         | 2013      |         |
|-----------------------------------------------|-------------------------------|---------|-----------------------------------------|---------|-----------|---------|
|                                               | Amount                        | Percent | Amount                                  | Percent | Amount    | Percent |
|                                               | <i>(Dollars in thousands)</i> |         |                                         |         |           |         |
| Federal income tax at statutory rate          | \$ 52,978                     | 35.0%   | \$ 56,979                               | 35.0%   | \$ 50,496 | 35.0%   |
| State franchise taxes, net of federal benefit | 10,457                        | 6.9%    | 11,233                                  | 6.9%    | 8,734     | 6.1%    |
| Tax-exempt income                             | (7,619)                       | (5.0%)  | (8,622)                                 | (5.3%)  | (10,189)  | (7.1%)  |
| Tax credits                                   | (1,014)                       | (0.7%)  | (1,014)                                 | (0.6%)  | (940)     | (0.7%)  |
| Other, net                                    | (2,581)                       | (1.7%)  | 200                                     | 0.1%    | 566       | 0.4%    |
| Provision for income taxes                    | \$ 52,221                     | 34.5%   | \$ 58,776                               | 36.1%   | \$ 48,667 | 33.7%   |

The change in unrecognized tax benefits in 2015 and 2014 follows.

|                                                    | For the Year Ended December 31, |          |
|----------------------------------------------------|---------------------------------|----------|
|                                                    | 2015                            | 2014     |
|                                                    | <i>(Dollars in thousands)</i>   |          |
| Balance, beginning of period                       | \$ 3,016                        | \$ 3,016 |
| Additions for tax positions related to prior years |                                 |          |
| Reductions due to lapse of statute of limitations  | (156)                           |          |
| Settlement with tax authorities                    | (1,185)                         |          |
| Balance, end of period                             | \$ 1,675                        | \$ 3,016 |

The total amount of unrecognized tax benefits at December 31, 2015 of \$1.7 million would, if recognized, affect the effective tax rate. The amount accrued for payment of interest as of December 31, 2015 was \$196,000. The Company records interest and penalties related to uncertain tax positions as part of other operating expense. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Company is subject to federal income tax and franchise tax of the state of California. Our federal income tax returns for the years ended December 31, 2009 through 2015 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2006 through 2015 are open to audit by state authorities.

**13. DEPOSITS**

The composition of deposits is summarized below.

|                              | As of December 31,            |       | 2014         |       |
|------------------------------|-------------------------------|-------|--------------|-------|
|                              | 2015                          |       |              |       |
|                              | <i>(Dollars in thousands)</i> |       |              |       |
| Noninterest-bearing deposits |                               |       |              |       |
| Demand deposits              | \$ 3,250,174                  | 54.9% | \$ 2,866,365 | 51.1% |
| Interest-bearing deposits    |                               |       |              |       |
| Savings deposits             | 1,956,598                     | 33.1% | 1,962,086    | 35.0% |
| Time deposits                | 710,488                       | 12.0% | 776,207      | 13.9% |

## Edgar Filing: CVB FINANCIAL CORP - Form 10-K

|                |    |           |        |    |           |        |
|----------------|----|-----------|--------|----|-----------|--------|
| Total deposits | \$ | 5,917,260 | 100.0% | \$ | 5,604,658 | 100.0% |
|----------------|----|-----------|--------|----|-----------|--------|

Time deposits with balances of \$250,000 or more amounted to approximately \$418.0 million and \$438.3 million at December 31, 2015 and 2014, respectively. Interest expense on such deposits amounted to approximately \$787,000, \$667,000 and \$657,000, for the years ended December 31, 2015, 2014 and 2013, respectively.

**Table of Contents**

At December 31, 2015, the scheduled maturities of time certificates of deposit are as follows.

| Year of maturity:   | December 31, 2015<br>(Dollars in thousands) |
|---------------------|---------------------------------------------|
| 2016                | \$ 684,549                                  |
| 2017                | 9,754                                       |
| 2018                | 1,470                                       |
| 2019                | 1,591                                       |
| 2020 and thereafter | 13,124                                      |
| Total               | \$ 710,488                                  |

At December 31, 2015, the Company had a single public depositor with certificates of deposit balances of approximately \$280.1 million. These certificates mature January through March 2016.

**14. BORROWINGS*****Customer Repurchase Agreements***

In November 2006, the Bank began a repurchase agreement product with its customers. This product, known as Citizens Sweep Manager, sells the Bank's securities overnight to its customers under an agreement to repurchase them the next day. As of December 31, 2015 and 2014, total funds borrowed under these agreements were \$690.7 million and \$563.6 million, respectively, with a weighted average interest rate of 0.24% for both years.

***Federal Home Loan Bank Advances***

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

At December 31, 2015, \$2.91 billion of loans and \$2.81 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.

The Bank incurred prepayment penalties on borrowings of \$13.9 million in 2015, compared to zero for 2014 and 2013.

***Other Borrowings***

At December 31, 2015, the Bank had \$46.0 million in short-term borrowings with the FHLB at a cost of 28 basis points, compared to \$46.0 million at a cost of 10 basis points at December 31, 2014.

***Junior Subordinated Debentures***

On January 31, 2006, CVB Statutory Trust III completed a \$25,000,000 offering of Trust Preferred Securities and used the gross proceeds from the offering and other cash totaling \$25,774,000 to purchase a like amount of junior subordinated debentures of the Company. The junior subordinated debentures were issued concurrent with the issuance of the Trust Preferred Securities. The interest on junior subordinated debentures, paid by the Company to CVB Statutory Trust III, represents the sole revenues of CVB Statutory Trust III and the sole source of dividend distributions to the holders of the Trust Preferred Securities. The Company has fully and conditionally guaranteed all of CVB Statutory Trust III's obligations under the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payments of interest on the junior subordinated debenture at any time for a period not to exceed 20 consecutive quarters. The Trust Preferred

## **Table of Contents**

Securities will mature on March 15, 2036, but became callable in part or in total on March 15, 2011 by CVB Statutory Trust III. The Trust Preferred Securities have a variable per annum rate equal to LIBOR (as defined in the indenture dated as of January 31, 2006 ( Indenture )) between the Company and U.S. Bank National Association, as debenture trustee) plus 1.38% (the Variable Rate ). As of December 31, 2015, these securities continue to be outstanding.

## **15. COMMITMENTS AND CONTINGENCIES**

### ***Commitments***

At December 31, 2015 and 2014, the Bank had commitments to extend credit of approximately \$744.0 million and \$694.4 million, respectively, and obligations under letters of credit of \$35.1 million and \$34.6 million, respectively. 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. The Bank uses the same credit underwriting policies in granting or accepting such commitments or contingent obligations as it does for on-balance-sheet instruments, which consist of evaluating customers' creditworthiness individually. The Bank had a reserve for unfunded loan commitments of \$7.2 million as of December 31, 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 third 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, the Bank holds appropriate collateral supporting those commitments. Management does not anticipate any material losses as a result of these transactions.

At December 31, 2015, the Bank has available lines of credit totaling \$3.23 billion from correspondent banks, FHLB and Federal Reserve Bank of which \$2.84 billion were secured.

### ***Other Contingencies***

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates, including but not limited to actions involving employment, wage-hour and labor law claims, lender liability claims, trust and estate administration claims, and consumer and privacy claims, some of which may be styled as class action or representative cases. Where appropriate, we establish reserves in accordance with FASB guidance over loss contingencies (ASC 450). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations. As of December 31, 2015, the Company does not have any litigation reserves.

The Company is involved in the following legal actions and complaints which we currently believe could be material to us.

A purported shareholder class action complaint was filed against the Company on August 23, 2010, 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

## **Table of Contents**

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). At the same time, 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. The consolidated complaint alleges that defendants, among other things, 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. Specifically, defendants are alleged to have violated applicable accounting rules and to have made misrepresentations in connection with the Company's allowance for loan loss methodology, loan underwriting guidelines, methodology for grading loans, and the process for making provisions for loan losses. The consolidated complaint sought compensatory damages and other relief in favor of the purported class.

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 this 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, which became a final, appealable order on September 30, 2013.

On October 24, 2013, the plaintiffs filed a notice of appeal of the District Court's final order of dismissal with the U.S. Court of Appeals for the Ninth Circuit. Following the filing of appellate briefs by the respective parties, the Court of Appeals conducted a hearing and oral argument in the case on December 10, 2015. On February 1, 2016, subsequent to the end of the reporting period covered by this Form 10-K, the Court of Appeals issued its decision in the case. This decision affirmed the district court's decision in part, reversed it in part and remanded the case for further proceedings in the District Court. Upon remand to the District Court, we expect to undertake discovery and motion practice with respect to the remaining claims of the plaintiffs which survived the appeal.

The Company intends to continue to vigorously contest and defend the plaintiff's allegations with respect to the remaining claims 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 named as defendants the members of our board of directors and also referred to unnamed defendants allegedly responsible for the conduct alleged. The Company was included as a nominal defendant. The complaint alleged breaches of fiduciary duties, abuse of control, gross mismanagement and corporate waste. Specifically, the complaint alleged, 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 loan portfolio. Plaintiff sought compensatory and exemplary damages to be paid by the defendants and awarded to the Company, as well as other relief.

## **Table of Contents**

On June 20, 2011, defendants filed a demurrer requesting dismissal of the derivative complaint. Following the filing by each side of additional motions, over the succeeding four year period, the parties filed repeated notices to postpone the Court's hearing on the defendants' demurrer, pending resolution of the consolidated federal securities shareholder class action complaint. However, on January 18, 2016, subsequent to the end of the reporting period covered by this Form 10-K, the Court signed a Minute Order agreeing to the parties' joint stipulation to dismiss the shareholder derivative action complaint without prejudice.

A former employee and service manager filed a complaint against the Company, on December 29, 2014, in an action entitled *Glenda Morgan v. Citizens Business Bank, et al.*, Case No. BC568004, in the Superior Court for Los Angeles County, individually and on behalf of the Company's branch-based employees and managers who are classified as exempt under California and federal employment laws. The case is styled as a putative class action lawsuit and alleges, among other things, that (i) the Company misclassified certain employees and managers as exempt employees, (ii) the Company violated California's wage and hour, overtime, meal break and rest break rules and regulations, (iii) certain employees did not receive proper expense reimbursements, (iv) the Company did not maintain accurate and complete payroll records, and (v) the Company engaged in unfair business practices. On February 11, 2015, the same law firm representing Morgan filed a second complaint, entitled *Jessica Osuna v. Citizens Business Bank, et al.*, Case No. CIVDS1501781, in the Superior Court for San Bernardino County, alleging wage and hour claims on behalf of the Company's non-exempt hourly employees. On April 6, 2015, these two cases were consolidated in a first amended complaint under the rubric of the Morgan case in Los Angeles County Superior Court. The first amended complaint seeks class certification, the appointment of the plaintiffs as class representatives, and an unspecified amount of damages and penalties.

On May 11, 2015, the Company filed its answer to the first amended complaint denying all allegations regarding the plaintiffs' claims and asserting various defenses. The parties are currently engaged in discovery, and briefing by the parties in connection with the class certification motion is not expected to commence until at least the summer of 2016. The Company intends to vigorously contest both (x) the allegations that the case should be certified as one or more class or representative actions as well as (y) the substantive merits of any consolidated lawsuit in the event that it is permitted to proceed.

We establish accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our accruals for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. We disclose the amount accrued if material or if such disclosure is necessary for our financial statements to not be misleading. If a loss is not both probable and reasonably estimable, or if an exposure to loss exists in excess of the amount previously accrued, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred, and we adjust our disclosures accordingly. Because the outcomes of the federal securities class action appeal and the consolidated wage-hour class action case summarized above are uncertain, we cannot predict any range of loss or even if any loss is probable related to these two actions. We do not presently believe that the ultimate resolution of any of the foregoing matters will have a material adverse effect on the Company's results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition, or cash flows.

## **16. EMPLOYEE BENEFIT PLANS**

### ***Deferred Compensation Plans***

As of December 31, 2015, the Company has various deferred compensation plans, and severance arrangements it assumed through the acquisition of other banks in prior years. These plans require the Company to make periodic payments to former employees upon retirement, upon a change in control, and in certain instances, to beneficiaries of former employees upon death. Payments made by the Company under these

## **Table of Contents**

agreements totaled approximately \$751,000, \$866,000 and \$881,000 for each of the years ended December 31, 2015, 2014 and 2013, respectively. The total expense recorded by the Company for these deferred compensation agreements was approximately \$600,000, \$544,000 and \$561,000 for each of the years ended December 31, 2015, 2014 and 2013, respectively.

On December 22, 2006, the Company approved a deferred compensation plan for its President and Chief Executive Officer, Christopher D. Myers. Under the plan, which became effective on January 1, 2007, Mr. Myers may defer up to 75% of his base salary and up to 100% of his bonus for each calendar year in which the Plan is effective. The Company has the discretion to make additional contributions to the Plan for the benefit of Mr. Myers. No discretionary payments were made by the Company during the years ended December 31, 2015, 2014 and 2013.

On March 31, 2007, the Company approved the Executive Non-qualified Excess Plan, a deferred compensation plan for certain management employees to provide a means by which they may elect to defer receipt of compensation in order to provide retirement benefits. The plan is intended to be unfunded and primarily serve the purpose of providing deferred compensation benefits for a select group of employees. The Bank, however, does fund the cost of these plans through the purchase of life insurance policies, which are recorded in other assets of the consolidated balance sheets. The amounts funded by employees totaled \$2.5 million as of December 31, 2015.

### ***401(k) and Profit Sharing Plan***

The Bank sponsors a 401(k) and profit-sharing plan for the benefit of its employees. Employees are eligible to participate in the plan immediately upon hire. Employees may make contributions to the plan under the plan's 401(k) component. The Bank contributes 3%, non-matching, to the plan to comply with ERISA's safe harbor provisions. The Bank may make additional contributions under the plan's profit-sharing component, subject to certain limitations. The Bank's total contributions are determined by the Board of Directors and amounted to approximately \$2.8 million in 2015, \$3.1 million in 2014 and \$2.7 million in 2013.

## **17. 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 years ended December 31, 2015, 2014 and 2013, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were 238,000, 213,000 and 744,000 million, respectively.

**Table of Contents**

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

|                                                                 | For the Year Ended December 31,                 |            |           |
|-----------------------------------------------------------------|-------------------------------------------------|------------|-----------|
|                                                                 | 2015                                            | 2014       | 2013      |
|                                                                 | <i>(In thousands, except per share amounts)</i> |            |           |
| <b>Earnings per common share:</b>                               |                                                 |            |           |
| Net earnings                                                    | \$ 99,145                                       | \$ 104,021 | \$ 95,608 |
| Less: Net earnings allocated to restricted stock                | 515                                             | 544        | 298       |
| Net earnings allocated to common shareholders                   | \$ 98,630                                       | \$ 103,477 | \$ 95,310 |
| Weighted average shares outstanding                             | 105,715                                         | 105,239    | 104,729   |
| Basic earnings per common share                                 | \$ 0.93                                         | \$ 0.98    | \$ 0.91   |
| <b>Diluted earnings per common share:</b>                       |                                                 |            |           |
| Net income allocated to common shareholders                     | \$ 98,630                                       | \$ 103,477 | \$ 95,310 |
| Weighted average shares outstanding                             | 105,715                                         | 105,239    | 104,729   |
| Incremental shares from assumed exercise of outstanding options | 477                                             | 520        | 397       |
| Diluted weighted average shares outstanding                     | 106,192                                         | 105,759    | 105,126   |
| Diluted earnings per common share                               | \$ 0.93                                         | \$ 0.98    | \$ 0.91   |

**18. STOCK OPTION PLANS AND RESTRICTED STOCK AWARDS**

In May 2008, the shareholders approved the 2008 Equity Incentive Plan which authorizes the issuance of up to 3,949,891 shares of Company common stock for grants of stock options and restricted stock to employees, officers, consultants and directors of the Company and its subsidiaries, and expires in 2018. The plan authorizes the issuance of incentive and non-qualified stock options, as well as, restricted stock awards. The 2008 Equity Incentive Plan replaced the 2000 Stock Option Plan. No further grants will be made under the 2000 Stock Option Plan, but shares may continue to be issued under such plan pursuant to grants previously made. As of December 31, 2015, we have 166,710 outstanding options under our 2000 Stock Option Plan.

**Stock Options**

The Company expensed \$549,000, \$876,000 and \$850,000, for the years ended December 31, 2015, 2014 and 2013, respectively.

The estimated fair value of the options granted during 2015 and prior years was calculated using the Black-Scholes options pricing model. There were 83,000, 169,000 and 45,000 options granted during 2015, 2014 and 2013, respectively. The options will vest, in equal installments, over a five-year period. The fair value of each stock option granted in 2015, 2014 and 2013, was estimated on the date of grant using the following weighted-average assumptions.

|                                        | For the Year Ended December 31, |           |           |
|----------------------------------------|---------------------------------|-----------|-----------|
|                                        | 2015                            | 2014      | 2013      |
| Dividend yield                         | 2.5%                            | 2.6%      | 2.9%      |
| Volatility                             | 47.7%                           | 50.3%     | 50.5%     |
| Risk-free interest rate                | 1.5%                            | 1.5%      | 1.2%      |
| Expected life                          | 6.1 years                       | 6.3 years | 6.6 years |
| Weighted average grant date fair value | \$ 5.83                         | \$ 5.70   | \$ 4.68   |

The expected volatility is solely based on the daily historical stock price volatility over the expected option life. The expected life of options granted is derived from the output of the option valuation model and represents



**Table of Contents**

the period of time an optionee will hold an option before exercising it. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury five-year constant maturity yield curve in effect at the time of the grant. The Company estimates its forfeiture rates based on its historical experience. The forfeiture rate for 2015 was 6.0%.

The following table presents option activity under the Company's stock option plans as of and for the year ended December 31, 2015.

|                                                 | Number of<br>Stock<br>Options<br>Outstanding<br>(In thousands) | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(In years) | Aggregate<br>Intrinsic Value<br>(In thousands) |
|-------------------------------------------------|----------------------------------------------------------------|---------------------------------------|-----------------------------------------------------------------------|------------------------------------------------|
| Outstanding at January 1, 2015                  | 1,688                                                          | \$ 10.92                              |                                                                       |                                                |
| Granted                                         | 83                                                             | 16.00                                 |                                                                       |                                                |
| Exercised                                       | (449)                                                          | 11.45                                 |                                                                       |                                                |
| Forfeited or expired                            | (34)                                                           | 13.11                                 |                                                                       |                                                |
| Outstanding at December 31, 2015                | 1,288                                                          | \$ 11.00                              | 4.63                                                                  | \$ 7,629                                       |
| Vested or expected to vest at December 31, 2015 | 1,251                                                          | \$ 10.93                              | 4.55                                                                  | \$ 7,502                                       |
| Exercisable at December 31, 2015                | 984                                                            | \$ 10.04                              | 3.64                                                                  | \$ 6,774                                       |

The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 was \$2.1 million, \$2.5 million and \$1.4 million, respectively.

As of December 31, 2015, there was a total of \$1.1 million in unrecognized compensation cost related to nonvested options granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 3.1 years. The total fair value of options vested was \$524,000, \$841,000 and \$918,000 during 2015, 2014 and 2013, respectively. Cash received from stock option exercises was \$5.1 million, \$5.5 million and \$4.5 million, in 2015, 2014 and 2013, respectively.

At December 31, 2015, options for the purchase of 1,288,438 shares of the Company's common stock were outstanding under the above plans, of which options to purchase 984,238 shares were exercisable at prices ranging from \$7.68 to \$16.97.

The Company has a policy of issuing new shares to satisfy share option exercises.

**Restricted Stock**

Under the 2008 Equity Incentive Plan, the Company granted 97,000, 400,000 and 100,000 restricted stock awards during 2015, 2014 and 2013 respectively. The weighted average grant date fair value of restricted stock awards granted in 2015, 2014 and 2013 was \$16.07 per share, \$14.78 per share and \$13.25 per share, respectively. These awards will vest, in equal installments, over a five-year period.

Compensation cost is recognized over the requisite service period, which is five years, and amounted to \$2.2 million, \$2.1 million and \$1.1 million during the years ended December 31, 2015, 2014 and 2013, respectively. Total unrecognized compensation cost related to restricted stock awards was \$5.5 million at December 31, 2015.

**Table of Contents**

The table below summarizes activity related to the Company's non-vested restricted shares for the year ended December 31, 2015.

|                                | <b>Shares</b><br><i>(In thousands)</i> | <b>Weighted</b><br><b>Average Fair Value</b> |
|--------------------------------|----------------------------------------|----------------------------------------------|
| Nonvested at January 1, 2015   | 570                                    | \$ 13.81                                     |
| Granted                        | 97                                     | 16.07                                        |
| Vested                         | (157)                                  | 12.81                                        |
| Forfeited                      | (4)                                    | 14.94                                        |
| Nonvested at December 31, 2015 | 506                                    | \$ 14.55                                     |

Under the 2008 Equity Incentive Plan, 843,392 shares of common stock were available for the granting of future options and restricted stock awards as of December 31, 2015.

**19. REGULATORY MATTERS**

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct, material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk-weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Effective January 1, 2015, the Company and the Bank became subject to a new regulatory capital measure called common equity Tier 1 to risk-weighted assets which was implemented as a result of the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital, Tier 1 capital and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2015 and 2014, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2015 and 2014, the most recent notifications from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based, and Tier 1 leverage (tangible Tier 1 capital divided by average total assets) ratios as set forth in the table below must be maintained. There are no conditions or events since said notification that management believes have changed the Bank's category.

**Table of Contents**

As of December 31, 2015 and 2014, the Company had \$25.0 million of trust-preferred securities, which were included in Tier 1 capital for regulatory purposes, respectively. The following table summarizes regulatory capital amounts and ratios for the Company and the Bank as of December 31, 2015 and 2014.

|                                                 | Actual     |        | For Capital Adequacy Purposes |              |        |       | To Be Well Capitalized under Prompt Corrective Action Provisions |              |        |        |
|-------------------------------------------------|------------|--------|-------------------------------|--------------|--------|-------|------------------------------------------------------------------|--------------|--------|--------|
|                                                 | Amount     | Ratio  | Amount                        | Ratio        | Amount | Ratio | Amount                                                           | Ratio        | Amount | Ratio  |
| <b>As of December 31, 2015:</b>                 |            |        |                               |              |        |       |                                                                  |              |        |        |
| <b>Total Capital (to Risk-Weighted Assets)</b>  |            |        |                               |              |        |       |                                                                  |              |        |        |
| Company                                         | \$ 914,972 | 18.23% | \$ 401,532                    | <sup>3</sup> | 8.00%  |       |                                                                  |              |        | N/A    |
| Bank                                            | \$ 905,563 | 18.06% | \$ 401,053                    | <sup>3</sup> | 8.00%  |       | \$ 501,316                                                       | <sup>3</sup> |        | 10.00% |
| <b>Tier 1 Capital (to Risk-Weighted Assets)</b> |            |        |                               |              |        |       |                                                                  |              |        |        |
| Company                                         | \$ 852,189 | 16.98% | \$ 301,149                    | <sup>3</sup> | 6.00%  |       |                                                                  |              |        | N/A    |
| Bank                                            | \$ 842,854 | 16.81% | \$ 300,790                    | <sup>3</sup> | 6.00%  |       | \$ 401,053                                                       | <sup>3</sup> |        | 8.00%  |
| <b>Common equity Tier 1 capital ratio</b>       |            |        |                               |              |        |       |                                                                  |              |        |        |
| Company                                         | \$ 827,547 | 16.49% | \$ 225,861                    | <sup>3</sup> | 4.50%  |       |                                                                  |              |        | N/A    |
| Bank                                            | \$ 842,854 | 16.81% | \$ 225,592                    | <sup>3</sup> | 4.50%  |       | \$ 325,856                                                       | <sup>3</sup> |        | 6.50%  |
| <b>Tier 1 Capital (to Average-Assets)</b>       |            |        |                               |              |        |       |                                                                  |              |        |        |
| Company                                         | \$ 852,189 | 11.22% | \$ 303,794                    | <sup>3</sup> | 4.00%  |       |                                                                  |              |        | N/A    |
| Bank                                            | \$ 842,854 | 11.11% | \$ 303,527                    | <sup>3</sup> | 4.00%  |       | \$ 379,409                                                       | <sup>3</sup> |        | 5.00%  |
| <b>As of December 31, 2014:</b>                 |            |        |                               |              |        |       |                                                                  |              |        |        |
| <b>Total Capital (to Risk-Weighted Assets)</b>  |            |        |                               |              |        |       |                                                                  |              |        |        |
| Company                                         | \$ 853,147 | 18.24% | \$ 374,144                    | <sup>3</sup> | 8.00%  |       |                                                                  |              |        | N/A    |
| Bank                                            | \$ 845,951 | 18.11% | \$ 373,758                    | <sup>3</sup> | 8.00%  |       | \$ 467,197                                                       | <sup>3</sup> |        | 10.00% |
| <b>Tier 1 Capital (to Risk-Weighted Assets)</b> |            |        |                               |              |        |       |                                                                  |              |        |        |
| Company                                         | \$ 794,576 | 16.99% | \$ 187,072                    | <sup>3</sup> | 4.00%  |       |                                                                  |              |        | N/A    |
| Bank                                            | \$ 787,439 | 16.85% | \$ 186,879                    | <sup>3</sup> | 4.00%  |       | \$ 280,318                                                       | <sup>3</sup> |        | 6.00%  |
| <b>Tier 1 Capital (to Average-Assets)</b>       |            |        |                               |              |        |       |                                                                  |              |        |        |
| Company                                         | \$ 794,576 | 10.86% | \$ 292,615                    | <sup>3</sup> | 4.00%  |       |                                                                  |              |        | N/A    |
| Bank                                            | \$ 787,439 | 10.77% | \$ 292,392                    | <sup>3</sup> | 4.00%  |       | \$ 365,490                                                       | <sup>3</sup> |        | 5.00%  |

In addition, California Banking Law limits the amount of dividends a bank can pay without obtaining prior approval from bank regulators. Under this law, the Bank could, as of December 31, 2015, declare and pay additional dividends of approximately \$152.5 million.

**20. 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 December 31, 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* includes assets and liabilities that have an active market that provides an objective quoted value for each unit. Here the active market quoted value is used to measure the fair value. Level 1 has the most objective measurement of fair value. Level 2 is less objective and Level 3 is the least objective (most subjective) in estimating fair value.

## **Table of Contents**

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

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

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

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

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

There were no transfers in and out of Level 1 and Level 2 during the years ended December 31, 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.

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

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

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

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

*Investment Securities Held to Maturity* Investment securities held-to-maturity are generally valued based upon quotes obtained from an independent third-party pricing service, which uses evaluated pricing applications and model processes. Observable market inputs, such as, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data are considered as part of the evaluation. The inputs are related directly to the security being evaluated, or indirectly

## **Table of Contents**

to a similarly situated security. Market assumptions and market data are utilized in the valuation models. The Company reviews the market prices provided by the third-party pricing service for reasonableness based on the Company's understanding of the market place and credit issues related to the securities. The Company has not made any adjustments to the market quotes provided by them and, accordingly, the Company categorized its investment portfolio within Level 2 of the fair value hierarchy. The held-to-maturity CMO investment is valued based upon quotes obtained from an independent third-party pricing service. The Company categorized its held-to-maturity CMO investment as Level 3.

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

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

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

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

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

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

**Table of Contents****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

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

|                                        | Carrying Value at<br>December 31, 2015 | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1)<br><i>(Dollars in thousands)</i> | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|----------------------------------------|----------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
| <b>Description of assets</b>           |                                        |                                                                                                          |                                                     |                                                 |
| Investment securities AFS:             |                                        |                                                                                                          |                                                     |                                                 |
| Government agency/GSEs                 | \$ 5,745                               | \$                                                                                                       | \$ 5,745                                            | \$                                              |
| Residential mortgage-backed securities | 1,813,097                              |                                                                                                          | 1,813,097                                           |                                                 |
| CMOs/REMICs residential                | 383,781                                |                                                                                                          | 383,781                                             |                                                 |
| Municipal bonds                        | 160,973                                |                                                                                                          | 160,973                                             |                                                 |
| Other securities                       | 5,050                                  |                                                                                                          | 5,050                                               |                                                 |
| Total investment securities AFS        | 2,368,646                              |                                                                                                          | 2,368,646                                           |                                                 |
| Interest rate swaps                    | 9,344                                  |                                                                                                          | 9,344                                               |                                                 |
| Total assets                           | \$ 2,377,990                           | \$                                                                                                       | \$ 2,377,990                                        | \$                                              |
| <b>Description of liability</b>        |                                        |                                                                                                          |                                                     |                                                 |
| Interest rate swaps                    | \$ 9,344                               | \$                                                                                                       | \$ 9,344                                            | \$                                              |
| Total liabilities                      | \$ 9,344                               | \$                                                                                                       | \$ 9,344                                            | \$                                              |

|                                        | Carrying Value<br>at<br>December 31, 2014 | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1)<br><i>(Dollars in thousands)</i> | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|----------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
| <b>Description of assets</b>           |                                           |                                                                                                          |                                                     |                                                 |
| Investment securities AFS:             |                                           |                                                                                                          |                                                     |                                                 |
| Government agency/GSEs                 | \$ 330,843                                | \$                                                                                                       | \$ 330,843                                          | \$                                              |
| Residential mortgage-backed securities | 1,917,496                                 |                                                                                                          | 1,917,496                                           |                                                 |
| CMOs/REMICs 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                                        | \$                                              |
| <b>Description of liability</b>        |                                           |                                                                                                          |                                                     |                                                 |
| Interest rate swaps                    | \$ 10,080                                 | \$                                                                                                       | \$ 10,080                                           | \$                                              |
| Total liabilities                      | \$ 10,080                                 | \$                                                                                                       | \$ 10,080                                           | \$                                              |

**Table of Contents****Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

We may be required to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or fair value accounting or write-downs of individual assets. For assets measured at fair value on a non-recurring basis that were held on the balance sheet at December 31, 2015 and 2014, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets that had losses during the period.

|                                      | Carrying Value at<br>December 31, 2015 | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2)<br><i>(Dollars in thousands)</i> | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total Losses<br>For the Year Ended<br>December 31,<br>2015 |
|--------------------------------------|----------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------|
| <b>Description of assets</b>         |                                        |                                                                         |                                                                                      |                                                    |                                                            |
| Impaired loans, excluding PCI Loans: |                                        |                                                                         |                                                                                      |                                                    |                                                            |
| Commercial and industrial            | \$ 228                                 | \$                                                                      | \$                                                                                   | \$ 228                                             | \$ 228                                                     |
| SBA                                  | 41                                     |                                                                         |                                                                                      | 41                                                 | 15                                                         |
| Real estate:                         |                                        |                                                                         |                                                                                      |                                                    |                                                            |
| Commercial real estate               |                                        |                                                                         |                                                                                      |                                                    |                                                            |
| Construction                         | 7,651                                  |                                                                         |                                                                                      | 7,651                                              | 13                                                         |
| SFR mortgage                         | 588                                    |                                                                         |                                                                                      | 588                                                | 20                                                         |
| Dairy & livestock and agribusiness   |                                        |                                                                         |                                                                                      |                                                    |                                                            |
| Consumer and other loans             | 258                                    |                                                                         |                                                                                      | 258                                                | 101                                                        |
| Other real estate owned              | 948                                    |                                                                         |                                                                                      | 948                                                | 162                                                        |
| Total assets                         | \$ 9,714                               | \$                                                                      | \$                                                                                   | \$ 9,714                                           | \$ 539                                                     |

|                                      | Carrying Value at<br>December 31, 2014 | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2)<br><i>(Dollars in thousands)</i> | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total Losses<br>For the Year Ended<br>December 31,<br>2014 |
|--------------------------------------|----------------------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------|
| <b>Description of assets</b>         |                                        |                                                                            |                                                                                      |                                                    |                                                            |
| 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 December 31, 2015 and 2014, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

|                                                            | Carrying<br>Amount | December 31, 2015    |                        |           | Total        |
|------------------------------------------------------------|--------------------|----------------------|------------------------|-----------|--------------|
|                                                            |                    | Estimated Fair Value |                        |           |              |
|                                                            |                    | Level 1              | Level 2                | Level 3   |              |
|                                                            |                    |                      | (Dollars in thousands) |           |              |
| Assets                                                     |                    |                      |                        |           |              |
| Total cash and cash equivalents                            | \$ 106,097         | \$ 106,097           | \$                     | \$        | \$ 106,097   |
| Interest-earning balances due from depository institutions | 32,691             |                      | 32,691                 |           | 32,691       |
| FHLB stock                                                 | 17,588             |                      | 17,588                 |           | 17,588       |
| Investment securities available-for-sale                   | 2,368,646          |                      | 2,368,646              |           | 2,368,646    |
| Investment securities held-to-maturity                     | 850,989            |                      | 851,186                | 1,853     | 853,039      |
| Total loans, net of allowance for loan losses              | 3,957,781          |                      |                        | 3,971,329 | 3,971,329    |
| Swaps                                                      | 9,344              |                      | 9,344                  |           | 9,344        |
| Liabilities                                                |                    |                      |                        |           |              |
| Deposits:                                                  |                    |                      |                        |           |              |
| Noninterest-bearing                                        | \$ 3,250,174       | 3,250,174            | \$                     | \$        | \$ 3,250,174 |
| Interest-bearing                                           | 2,667,086          |                      | 2,666,186              |           | 2,666,186    |
| Borrowings                                                 | 736,704            |                      | 736,575                |           | 736,575      |
| Junior subordinated debentures                             | 25,774             |                      | 27,210                 |           | 27,210       |
| Swaps                                                      | 9,344              |                      | 9,344                  |           | 9,344        |

|                                                            | December 31, 2014  |                        |           |           |              |
|------------------------------------------------------------|--------------------|------------------------|-----------|-----------|--------------|
|                                                            | Carrying<br>Amount | Estimated Fair Value   |           |           | Total        |
|                                                            |                    | Level 1                | Level 2   | Level 3   |              |
|                                                            |                    | (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       |
| Investment securities available-for-sale                   | 3,137,158          |                        | 3,137,158 |           | 3,137,158    |
| Investment securities held-to-maturity                     | 1,528              |                        |           | 2,177     | 2,177        |
| 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       |

## **Table of Contents**

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

### **21. BUSINESS SEGMENTS**

The Company has identified two principal reportable segments: Business Financial and Commercial Banking Centers (Centers) and the Treasury Department. The Bank has 40 Business Financial Centers and eight Commercial Banking Centers organized in geographic regions, which are the focal points for customer sales and services. The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank which is the basis for determining the Bank's reportable segments. The chief operating decision maker (currently our CEO) regularly reviews the financial information of these segments in deciding how to allocate resources and to assess performance. Centers are considered one operating segment as their products and services are similar and are sold to similar types of customers, have similar production and distribution processes, have similar economic characteristics, and have similar reporting and organizational structures. The Treasury Department's primary focus is managing the Bank's investments, liquidity and interest rate risk. Information related to the Company's remaining operating segments, which include construction lending, dairy & livestock and agribusiness lending, leasing, CitizensTrust, and centralized functions have been aggregated and included in Other. In addition, the Company allocates internal funds transfer pricing to the segments using a methodology that charges users of funds interest expense and credits providers of funds interest income with the net effect of this allocation being recorded in administration.

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

**Table of Contents**

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

|                                                                  | Centers      | For the Year Ended December 31, 2015 |            |                | Total        |
|------------------------------------------------------------------|--------------|--------------------------------------|------------|----------------|--------------|
|                                                                  |              | Treasury                             | Other      | Eliminations   |              |
|                                                                  |              | (Dollars in thousands)               |            |                |              |
| Interest income, including loan fees                             | \$ 143,577   | \$ 75,914                            | \$ 42,022  | \$             | \$ 261,513   |
| Credit for funds provided (1)                                    | 34,876       |                                      | 52,193     | (87,069)       |              |
| Total interest income                                            | 178,453      | 75,914                               | 94,215     | (87,069)       | 261,513      |
| Interest expense                                                 | 6,584        | 1,611                                | 376        |                | 8,571        |
| Charge for funds used (1)                                        | 4,236        | 62,137                               | 20,696     | (87,069)       |              |
| Total interest expense                                           | 10,820       | 63,748                               | 21,072     | (87,069)       | 8,571        |
| Net interest income                                              | 167,633      | 12,166                               | 73,143     |                | 252,942      |
| Recapture of provision for loan losses                           |              |                                      | (5,600)    |                | (5,600)      |
| Net interest income after recapture of provision for loan losses | 167,633      | 12,166                               | 78,743     |                | 258,542      |
| Noninterest income                                               | 20,677       | (22)                                 | 12,828     |                | 33,483       |
| Noninterest expense                                              | 48,568       | 859                                  | 77,362     |                | 126,789      |
| Debt termination expense                                         |              | 13,870                               |            |                | 13,870       |
| Segment pre-tax profit (loss)                                    | \$ 139,742   | \$ (2,585)                           | \$ 14,209  | \$             | \$ 151,366   |
| Segment assets as of December 31, 2015                           | \$ 6,458,711 | \$ 3,345,060                         | \$ 804,258 | \$ (2,936,829) | \$ 7,671,200 |

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

|                                        | Centers    | For the Year Ended December 31, 2014 |           |              | Total      |
|----------------------------------------|------------|--------------------------------------|-----------|--------------|------------|
|                                        |            | Treasury                             | Other     | Eliminations |            |
|                                        |            | (Dollars in thousands)               |           |              |            |
| Interest income, including loan fees   | \$ 139,061 | \$ 71,369                            | \$ 42,473 | \$           | \$ 252,903 |
| Credit for funds provided (1)          | 31,188     |                                      | 46,770    | (77,958)     |            |
| Total interest income                  | 170,249    | 71,369                               | 89,243    | (77,958)     | 252,903    |
| Interest expense                       | 6,494      | 9,590                                | 305       |              | 16,389     |
| Charge for funds used (1)              | 3,823      | 54,885                               | 19,250    | (77,958)     |            |
| Total interest expense                 | 10,317     | 64,475                               | 19,555    | (77,958)     | 16,389     |
| Net interest income                    | 159,932    | 6,894                                | 69,688    |              | 236,514    |
| Recapture of provision for loan losses |            |                                      | (16,100)  |              | (16,100)   |
|                                        | 159,932    | 6,894                                | 85,788    |              | 252,614    |

# Edgar Filing: CVB FINANCIAL CORP - Form 10-K

Net interest income after recapture of provision for  
loan losses

|                                        |              |              |            |                |              |
|----------------------------------------|--------------|--------------|------------|----------------|--------------|
| Noninterest income                     | 20,513       |              | 15,899     |                | 36,412       |
| Noninterest expense                    | 47,493       | 784          | 77,952     |                | 126,229      |
| Debt termination expense               |              |              |            |                |              |
| Segment pre-tax profit                 | \$ 132,952   | \$ 6,110     | \$ 23,735  | \$             | \$ 162,797   |
| Segment assets as of December 31, 2014 | \$ 6,002,390 | \$ 3,268,551 | \$ 757,093 | \$ (2,650,114) | \$ 7,377,920 |

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

**Table of Contents**

|                                                                  | Centers      | For the Year Ended December 31, 2013 |                               |                | Total        |
|------------------------------------------------------------------|--------------|--------------------------------------|-------------------------------|----------------|--------------|
|                                                                  |              | Treasury                             | Other                         | Eliminations   |              |
|                                                                  |              |                                      | <i>(Dollars in thousands)</i> |                |              |
| Interest income, including loan fees                             | \$ 139,369   | \$ 53,234                            | \$ 40,170                     | \$             | \$ 232,773   |
| Credit for funds provided (1)                                    | 26,754       |                                      | 41,987                        | (68,741)       |              |
| Total interest income                                            | 166,123      | 53,234                               | 82,157                        | (68,741)       | 232,773      |
| Interest expense                                                 | 6,137        | 9,700                                | 670                           |                | 16,507       |
| Charge for funds used (1)                                        | 3,193        | 45,269                               | 20,279                        | (68,741)       |              |
| Total interest expense                                           | 9,330        | 54,969                               | 20,949                        | (68,741)       | 16,507       |
| Net interest income                                              | 156,793      | (1,735)                              | 61,208                        |                | 216,266      |
| Recapture of provision for loan losses                           |              |                                      | (16,750)                      |                | (16,750)     |
| Net interest income after recapture of provision for loan losses | 156,793      | (1,735)                              | 77,958                        |                | 233,016      |
| Noninterest income                                               | 20,733       | 2,094                                | 2,460                         |                | 25,287       |
| Noninterest expense                                              | 45,268       | 714                                  | 68,046                        |                | 114,028      |
| Debt termination expense                                         |              |                                      |                               |                |              |
| Segment pre-tax profit (loss)                                    | \$ 132,258   | \$ (355)                             | \$ 12,372                     | \$             | \$ 144,275   |
| Segment assets as of December 31, 2013                           | \$ 5,405,939 | \$ 2,866,760                         | \$ 710,844                    | \$ (2,318,576) | \$ 6,664,967 |

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

**22. 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 December 31, 2015, the Bank has entered into 77 interest-rate swap agreements with customers. The Bank then entered into identical offsetting swaps with a counterparty bank. The swap agreements are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and to provide the customer the financial effects of a fixed-rate loan without creating significant volatility in the Bank's earnings.

The structure of the swaps is as follows. The Bank enters into a swap with its customers to allow them to convert variable rate loans to fixed rate loans, and at the same time, the Bank enters into a swap with the counterparty bank to allow the Bank to pass on the interest-rate risk associated with fixed rate loans. The net effect of the transaction allows the Bank to receive interest on the loan from the customer at a variable rate based on LIBOR plus a spread. The changes in the fair value of the swaps primarily offset each other and therefore should not have a significant impact on the Company's results of operations, although the Company does incur credit and counterparty risk with respect to performance on the swap agreements by the Bank's customer and counterparty, respectively. Our interest rate swap derivatives are subject to a master netting arrangement with one counterparty bank. None of our derivative assets and liabilities are offset in the balance sheet.

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

**Table of Contents****Balance Sheet Classification of Derivative Financial Instruments**

As of December 31, 2015 and 2014, the total notional amount of the Company's swaps was \$189.0 million and \$197.4 million, respectively. The location of the asset and liability, and their respective fair values are summarized in the tables below.

|                                                    | December 31, 2015                              |               |                                                    |               |
|----------------------------------------------------|------------------------------------------------|---------------|----------------------------------------------------|---------------|
|                                                    | Asset Derivatives<br>Balance Sheet<br>Location | Fair<br>Value | Liability Derivatives<br>Balance Sheet<br>Location | Fair<br>Value |
| <i>(Dollars in thousands)</i>                      |                                                |               |                                                    |               |
| Derivatives not designated as hedging instruments: |                                                |               |                                                    |               |
| Interest rate swaps                                | Other assets                                   | \$ 9,344      | Other liabilities                                  | \$ 9,344      |
| Total derivatives                                  |                                                | \$ 9,344      |                                                    | \$ 9,344      |

|                                                    | December 31, 2014                              |               |                                                    |               |
|----------------------------------------------------|------------------------------------------------|---------------|----------------------------------------------------|---------------|
|                                                    | Asset Derivatives<br>Balance Sheet<br>Location | Fair<br>Value | Liability Derivatives<br>Balance Sheet<br>Location | Fair<br>Value |
| <i>(Dollars in thousands)</i>                      |                                                |               |                                                    |               |
| Derivatives not designated as hedging instruments: |                                                |               |                                                    |               |
| Interest rate swaps                                | Other assets                                   | \$ 10,080     | Other liabilities                                  | \$ 10,080     |
| Total derivatives                                  |                                                | \$ 10,080     |                                                    | \$ 10,080     |

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

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

| Derivatives Not<br>Designated as Hedging<br>Instruments | Location of Gain<br>Recognized in Income on<br>Derivative Instruments | Amount of Gain Recognized in<br>Income on Derivative Instruments<br>For the Year Ended December 31, |        |      |
|---------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|--------|------|
|                                                         |                                                                       | 2015                                                                                                | 2014   | 2013 |
|                                                         |                                                                       | (Dollars in thousands)                                                                              |        |      |
| Interest rate swaps                                     | Other income                                                          | \$ 333                                                                                              | \$ 133 | \$   |
| Total                                                   |                                                                       | \$ 333                                                                                              | \$ 133 | \$   |

**Table of Contents****23. OTHER COMPREHENSIVE INCOME (LOSS)**

The tables below provide a summary of the components of OCI for the periods presented.

|                                                                                                                         | For the Year Ended December 31, |                    |             |            |                    |           |             |                    |             |
|-------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------|-------------|------------|--------------------|-----------|-------------|--------------------|-------------|
|                                                                                                                         | Before-tax                      | 2015<br>Tax effect | After-tax   | Before-tax | 2014<br>Tax effect | After-tax | Before-tax  | 2013<br>Tax effect | After-tax   |
|                                                                                                                         | <i>(Dollars in thousands)</i>   |                    |             |            |                    |           |             |                    |             |
| Investment securities:                                                                                                  |                                 |                    |             |            |                    |           |             |                    |             |
| Net change in fair value recorded in accumulated OCI                                                                    | \$ (22,667)                     | \$ (9,519)         | \$ (13,148) | \$ 69,661  | \$ 29,256          | \$ 40,405 | \$ (88,562) | \$ (37,196)        | \$ (51,366) |
| Cumulative-effect adjustment for unrealized gains on securities transferred from available-for-sale to held-to-maturity | 6,690                           | 2,808              | 3,882       |            |                    |           |             |                    |             |
| Amortization of unrealized gains on securities transferred from available-for-sale to held-to-maturity                  | (1,573)                         | (660)              | (913)       |            |                    |           |             |                    |             |
| Net realized loss (gain) reclassified into earnings                                                                     | 22                              | 9                  | 13          |            |                    |           | (2,094)     | (879)              | (1,215)     |
| Net change                                                                                                              | \$ (17,528)                     | \$ (7,362)         | \$ (10,166) | \$ 69,661  | \$ 29,256          | \$ 40,405 | \$ (90,656) | \$ (38,075)        | \$ (52,581) |

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

|                                                      | Investment<br>Securities<br><i>(Dollars in thousands)</i> |
|------------------------------------------------------|-----------------------------------------------------------|
| Balance, January 1, 2014                             | \$ (9,330)                                                |
| Net change in fair value recorded in accumulated OCI | 40,405                                                    |
| Net realized loss reclassified into earnings         |                                                           |
| Balance, December 31, 2014                           | \$ 31,075                                                 |
| Net change in fair value recorded in accumulated OCI | (10,179)                                                  |
| Net realized loss reclassified into earnings         | 13                                                        |
| Balance, December 31, 2015                           | \$ 20,909                                                 |

**Table of Contents****24. 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 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 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 consolidated balances.

|                                                   | <b>Gross Amounts<br/>Recognized in the<br/>Consolidated<br/>Balance Sheets</b> | <b>Gross Amounts<br/>offset in the<br/>Consolidated<br/>Balance<br/>Sheets</b> | <b>Net Amounts of<br/>Assets Presented in<br/>the Consolidated<br/>Balance Sheets</b> | <b>Gross Amounts Not Offset in the<br/>Consolidated<br/>Balance Sheets<br/>Financial<br/>Instruments</b> | <b>Collateral<br/>Pledged</b> | <b>Net Amount</b> |
|---------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-------------------------------|-------------------|
| <i>(Dollars in thousands)</i>                     |                                                                                |                                                                                |                                                                                       |                                                                                                          |                               |                   |
| <b>December 31, 2015</b>                          |                                                                                |                                                                                |                                                                                       |                                                                                                          |                               |                   |
| <b>Financial assets:</b>                          |                                                                                |                                                                                |                                                                                       |                                                                                                          |                               |                   |
| Derivatives not designated as hedging instruments | \$ 9,344                                                                       | \$                                                                             | \$                                                                                    | \$ 9,344                                                                                                 | \$                            | \$ 9,344          |
| Total                                             | \$ 9,344                                                                       | \$                                                                             | \$                                                                                    | \$ 9,344                                                                                                 | \$                            | \$ 9,344          |
| <b>Financial liabilities:</b>                     |                                                                                |                                                                                |                                                                                       |                                                                                                          |                               |                   |
| Derivatives not designated as hedging instruments | \$ 9,348                                                                       | \$ (4)                                                                         | \$ 9,344                                                                              | \$ 4                                                                                                     | \$ (16,572)                   | \$ (7,224)        |
| Repurchase agreements                             | 690,704                                                                        |                                                                                | 690,704                                                                               |                                                                                                          | (721,102)                     | (30,398)          |
| Total                                             | \$ 700,052                                                                     | \$ (4)                                                                         | \$ 700,048                                                                            | \$ 4                                                                                                     | \$ (737,674)                  | \$ (37,622)       |
| <b>December 31, 2014</b>                          |                                                                                |                                                                                |                                                                                       |                                                                                                          |                               |                   |
| <b>Financial assets:</b>                          |                                                                                |                                                                                |                                                                                       |                                                                                                          |                               |                   |
| Derivatives not designated as hedging instruments | \$ 10,080                                                                      | \$                                                                             | \$                                                                                    | \$ 10,080                                                                                                | \$                            | \$ 10,080         |
| Total                                             | \$ 10,080                                                                      | \$                                                                             | \$                                                                                    | \$ 10,080                                                                                                | \$                            | \$ 10,080         |
| <b>Financial liabilities:</b>                     |                                                                                |                                                                                |                                                                                       |                                                                                                          |                               |                   |
| 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****25. CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY**

The following tables provide the parent company only condensed balance sheets, condensed statements of earnings and condensed statements of cash flows for the periods presented.

**CVB FINANCIAL CORP.****CONDENSED BALANCE SHEETS**

|                                                | <b>As of December 31,</b>     |                  |
|------------------------------------------------|-------------------------------|------------------|
|                                                | <b>2015</b>                   | <b>2014</b>      |
|                                                | <i>(Dollars in thousands)</i> |                  |
| <b>Assets</b>                                  |                               |                  |
| Investment in subsidiaries                     | \$ 939,064                    | \$ 895,972       |
| Other assets, net                              | 23,642                        | 19,069           |
| <br>Total assets                               | <br>\$ 962,706                | <br>\$ 915,041   |
| <b>Liabilities</b>                             | <b>\$ 39,307</b>              | <b>\$ 36,932</b> |
| Stockholders' equity                           | 923,399                       | 878,109          |
| <br>Total liabilities and stockholders' equity | <br>\$ 962,706                | <br>\$ 915,041   |

**CVB FINANCIAL CORP.****CONDENSED STATEMENTS OF EARNINGS**

|                                        | <b>For the Year Ended December 31,</b> |                |               |
|----------------------------------------|----------------------------------------|----------------|---------------|
|                                        | <b>2015</b>                            | <b>2014</b>    | <b>2013</b>   |
|                                        | <i>(Dollars in thousands)</i>          |                |               |
| Excess in net earnings of subsidiaries | \$ 53,259                              | \$ 66,119      | \$ 33,149     |
| Dividends from the Bank                | 49,000                                 | 41,000         | 63,000        |
| Other expense, net                     | (3,114)                                | (3,098)        | (541)         |
| <br>Net earnings                       | <br>\$ 99,145                          | <br>\$ 104,021 | <br>\$ 95,608 |

**Table of Contents****CVB FINANCIAL CORP.****CONDENSED STATEMENTS OF CASH FLOWS**

|                                                                             | 2015                          | For the Year Ended December 31,<br>2014 | 2013      |
|-----------------------------------------------------------------------------|-------------------------------|-----------------------------------------|-----------|
|                                                                             | <i>(Dollars in thousands)</i> |                                         |           |
| <b>Cash Flows from Operating Activities</b>                                 |                               |                                         |           |
| Net earnings                                                                | \$ 99,145                     | \$ 104,021                              | \$ 95,608 |
| Adjustments to reconcile net earnings to cash used in operating activities: |                               |                                         |           |
| Earnings of subsidiaries                                                    | (102,259)                     | (107,119)                               | (96,149)  |
| Tax settlement received from the Bank                                       | 1,233                         | 1,812                                   | 1,903     |
| Stock-based compensation                                                    | 2,733                         | 2,988                                   | 1,926     |
| Other operating activities, net                                             | (2,180)                       | (3,080)                                 | 241       |
| Total adjustments                                                           | (100,473)                     | (105,399)                               | (92,079)  |
| Net cash (used in) provided by operating activities                         | (1,328)                       | (1,378)                                 | 3,529     |
| <b>Cash Flows from Investing Activities</b>                                 |                               |                                         |           |
| Dividends received from the Bank                                            | 49,000                        | 41,000                                  | 63,000    |
| Net cash provided by investing activities                                   | 49,000                        | 41,000                                  | 63,000    |
| <b>Cash Flows from Financing Activities</b>                                 |                               |                                         |           |
| Repayment of junior subordinated debentures                                 |                               |                                         | (41,238)  |
| Cash dividends on common stock                                              | (48,862)                      | (42,298)                                | (29,939)  |
| Proceeds from exercise of stock options                                     | 5,144                         | 5,522                                   | 4,517     |
| Tax benefit related to exercise of stock options                            | 308                           | 1,116                                   | 475       |
| Repurchase of common stock                                                  | (834)                         | (5,474)                                 | (559)     |
| Net cash used in financing activities                                       | (44,244)                      | (41,134)                                | (66,744)  |
| <b>Net increase (decrease) in cash and cash equivalents</b>                 | 3,428                         | (1,512)                                 | (215)     |
| <b>Cash and cash equivalents, beginning of period</b>                       | 13,532                        | 15,044                                  | 15,259    |
| <b>Cash and cash equivalents, end of period</b>                             | \$ 16,960                     | \$ 13,532                               | \$ 15,044 |

**26. QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table sets forth our unaudited, quarterly results for the periods indicated.

|                                        | December 31,                                            | For the Three Months Ended<br>September 30, | June 30,  | March 31, |
|----------------------------------------|---------------------------------------------------------|---------------------------------------------|-----------|-----------|
|                                        | <i>(Dollars in thousands, except per share amounts)</i> |                                             |           |           |
| <b>2015</b>                            |                                                         |                                             |           |           |
| Net interest income                    | \$ 63,258                                               | \$ 65,917                                   | \$ 62,758 | \$ 61,009 |
| Recapture of provision for loan losses | (1,100)                                                 | (2,500)                                     | (2,000)   |           |
| Net earnings                           | 28,613                                                  | 27,886                                      | 26,813    | 15,833    |
| Basic earnings per common share        | 0.27                                                    | 0.26                                        | 0.25      | 0.15      |

# Edgar Filing: CVB FINANCIAL CORP - Form 10-K

|                                        |           |           |           |           |
|----------------------------------------|-----------|-----------|-----------|-----------|
| Diluted earnings per common share      | 0.27      | 0.26      | 0.25      | 0.15      |
| <b>2014</b>                            |           |           |           |           |
| Net interest income                    | \$ 61,175 | \$ 61,238 | \$ 57,159 | \$ 56,942 |
| Recapture of provision for loan losses |           | (1,000)   | (7,600)   | (7,500)   |
| Net earnings                           | 25,581    | 24,295    | 25,484    | 28,661    |
| Basic earnings per common share        | 0.24      | 0.23      | 0.24      | 0.27      |
| Diluted earnings per common share      | 0.24      | 0.23      | 0.24      | 0.27      |

**Table of Contents**

**INDEX TO EXHIBITS**

**Exhibit No.**

|          |                                                                                                                                                                                                                                                                                                  |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1      | Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of San Joaquin Bank, Bakersfield, California, the Federal Deposit Insurance Corporation and Citizens Business Bank, dated as of October 16, 2009, and related addendum. (1) |
| 3.1      | Articles of Incorporation of CVB Financial Corp., as amended (2)                                                                                                                                                                                                                                 |
| 3.2      | Bylaws of CVB Financial Corp., as amended (3)                                                                                                                                                                                                                                                    |
| 4.1      | Form of CVB Financial Corp. s Common Stock certificate (4)                                                                                                                                                                                                                                       |
| 10.1(a)  | Employment Agreement by and among Christopher D. Myers, CVB Financial Corp. and Citizens Business Bank, dated February 4, 2014 (5)                                                                                                                                                               |
| 10.1(b)  | Restricted Stock Agreement by and between CVB Financial Corp. and Christopher D. Myers dated June 1, 2006 (6)                                                                                                                                                                                    |
| 10.1(c)  | Deferred Compensation Plan for Christopher D. Myers, effective January 1, 2007 (7)                                                                                                                                                                                                               |
| 10.2     | CVB Financial Corp. 401(k) & Profit Sharing Plan, as amended                                                                                                                                                                                                                                     |
| 10.3     | Form of Indemnification Agreement (8)                                                                                                                                                                                                                                                            |
| 10.4     | CVB Financial Corp. 2000 Stock Option Plan (9)                                                                                                                                                                                                                                                   |
| 10.5(a)  | CVB Financial Corp. 2008 Equity Incentive Plan (10)                                                                                                                                                                                                                                              |
| 10.5(b)  | CVB Financial Corp. Amendment No. 1 to the 2008 Equity Incentive Plan (11)                                                                                                                                                                                                                       |
| 10.5(c)  | CVB Financial Corp. Amendment No. 2 to the 2008 Equity Incentive Plan (12)                                                                                                                                                                                                                       |
| 10.5(d)  | CVB Financial Corp. Amendment No. 3 to the 2008 Equity Incentive Plan (13)                                                                                                                                                                                                                       |
| 10.5(e)  | Form of Stock Option Agreement pursuant to the 2008 Equity Compensation Plan (14)                                                                                                                                                                                                                |
| 10.5(f)  | Form of Restricted Stock Agreement pursuant to the 2008 Equity Compensation Plan (15)                                                                                                                                                                                                            |
| 10.6     | The Executive Non Qualified Excess Plan(SM) Plan Document effective February 21, 2007 (16)                                                                                                                                                                                                       |
| 10.7(a)  | Offer letter for Richard C. Thomas, dated November 24, 2010 (17)                                                                                                                                                                                                                                 |
| 10.7(b)  | Severance Compensation Agreement for Richard C. Thomas, dated January 1, 2012 (18)                                                                                                                                                                                                               |
| 10.8(a)  | Offer letter for David A. Brager, dated November 17, 2010 (19)                                                                                                                                                                                                                                   |
| 10.8(b)  | Severance Compensation Agreement for David A. Brager, dated January 1, 2012 (20)                                                                                                                                                                                                                 |
| 10.9(a)  | Offer letter for James F. Dowd, dated May 16, 2008 (21)                                                                                                                                                                                                                                          |
| 10.9(b)  | Severance Compensation Agreement for James F. Dowd, dated January 1, 2012 (22)                                                                                                                                                                                                                   |
| 10.10(a) | Offer letter for David C. Harvey, dated December 7, 2009 (23)                                                                                                                                                                                                                                    |
| 10.10(b) | Severance Compensation Agreement for David C. Harvey, dated January 1, 2012 (24)                                                                                                                                                                                                                 |
| 10.11    | CVB Financial Corp. 2015 Executive Incentive Plan (25)                                                                                                                                                                                                                                           |
| 12       | Statements regarding computation of ratios                                                                                                                                                                                                                                                       |
| 21       | Subsidiaries of the Company (26)                                                                                                                                                                                                                                                                 |
| 23       | Consent of KPMG LLP                                                                                                                                                                                                                                                                              |

## **Table of Contents**

### **Exhibit No.**

|         |                                                                                                 |
|---------|-------------------------------------------------------------------------------------------------|
| 31.1    | Certification of Christopher D. Myers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2    | Certification of Richard C. Thomas pursuant to Section 302 of the Sarbanes-Oxley Act of 2002    |
| 32.1    | Certification of Christopher D. Myers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2    | Certification of Richard C. Thomas 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                                          |

Indicates a management contract or compensation plan.

\* Except as noted below, Form 8-A12G, Form 8-K, Form 10-Q, Form 10-K and Form DEF 14A identified in the exhibit index have SEC file number 001-10140.

D We have entered into the following trust preferred security issuances and agree to furnish a copy to the SEC upon request:

- (a) Indenture by and between CVB Financial Corp. and U.S. Bank, National Association, as Trustee, dated as of January 31, 2006 (CVB Statutory Trust III).
- (1) Incorporated herein by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on October 20, 2009.
- (2) Incorporated herein by reference to Exhibit 3.1 to our Form 10-Q filed with the SEC on August 9, 2010.
- (3) Incorporated herein by reference to Exhibits 3.2(A) and 3.2(B) to our Annual Report on Form 10-K filed with the SEC on February 27, 2009.
- (4) Incorporated herein by reference to Exhibit 4.1 to our Form 8-A12G filed with the SEC on June 11, 2001.
- (5) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on February 6, 2014.
- (6) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on June 7, 2006.
- (7) Incorporated herein by reference to Exhibit 10.23 to our Annual Report on Form 10-K filed with the SEC on March 1, 2007.
- (8) Incorporated herein by reference to Exhibit 10.13 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1988, which is incorporated herein by this reference.
- (9) Incorporated herein by reference to Exhibit 99.1 to our Registration Statement on Form S-8 filed with the SEC on July 12, 2000, Commission file number 333-41198.
- (10) Incorporated herein by reference to Annex A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 16, 2008.
- (11) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on September 22, 2009.
- (12) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on November 24, 2009.
- (13) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on February 6, 2014.
- (14) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on May 23, 2008.

**Table of Contents**

- (15) Incorporated herein by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on May 23, 2008.
- (16) Incorporated herein by reference to Exhibit 10.26 to our Annual Report on Form 10-K filed with the SEC on March 1, 2007.
- (17) Incorporated herein by reference to Exhibit 10.10(A) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (18) Incorporated herein by reference to Exhibit 10.10(B) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (19) Incorporated herein by reference to Exhibit 10.13(A) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (20) Incorporated herein by reference to Exhibit 10.13 (B) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (21) Incorporated herein by reference to Exhibit 10.15(A) to our Annual Report on Form 10-K filed with the SEC on February 27, 2009.
- (22) Incorporated herein by reference to Exhibit 10.14(B) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (23) Incorporated herein by reference to Exhibit 10.21(A) to our Annual Report on Form 10-K filed with the SEC on March 4, 2010.
- (24) Incorporated herein by reference to Exhibit 10.15(B) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (25) Incorporated herein by reference to Annex A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 3, 2015.