UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from __________ to __________

Commission File Number: 0-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

(909) 980-4030

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares of common stock of the registrant: 106,256,535 outstanding as of April 30, 2015.

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PART I FINANCIAL INFORMATION (UNAUDITED)

GENERAL

Forward Looking Statements

Certain statements in this Report on Form 10-Q, including, but not limited to, statements under the heading Management Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995, including but not limited to, statements about anticipated future operating and financial performance and results, financial position and liquidity, business prospects, strategic alternatives, business strategies, regulatory policies, competitive outlook, capital and financing needs and availability, acquisition and divestiture opportunities, investment and expenditure plans, plans and objectives of management for future operations, legal proceedings or investigations, management hiring and retention and other similar forecasts and statements of expectations or assumptions underlying any of the foregoing. Words such as will likely result, aims , anticipates , believes , could , estimates , expects , hopes , intends , may , plans , p will and variations of these words and similar expressions are intended to identify these forward looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, local, regional, national and international economic and market conditions and events and the impact they may have on the Company, our customers and/or our assets and liabilities; our ability to attract and maintain deposits, borrowings and other sources of funding or liquidity; supply and demand for real estate and renewed fluctuation or periodic deterioration in values of real estate in California or other jurisdictions where we lend, whether involving residential or commercial property; a prolonged slowdown or decline in sales or construction activity; changes in the financial performance and/or condition of our loan and deposit customers or key vendors or counterparties; changes in the levels of performing and nonperforming assets and charge-offs; the cost or effect of acquisitions or divestitures we may make; the effect of changes in laws and regulations (including laws, regulations and judicial decisions concerning financial reform, taxes, bank or holding company capital levels, securities, employment, executive compensation, insurance, compliance, vendor management and information security) with which we and our subsidiaries must comply; changes in the applicability or costs of deposit insurance; changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant legal, regulatory and accounting requirements; inflation, interest rate, securities market and monetary fluctuations; internal and external fraud and cyber-security threats, including theft or loss of Company or customer funds, loss of system functionality or access, or theft or loss of Company or customer information; political instability; acts of war or terrorism, or natural disasters, such as earthquakes, droughts or pandemic diseases; the timely development and acceptance of new banking products and services (including technology-based services and products) and the perceived value of these products and services by customers and potential customers; the Company s relationships with and reliance upon vendors with respect to the operation of key internal or external systems and applications; changes in consumer spending, borrowing and savings preferences or habits; the effects of technological changes, the expanding use of technology in banking (including the adoption of mobile banking applications) and product innovation; the ability to retain or increase market share, retain or grow customers and control expenses; changes in the risk or competitive environment among financial and bank holding companies, banks and other financial service providers; volatility in the credit and equity markets and its effects on the general economy or local or regional business conditions; market fluctuations in the prices of the Company s common stock or other securities; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other national or international accounting standard setters; changes in our organization, management, compensation and benefit plans, and our ability to retain or expand our management team and our board of directors; the costs and effects of legal, regulatory and compliance changes or developments; the initiation and the favorable or unfavorable resolution of legal proceedings or regulatory or other governmental inquiries involving the Company, including, but not limited to, any consumer or employment class action litigation, and the current investigation by the Securities and Exchange Commission and the related class-action and derivative action lawsuits filed against us; the results of regulatory examinations or reviews or other government actions; and our ongoing relationships with our various federal and state regulators, including the SEC, FDIC and California DBO. The Company cautions that the foregoing factors are not exclusive. For additional information concerning these factors and other factors which may cause actual results to differ from the results discussed in our forward-looking statements, see the periodic filings the Company makes with the Securities and Exchange Commission, and, in particular, the information set forth in Item 1A herein and in Item 1A. Risk Factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2014. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by law.

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 112,336	$ 95,030
Interest-earning balances due from Federal Reserve	289,036	10,738
Total cash and cash equivalents	401,372	105,768
Interest-earning balances due from depository institutions	25,873	27,118
Investment securities available-for-sale, at fair value (with amortized cost of $2,954,443 at March 31, 2015, and $3,083,582 at December 31, 2014)	3,028,289	3,137,158
Investment securities held-to-maturity	1,464	1,528
Investment in stock of Federal Home Loan Bank (FHLB)	25,338	25,338
Loans and lease finance receivables	3,716,023	3,817,067
Allowance for loan losses	(60,709)	(59,825)
Net loans and lease finance receivables	3,655,314	3,757,242
Premises and equipment, net	32,628	33,591
Bank owned life insurance	127,557	126,927
Accrued interest receivable	22,872	23,194
Intangibles	2,946	3,214
Goodwill	74,244	74,244
FDIC loss sharing asset		299
Other real estate owned	7,122	5,637
Income taxes	14,848	31,461
Other assets	23,084	25,201
Total assets	$ 7,442,951	$ 7,377,920
Liabilities and Stockholders Equity		
Deposits:		
Noninterest-bearing	$ 3,126,928	$ 2,866,365
Interest-bearing	2,770,848	2,738,293
Total deposits	5,897,776	5,604,658
Customer repurchase agreements	560,352	563,627

FHLB advances		199,479
Other borrowings		46,000
Accrued interest payable	306	1,161
Deferred compensation	10,988	10,291
Junior subordinated debentures	25,774	25,774
Payable for securities purchased	2,350	
Other liabilities	48,287	48,821
Total liabilities	6,545,833	6,499,811
Commitments and Contingencies		
Stockholders Equity		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 106,246,910 at March 31, 2015, and 105,893,216 at December 31, 2014	499,382	495,220
Retained earnings	354,905	351,814
Accumulated other comprehensive income, net of tax	42,831	31,075
Total stockholders equity	897,118	878,109
Total liabilities and stockholders equity	$ 7,442,951	$ 7,377,920

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31, 2015	2014
Interest income:		
Loans and leases, including fees	$ 45,542	$ 44,656
Investment securities:		
Taxable	12,961	10,279
Tax-advantaged	5,011	5,278
Total investment income	17,972	15,557
Dividends from FHLB stock	469	604
Federal funds sold	142	124
Interest-earning deposits with other institutions	55	121
Total interest income	64,180	61,062
Interest expense:		
Deposits	1,293	1,186
Borrowings	1,773	2,830
Junior subordinated debentures	105	104
Total interest expense	3,171	4,120
Net interest income before provision for loan losses	61,009	56,942
Provision for (recapture of) loan losses		(7,500)
Net interest income after provision for loan losses	61,009	64,442
Noninterest income:		
Service charges on deposit accounts	3,961	3,828
Trust and investment services	2,151	1,925
Bankcard services	733	778
BOLI income	649	638
Gain on sale of loans held-for-sale		5,330
Decrease in FDIC loss sharing asset, net	(390)	(1,707)
Gain on OREO, net	124	5
Other	783	701

Total noninterest income		8,011		11,498
Noninterest expense:				
Salaries and employee benefits		19,295		19,417
Occupancy and equipment		3,652		3,725
Professional services		1,153		1,791
Software licenses and maintenance		1,030		1,065
Promotion		1,327		1,266
Provision for unfunded loan commitments		(500)		
Amortization of intangible assets		268		122
Debt termination expense		13,870		
OREO expense		84		25
Other		4,293		3,746
Total noninterest expense		44,472		31,157
Earnings before income taxes		24,548		44,783
Income taxes		8,715		16,122
Net earnings	$	15,833	$	28,661
Other comprehensive income:				
Unrealized gain on securities arising during the period	$	20,270	$	24,781
Less: Reclassification adjustment for net gain on securities included in net income				
Other comprehensive income, before tax		20,270		24,781
Less: Income tax expense related to items of other comprehensive income		(8,514)		(10,407)
Other comprehensive income, net of tax		11,756		14,374
Comprehensive income	$	27,589	$	43,035
Basic earnings per common share	$	0.15	$	0.27
Diluted earnings per common share	$	0.15	$	0.27
Cash dividends declared per common share	$	0.12	$	0.10

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Three months ended March 31, 2015 and 2014

(Dollars and shares in thousands)

(Unaudited)

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance January 1, 2014	105,370	$ 491,068	$ 290,149	$ (9,330)	$ 771,887
Repurchase of common stock	(2)	(32)			(32)
Exercise of stock options	334	3,684			3,684
Tax benefit from exercise of stock options		559			559
Shares issued pursuant to stock-based compensation plan	310	656			656
Cash dividends declared on common stock ($0.10 per share)			(10,608)		(10,608)
Net earnings			28,661		28,661
Other comprehensive income				14,374	14,374
Balance March 31, 2014	106,012	$ 495,935	$ 308,202	$ 5,044	$ 809,181
Balance January 1, 2015	105,893	$ 495,220	$ 351,814	$ 31,075	$ 878,109
Repurchase of common stock	(32)	(497)			(497)
Exercise of stock options	306	3,313			3,313
Tax benefit from exercise of stock options		614			614
Shares issued pursuant to stock-based compensation plan	80	732			732
Cash dividends declared on common stock ($0.12 per share)			(12,742)		(12,742)
Net earnings			15,833		15,833
Other comprehensive income				11,756	11,756
Balance March 31, 2015	106,247	$ 499,382	$ 354,905	$ 42,831	$ 897,118

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2015	**2014**
Cash Flows from Operating Activities		
Interest and dividends received	$ 68,591	$ 63,935
Service charges and other fees received	6,848	7,237
Interest paid	(3,981)	(4,080)
Net cash paid to vendors, employees and others	(43,608)	(37,955)
Income taxes paid		
Proceeds from (payments to) FDIC loss share agreement	265	(185)
Net cash provided by operating activities	28,115	28,952
Cash Flows from Investing Activities		
Proceeds from redemption of FHLB stock		6,771
Proceeds from maturity of interest-earning balances from depository institutions	1,245	
Proceeds from repayment of investment securities	94,479	65,093
Proceeds from maturity of investment securities	34,014	39,768
Purchases of investment securities	(1,967)	(99,689)
Net decrease in loan and lease finance receivables	101,774	157,719
Purchase of premises and equipment	(157)	(301)
Proceeds from sales of other real estate owned	1,418	
Net cash provided by investing activities	230,806	169,361
Cash Flows from Financing Activities		
Net increase in transaction deposits	322,642	237,238
Net decrease in time deposits	(29,524)	(17,083)
Repayment of FHLB advances	(200,000)	
Net decrease in other borrowings	(46,000)	(69,000)
Net decrease in customer repurchase agreements	(3,275)	(16,449)
Cash dividends on common stock	(10,590)	(10,537)
Repurchase of common stock	(497)	(32)
Proceeds from exercise of stock options	3,313	3,684
Tax benefit related to exercise of stock options	614	559
Net cash provided by financing activities	36,683	128,380

Net increase in cash and cash equivalents		295,604		326,693
Cash and cash equivalents, beginning of period		105,768		94,693
Cash and cash equivalents, end of period	$	401,372	$	421,386

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

(Unaudited)

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities		
Net earnings	$ 15,833	$ 28,661
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of loans held-for-sale		(5,330)
Gain on sale of investment securities		
(Gain) loss on sale of premises and equipment, net	(1)	204
Gain on sale of other real estate owned	(112)	
Amortization of capitalized prepayment penalty on borrowings	521	68
Increase in bank owned life insurance	(630)	(622)
Net amortization of premiums and discounts on investment securities	5,025	5,094
Accretion of SJB discount	(980)	(1,707)
Provision for loan losses		(7,500)
Provision for unfunded loan commitments	(500)	
Valuation adjustment on other real estate owned	33	
Change in FDIC loss sharing asset	299	1,707
Proceeds from (Payments to) FDIC loss share agreement	265	(185)
Stock-based compensation	732	656
Depreciation and amortization, net	(271)	354
Change in accrued interest receivable	322	276
Change in accrued interest payable	(855)	(28)
Change in other assets and liabilities	8,434	7,304
Total adjustments	12,282	291
Net cash provided by operating activities	$ 28,115	$ 28,952
Supplemental Disclosure of Noncash Investing Activities		
Securities purchased and not settled	$ 2,350	$ 75,392
Transfer of loans to other real estate owned	$ 2,824	$

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BUSINESS

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

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

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results for the full year. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies and financial notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC. A summary of the significant accounting policies consistently applied in the preparation of the accompanying unaudited condensed consolidated financial statements follows.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as discussed below, our accounting policies are described in Note 3 *Summary of Significant Accounting Policies*, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the SEC (Form 10-K).

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

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

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

4. INVESTMENT SECURITIES

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

	March 31, 2015				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				
Investment securities available-for-sale:					
Government agency	$ 334,025	$ 140	$ (4,299)	$ 329,866	10.89%
Residential mortgage-backed securities	1,807,036	49,360	(1,242)	1,855,154	61.26%
CMOs / REMICs - residential	279,918	8,406	(80)	288,244	9.52%
Municipal bonds	528,464	21,910	(530)	549,844	18.16%
Other securities	5,000	181		5,181	0.17%
Total	$ 2,954,443	$ 79,997	$ (6,151)	$ 3,028,289	100.00%

	December 31, 2014				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				
Investment securities available-for-sale:					
Government agency	$ 339,071	$	$ (8,228)	$ 330,843	10.55%
Residential mortgage-backed securities	1,884,370	36,154	(3,028)	1,917,496	61.12%
CMOs / REMICs - residential	297,318	7,050	(277)	304,091	9.69%
Municipal bonds	557,823	22,463	(645)	579,641	18.48%
Other securities	5,000	87		5,087	0.16%
Total	$ 3,083,582	$ 65,754	$ (12,178)	$ 3,137,158	100.00%

Approximately 82% of the available-for-sale portfolio at March 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 CMO/REMIC issues held are rated investment grade or better by either Standard & Poor s or Moody s, as of March 31, 2015 and December 31, 2014. The Bank had $304,000 in CMOs/REMICs backed by whole loans issued by private-label companies (nongovernment sponsored).

The tables below show the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2015 and December 31, 2014. Management has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than temporary.

	March 31, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(Dollars in thousands)					
Available-for-sale:						
Government agency	$ 14,558	$ 3	$ 289,548	$ 4,296	$ 304,106	$ 4,299
Residential mortgage-backed securities			128,416	1,242	128,416	1,242
CMOs / REMICs - residential			6,679	80	6,679	80
Municipal bonds	4,152	47	23,917	483	28,069	530
Other securities						
Total	$ 18,710	$ 50	$ 448,560	$ 6,101	$ 467,270	$ 6,151

	December 31, 2014					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(Dollars in thousands)					
Available-for-sale:						
Government agency	$ 22,224	$ 28	$ 307,873	$ 8,200	$ 330,097	$ 8,228
Residential mortgage-backed securities	19,636	4	145,681	3,024	165,317	3,028
CMOs / REMICs - residential			31,143	277	31,143	277
Municipal bonds	1,953	23	24,812	622	26,765	645
Other securities						
Total	$ 43,813	$ 55	$ 509,509	$ 12,123	$ 553,322	$ 12,178

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

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

As of March 31, 2015, the unrealized loss on this security was zero and the current fair value on the security was 78.76% of the current par value. This Alt-A bond, with a book value of $1.5 million as of March 31, 2015, has $1.9 million in net impairment losses to date. These losses have been recorded as a reduction to noninterest income. The security is rated non-investment grade. We evaluated the security for an other-than-temporary decline in fair value as of March 31, 2015. The key assumptions include default rates, loss severities and prepayment rates. There were no changes in credit related other-than temporary impairment (OTTI) recognized in earnings for the quarter ended March 31, 2015 and 2014.

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Government Agency & Government-Sponsored Enterprise The government agency bonds are backed by the full faith and credit of agencies of the U.S. Government. While the Government-Sponsored Enterprise bonds are not expressly guaranteed by the U.S. Government, they are currently being supported by the U.S. Government under a conservatorship arrangement with the Government-Sponsored Enterprises. As of March 31, 2015, approximately $140.9 million in U.S. government agency bonds are callable. These securities are bullet securities, that is, they have a defined maturity date on which the principal is paid. The contractual term of these investments provides that the Company will receive the face value of the bond at maturity which will equal the amortized cost of the bond. Interest is received throughout the life of the security.

Mortgage-Backed Securities and CMOs/REMICs Almost all of the Company s available-for-sale mortgage-backed and CMOs/REMICs securities are issued by Government Agencies or Government-Sponsored Enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying residential mortgages. All mortgage-backed securities are considered to be rated investment grade with a weighted average life of approximately 3.8 years. Of the total MBS/CMO, 99.99% have the implied guarantee of U.S. Government-Sponsored Agencies and Enterprises. The remaining .01% are issued by banks. Accordingly, it is expected the securities would not be settled at a price less than the amortized cost of the bonds.

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

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

At March 31, 2015 and December 31, 2014, investment securities having a carrying value of approximately $2.99 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 March 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.

	March 31, 2015	
	Amortized Cost	**Fair Value**

	(Dollars in thousands)	
Available-for-sale:		
Due in one year or less	$ 160,730	$ 164,801
Due after one year through five years	1,946,053	2,009,028
Due after five years through ten years	727,902	730,599
Due after ten years	119,758	123,861
Total	$ 2,954,443	$ 3,028,289

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

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5. ACQUIRED SJB ASSETS AND FDIC LOSS SHARING ASSET

FDIC Assisted Acquisition

On October 16, 2009, the Bank acquired San Joaquin Bank (SJB) and entered into loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC) that is more fully discussed in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014. The acquisition has been accounted for under the purchase method of accounting. The assets and liabilities were recorded at their estimated fair values as of the October 16, 2009 acquisition date. The acquired loans were accounted for as Purchase Credit Impaired (PCI) loans. The application of the purchase method of accounting resulted in an after-tax gain of $12.3 million which was included in 2009 earnings. The gain is the negative goodwill resulting from the acquired assets and liabilities recognized at fair value.

At March 31, 2015, the remaining discount associated with the PCI loans approximated $6.6 million. Based on the Company s regular forecast of expected cash flows from these loans, approximately $4.4 million of the related discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which approximates 3.7 years and 0.8 years, respectively. The loss sharing agreement for commercial loans expired October 16, 2014. The following table provides a summary of PCI loans and lease finance receivables by type and their credit quality indicators for the periods indicated.

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Commercial and industrial	$ 13,988	$ 14,605
SBA	1,073	1,110
Real estate:		
Commercial real estate	102,445	109,350
Construction		
SFR mortgage	197	205
Dairy & livestock and agribusiness	330	4,890
Municipal lease finance receivables		
Consumer and other loans	2,997	3,336
Gross PCI loans	121,030	133,496
Less: Purchase accounting discount	(6,612)	(7,129)
Gross PCI loans, net of discount	114,418	126,367
Less: Allowance for PCI loans losses		
Net PCI loans	$ 114,418	$ 126,367

Credit Quality Indicators

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

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Pass	$ 25,483	$ 26,706
Watch list	69,635	77,371
Special mention	7,148	8,203
Substandard	18,764	21,216
Doubtful & loss		
Total PCI gross loans	$ 121,030	$ 133,496

Allowance for Loan Losses

The Company s Credit Management Division is responsible for regularly reviewing the ALLL methodology for PCI loans. The ALLL for PCI loans is determined separately from total loans, and is based on expectations of future cash flows from the underlying pools of loans or individual loans in accordance with ASC 310-30, as more fully described in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014. As of March 31, 2015 and December 31, 2014, there were no allowance for loan losses recorded for PCI loans.

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

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

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Commercial and industrial	$ 403,600	$ 390,011
SBA	126,385	134,265
Real estate:		
Commercial real estate	2,499,183	2,487,803
Construction	55,346	55,173
SFR mortgage	205,132	205,124
Dairy & livestock and agribusiness	173,441	279,173
Municipal lease finance receivables	76,220	77,834
Consumer and other loans	70,749	69,884
Gross loans, excluding PCI loans	3,610,056	3,699,267
Less: Deferred loan fees, net	(8,451)	(8,567)
Gross loans, excluding PCI loans, net of deferred loan fees	3,601,605	3,690,700
Less: Allowance for loan losses	(60,709)	(59,825)
Net loans, excluding PCI loans	3,540,896	3,630,875
PCI Loans	121,030	133,496
Discount on PCI loans	(6,612)	(7,129)
PCI loans, net	114,418	126,367
Total loans and lease finance receivables	$ 3,655,314	$ 3,757,242

As of March 31, 2015, 69.23% of the total gross loan portfolio (excluding PCI loans) consisted of commercial real estate loans and 1.53% of the total loan portfolio consisted of construction loans. Substantially all of the Company s real estate loans and construction loans are secured by real properties located in California. As of March 31, 2015, $150.9 million, or 6.04%, 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 $131.5 million for loans secured by dairy & livestock land and $19.4 million for loans secured by agricultural land at March 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 March 31, 2015, $173.4 million, or 4.80%, of the total gross loan portfolio (excluding PCI loans) consisted of dairy & livestock and agribusiness commercial loans, compared to $279.2 million, or 7.55%, at December 31, 2014. This was comprised of $161.5 million for dairy & livestock loans and $12.0 million for agribusiness loans at March 31, 2015, compared to $268.1 million for dairy & livestock loans and $11.1 million for agribusiness loans at December 31, 2014. At March 31, 2015, the Company held approximately $1.81 billion of total fixed rate loans.

At March 31, 2015 and December 31, 2014, loans totaling $2.82 billion and $2.78 billion, respectively, were pledged to secure borrowings and available lines of credit from the FHLB and the Federal Reserve Bank.

Loans Held-for-Sale

The following table provides a summary of the activity related to loans held-for-sale for the periods presented.

	For the Three Months Ended March 31,	
	2015	**2014**
	(Dollars in thousands)	
Balance, beginning of period	$	$ 3,667
Originations of mortgage loans		
Sales of mortgage loans		
Transfer of mortgage loans to held-for-investment		
Sales of other loans		(3,667)
Transfers of other loans to held-for-sale		
Write-down of loans held-for-sale		
Balance, end of period	$	$

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Credit Quality Indicators

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

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

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

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

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

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

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

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

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

	March 31, 2015					
	Pass	**Watch List**	**Special Mention**	**Substandard**	**Doubtful & Loss**	**Total**

			(Dollars in thousands)			
Commercial and industrial	$ 252,537	$ 96,106	$ 42,377	$ 12,350	$ 230	$ 403,600
SBA	80,047	22,423	14,362	8,070	1,483	126,385
Real estate:						
Commercial real estate						
Owner occupied	551,211	139,446	49,994	17,159		757,810
Non-owner occupied	1,390,414	258,838	37,420	54,701		1,741,373
Construction						
Speculative	27,394	3,101		7,651		38,146
Non-speculative	16,579	621				17,200
SFR mortgage	176,298	18,882	4,285	5,667		205,132
Dairy & livestock and agribusiness	103,616	67,149	2,277	296	103	173,441
Municipal lease finance receivables	38,562	32,403	5,255			76,220
Consumer and other loans	54,900	10,487	2,670	2,595	97	70,749
Total gross loans, excluding PCI loans	$ 2,691,558	$ 649,456	$ 158,640	$ 108,489	$ 1,913	$ 3,610,056

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	December 31, 2014					
	Pass	Watch List	Special Mention	Substandard	Doubtful & Loss	Total
	(Dollars in thousands)					
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

Allowance for Loan Losses

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

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

Management believes that the ALLL was appropriate at March 31, 2015 and December 31, 2014. No assurance can be given that economic conditions which adversely affect the Company s service areas or other circumstances will not be reflected in increased provisions for loan losses in the future.

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

	For the Three Months Ended March 31, 2015				
	Ending Balance December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance March 31, 2015
	(Dollars in thousands)				
Commercial and industrial	$ 7,074	$ (134)	$ 35	$ 527	$ 7,502

SBA	2,557	(33)	34	(362)	2,196
Real estate:					
Commercial real estate	33,373		857	618	34,848
Construction	988		9	46	1,043
SFR mortgage	2,344		185	(104)	2,425
Dairy & livestock and agribusiness	5,479		99	(1,832)	3,746
Municipal lease finance receivables	1,412			(382)	1,030
Consumer and other loans	1,262	(177)	9	(269)	825
Unallocated	5,336			1,758	7,094
Total allowance for loan losses	$ 59,825	$ (344)	$ 1,228	$	$ 60,709

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	For the Three Months Ended March 31, 2014				
	Ending Balance December 31, 2013	Charge-offs	Recoveries	(Recapture of) Provision for Loan Losses	Ending Balance March 31, 2014
	(Dollars in thousands)				
Commercial and industrial	$ 8,502	$ (454)	$ 392	$ (2,072)	$ 6,368
SBA	2,332		63	73	2,468
Real estate:					
Commercial real estate	39,402		68	(70)	39,400
Construction	1,305		778	(1,625)	458
SFR mortgage	2,718			(436)	2,282
Dairy & livestock and agribusiness	11,728		144	(2,605)	9,267
Municipal lease finance receivables	2,335			(816)	1,519
Consumer and other loans	960	(13)	12	(9)	950
Unallocated	5,953			60	6,013
Total allowance for loan losses	$ 75,235	$ (467)	$ 1,457	$ (7,500)	$ 68,725

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

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

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	March 31, 2014			
	Recorded Investment in Loans		Allowance for Loan Losses	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
	(Dollars in thousands)			
Commercial and industrial	$ 4,291	$ 354,714	$ 814	$ 5,554
SBA	1,649	129,999	68	2,400
Real estate:				
Commercial real estate	33,907	2,160,144	320	39,080
Construction	26,688	16,218		458
SFR mortgage	11,692	178,207	47	2,235
Dairy & livestock and agribusiness	27,972	184,985	2,656	6,611
Municipal lease finance receivables		81,041		1,519
Consumer and other loans	397	54,418	96	854
Unallocated				6,013
Total	$ 106,596	$ 3,159,726	$ 4,001	$ 64,724

Past Due and Nonperforming Loans

We seek to manage asset quality and control credit risk through diversification of the loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank s Credit Management Division is in charge of monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. Reviews of nonperforming, past due loans and larger credits, designed to identify potential charges to the allowance for loan losses, and to determine the appropriateness of the allowance, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers and any guarantors, the value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors. Refer to Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014 for additional discussion concerning the Bank s policy for past due and nonperforming loans.

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

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

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

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

	March 31, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Financing Receivables
	(Dollars in thousands)					
Commercial and industrial	$ 112	$	$ 112	$ 952	$ 402,536	403,600
SBA				2,463	123,922	126,385
Real estate:						
Commercial real estate						
Owner occupied	35		35	2,418	755,357	757,810
Non-owner occupied				14,369	1,727,004	1,741,373
Construction						
Speculative					38,146	38,146
Non-speculative					17,200	17,200
SFR mortgage	1,613		1,613	2,233	201,286	205,132
Dairy & livestock and agribusiness				103	173,338	173,441
Municipal lease finance receivables					76,220	76,220
Consumer and other loans	119	20	139	463	70,147	70,749
Total gross loans, excluding PCI Loans	$ 1,879	$ 20	$ 1,899	$ 23,001	$ 3,585,156	$ 3,610,056

(1) As of March 31, 2015, $20.3 million of nonaccruing loans were current, $553,000 were 30-59 days past due, $86,000 were 60-89 days past due and $2.0 million were 90+ days past due.

	December 31, 2014					
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Financing Receivables
	(Dollars in thousands)					
Commercial and industrial	$ 943	$ 35	$ 978	$ 2,308	$ 386,725	$ 390,011
SBA	75		75	2,481	131,709	134,265
Real estate:						
Commercial real estate						
Owner occupied	36	86	122	4,072	786,173	790,367
Non-owner occupied				19,246	1,678,190	1,697,436
Construction						
Speculative					36,574	36,574
Non-speculative					18,599	18,599
SFR mortgage	425		425	3,240	201,459	205,124

Dairy & livestock and agribusiness				103	279,070	279,173
Municipal lease finance receivables					77,834	77,834
Consumer and other loans	64	17	81	736	69,067	69,884
Total gross loans, excluding PCI Loans	$ 1,543	$ 138	$ 1,681	$ 32,186	$ 3,665,400	$ 3,699,267

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

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Impaired Loans

At March 31, 2015, the Company had impaired loans, excluding PCI loans, of $68.4 million. Of this amount, there were $16.8 million of nonaccrual commercial real estate loans, $2.2 million of nonaccrual SFR mortgage loans, $952,000 of nonaccrual commercial and industrial loans, $103,000 of nonaccrual dairy & livestock and agribusiness loans and $463,000 of nonaccrual consumer and other loans. These impaired loans included $62.2 million of loans whose terms were modified in a troubled debt restructuring, of which $16.8 million were classified as nonaccrual. The remaining balance of $45.4 million consisted of 34 loans performing according to the restructured terms. The impaired loans had a specific allowance of $794,000 at March 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 class of loans, as of and for the periods indicated below.

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

Speculative					
Non-speculative					
SFR mortgage					
Dairy & livestock and agribusiness					
Municipal lease finance receivables					
Consumer and other loans	98	107	6	99	
Total	1,707	2,119	794	1,734	
Total impaired loans	$ 68,377	$ 82,063	$ 794	$ 69,267	$ 647

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	As of and For the Three Months Ended March 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 2,592	$ 2,862	$	$ 2,596	$ 15
SBA	1,581	1,997		1,634	
Real estate:					
Commercial real estate					
Owner occupied	10,108	10,768		10,221	117
Non-owner occupied	21,928	27,740		22,103	215
Construction					
Speculative	17,519	18,407		17,550	77
Non-speculative	9,169	9,169		9,184	140
SFR mortgage	11,214	12,911		11,266	26
Dairy & livestock and agribusiness	16,582	17,430		16,902	189
Municipal lease finance receivables					
Consumer and other loans	290	295		291	
Total	90,983	101,579		91,747	779
With a related allowance recorded:					
Commercial and industrial	1,699	2,033	814	1,701	
SBA	68	76	68	70	
Real estate:					
Commercial real estate					
Owner occupied	1,871	2,344	320	1,871	
Non-owner occupied					
Construction					
Speculative					
Non-speculative					
SFR mortgage	478	486	47	479	
Dairy & livestock and agribusiness	11,390	12,042	2,656	11,608	75
Municipal lease finance receivables					
Consumer and other loans	107	165	96	107	
Total	15,613	17,146	4,001	15,836	75
Total impaired loans	$ 106,596	$ 118,725	$ 4,001	$ 107,583	$ 854

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

The Company recognizes the charge-off of impairment allowance on impaired loans in the period in which a loss is identified for collateral dependent loans. Therefore, the majority of the nonaccrual loans as of March 31, 2015 and December 31, 2014 have already been written down to the estimated net realizable value. The impaired loans with a related allowance recorded are on nonaccrual loans where a charge-off is not yet processed, on nonaccrual SFR loans where there is a potential modification in process, or on smaller balance non-collateral dependent loans.

Reserve for Unfunded Loan Commitments

The allowance for off-balance sheet credit exposure relates to commitments to extend credit, letters of credit and undisbursed funds on lines of credit. The Company evaluates credit risk associated with the off-balance sheet commitments at the same time it evaluates credit risk associated with the loan and lease portfolio. The Company recorded a reduction of the reserve for unfunded loan

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commitments of $500,000 for the quarter ended March 31, 2015, compared with no provision or reduction of the reserve for unfunded loan commitments for the same period of 2014. At March 31, 2015 and December 31, 2014, the balance of the reserve was $7.2 million and $7.7 million, respectively, and was included in other liabilities.

Troubled Debt Restructurings (TDRs)

Loans that are reported as TDRs are considered impaired and charge-off amounts are taken on an individual loan basis, as deemed appropriate. The majority of restructured loans are loans for which the terms of repayment have been renegotiated, resulting in a reduction in interest rate or deferral of principal. Refer to Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014 for a more detailed discussion regarding TDRs.

As of March 31, 2015, there were $62.2 million of loans classified as TDRs, of which $16.8 million were nonperforming and $45.4 million were performing. TDRs on accrual status are comprised of loans that were accruing interest at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. At March 31, 2015, performing TDRs were comprised of 12 commercial real estate loans of $25.1 million, one construction loan of $7.6 million, five dairy & livestock loans of $7.2 million, 11 SFR mortgage loans of $3.7 million, four commercial and industrial loans of $1.4 million and one consumer other loan of $418,000. There were no loans removed from TDR classification during the quarters ended March 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 $707,000 and $726,000 of specific allowance to TDRs as of March 31, 2015 and December 31, 2014, respectively.

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

	For the Three Months March 31, 2015	2014
	(Dollars in thousands)	
Performing TDRs:		
Beginning balance	$ 53,589	$ 66,955
New modifications		41
Payoffs and payments, net	(8,729)	(602)
TDRs returned to accrual status	516	
TDRs placed on nonaccrual status		
Ending balance	$ 45,376	$ 66,394

	For the Three Months March 31, 2015	2014
	(Dollars in thousands)	
Nonperforming TDRs:		
Beginning balance	$ 20,285	$ 25,119
New modifications (1)		

Charge-offs		
Payoffs and payments, net	(2,995)	(1,151)
TDRs returned to accrual status	(516)	
TDRs placed on nonaccrual status		
Ending balance	$ 16,774	$ 23,968

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

Modifications (1)

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

	For the Three Months Ended March 31, 2014				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at March 31, 2014	Financial Effect Resulting From Modifications (2)
			(Dollars in thousands)		
Commercial and industrial:					
Interest rate reduction		$	$	$	$
Change in amortization period or maturity	1	41	41	39	

Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction					
Change in amortization period or maturity					
Non-owner occupied					
Interest rate reduction					
Change in amortization period or maturity					
Dairy & livestock and agribusiness:					
Interest rate reduction					
Change in amortization period or maturity					
Consumer					
Interest rate reduction					
Total loans	1	$ 41	$ 41	$ 39	$

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

As of March 31, 2015, there were no loans that were previously modified as a TDRs within the previous 12 months that subsequently defaulted during the three months ended March 31, 2015.

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7. EARNINGS PER SHARE RECONCILIATION

Basic earnings per common share are computed by dividing income allocated to common stockholders by the weighted-average number of common shares outstanding during each period. The computation of diluted earnings per common share considers the number of tax-effected shares issuable upon the assumed exercise of outstanding common stock options. Antidilutive common shares are not included in the calculation of diluted earnings per common share. For the three months ended March 31, 2015 and 2014, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were 235,000 and 130,000 shares, respectively.

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

	For the Thee Months Ended March 31, 2015	2014
	(In thousands, except per share amounts)	
Earnings per common share:		
Net earnings	$ 15,833	$ 28,661
Less: Net earnings allocated to restricted stock	81	127
Net earnings allocated to common shareholders	$ 15,752	$ 28,534
Weighted average shares outstanding	105,523	105,192
Basic earnings per common share	$ 0.15	$ 0.27
Diluted earnings per common share:		
Net income allocated to common shareholders	$ 15,752	$ 28,534
Weighted average shares outstanding	105,523	105,192
Incremental shares from assumed exercise of outstanding options	436	599
Diluted weighted average shares outstanding	105,959	105,791
Diluted earnings per common share	$ 0.15	$ 0.27

8. FAIR VALUE INFORMATION

Fair Value Hierarchy

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

The following disclosure provides the fair value information for financial assets and liabilities as of March 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 Valuation is based upon quoted prices for identical instruments traded in active markets.

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

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

There were no transfers in and out of Level 1 and Level 2 measurements during the three months ended March 31, 2015 and 2014.

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

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

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

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

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

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

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

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

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

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Accrued Interest Receivable/Payable The amounts of accrued interest receivable on loans and lease finance receivables and investments and accrued interest payable on deposits and borrowings are considered to approximate fair value and are included within Level 2 of the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Carrying Value at March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Description of assets				
Investment securities - AFS:				
Government agency	$ 329,866	$	$ 329,866	$
Residential mortgage-backed securities	1,855,154		1,855,154	
CMO s / REMIC s - residential	288,244		288,244	
Municipal bonds	549,844		549,844	
Other securities	5,181		5,181	
Total investment securities - AFS	3,028,289		3,028,289	
Interest rate swaps	11,624		11,624	
Total assets	$ 3,039,913	$	$ 3,039,913	$
Description of liability				
Interest rate swaps	$ 11,624	$	$ 11,624	$
Total liabilities	$ 11,624	$	$ 11,624	$

	Carrying Value at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs

				(Level 3)
		(Dollars in thousands)		
Description of assets				
Investment securities - AFS:				
Government agency	$ 330,843	$	$ 330,843	$
Residential mortgage-backed securities	1,917,496		1,917,496	
CMO s / REMIC s - residential	304,091		304,091	
Municipal bonds	579,641		579,641	
Other securities	5,087		5,087	
Total investment securities - AFS	3,137,158		3,137,158	
Interest rate swaps	10,080		10,080	
Total assets	$ 3,147,238	$	$ 3,147,238	$
Description of liability				
Interest rate swaps	$ 10,080	$	$ 10,080	$
Total liabilities	$ 10,080	$	$ 10,080	$

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

We may be required to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or fair value accounting or write-downs of individual assets. For assets measured at fair value on a non-recurring basis that were still held on the balance sheet at March 31, 2015 and December 31, 2014, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets for investments that experienced losses during the period.

	Carrying Value at March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Three Months Ended March 31, 2015
			(Dollars in thousands)		
Description of assets					
Impaired loans, excluding PCI Loans:					
Commercial and industrial	$	$	$	$	$
SBA					
Real estate:					
Commercial real estate					
Construction					
SFR mortgage					
Dairy & livestock and agribusiness					
Consumer and other loans	209			209	76
Other real estate owned	340			340	33
Total assets	$ 549	$	$	$ 549	$ 109

	Carrying Value at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Year Ended December 31, 2014
			(Dollars in thousands)		
Description of assets					

Impaired loans, excluding PCI Loans:					
Commercial and industrial	$ 1,911	$	$	$ 1,911	$ 771
SBA	1,327			1,327	296
Real estate:					
Commercial real estate	2,500			2,500	271
Construction					
SFR mortgage					
Dairy & livestock and agribusiness	103			103	1,061
Consumer and other loans	482			482	447
Other real estate owned					
Total assets	$ 6,323	$	$	$ 6,323	$ 2,846

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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 March 31, 2015 and December 31, 2014, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	March 31, 2015				
		Estimated Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
Assets					
Total cash and cash equivalents	$ 401,372	$ 401,372	$	$	$ 401,372
Interest-earning balances due from depository institutions	25,873		25,873		25,873
FHLB stock	25,338		25,338		25,338
Investment securities available-for-sale	3,028,289		3,028,289		3,028,289
Investment securities held-to-maturity	1,464			2,040	2,040
Loans held-for-sale					
Total loans, net of allowance for loan losses	3,655,314			3,704,042	3,704,042
Accrued interest receivable	22,872		22,872		22,872
Swaps	11,624		11,624		11,624
Liabilities					
Deposits:					
Noninterest-bearing	$ 3,126,928	$ 3,126,928	$	$	$ 3,126,928
Interest-bearing	2,770,848		2,771,030		2,771,030
Borrowings	560,352		560,291		560,291
Junior subordinated debentures	25,774		26,016		26,016
Accrued interest payable	306		306		306
Swaps	11,624		11,624		11,624

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

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
Loans held-for-sale					
Total loans, net of allowance for loan losses	3,757,242			3,794,454	3,794,454
Accrued interest receivable	23,194		23,194		23,194
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
Accrued interest payable	1,161		1,161		1,161
Swaps	10,080		10,080		10,080

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2015 and December 31, 2014. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented above.

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9. BUSINESS SEGMENTS

The Company has identified two principal reportable segments: Business Financial and Commercial Banking Centers (Centers) and the Treasury Department. The Company s subsidiary bank has 40 Business Financial Centers and seven Commercial Banking Centers organized in geographic regions, which are the focal points for customer sales and services. The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank which is the basis for determining the Bank s reportable segments. The chief operating decision maker (currently our CEO) regularly reviews the financial information of these segments in deciding how to allocate resources and to assess performance. Centers are considered one operating segment as their products and services are similar and are sold to similar types of customers, have similar production and distribution processes, have similar economic characteristics, and have similar reporting and organizational structures. The Treasury Department s primary focus is managing the Bank s investments, liquidity and interest rate risk. Information related to the Company s remaining operating segments, which include construction lending, dairy & livestock and agribusiness lending, leasing, CitizensTrust, and centralized functions have been aggregated and included in Other. In addition, the Company allocates internal funds transfer pricing to the segments using a methodology that charges users of funds interest expense and credits providers of funds interest income with the net effect of this allocation being recorded in administration.

The following table represents the selected financial information for these two business segments. GAAP does not have an authoritative body of knowledge regarding the management accounting used in presenting segment financial information. The accounting policies for each of the business units is the same as those policies identified for the consolidated Company and disclosed in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014. The income numbers represent the actual income and expenses of each business unit. In addition, each segment has allocated income and expenses based on management s internal reporting system, which allows management to determine the performance of each of its business units. Loan fees included in the Centers category are the actual loan fees paid to the Company by its customers. These fees are eliminated and deferred in the Other category, resulting in deferred loan fees for the condensed consolidated financial statements. All income and expense items not directly associated with the two business segments are grouped in the Other category. Future changes in the Company s management structure or reporting methodologies may result in changes in the measurement of operating segment results.

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

	For the Three Months Ended March 31, 2015				
	Centers	**Treasury**	**Other**	**Eliminations**	**Total**
	(Dollars in thousands)				
Interest income, including loan fees	$ 35,368	$ 18,655	$ 10,157	$	$ 64,180
Credit for funds provided (1)	8,211		12,641	(20,852)	
Total interest income	43,579	18,655	22,798	(20,852)	64,180
Interest expense	1,663	1,431	77		3,171
Charge for funds used (1)	1,067	14,806	4,979	(20,852)	
Total interest expense	2,730	16,237	5,056	(20,852)	3,171

Net interest income	40,849	2,418	17,742		61,009
Provision for loan losses					
Net interest income after provision for loan losses	40,849	2,418	17,742		61,009
Noninterest income	5,067		2,944		8,011
Noninterest expense	11,849	213	18,540		30,602
Debt termination expense		13,870			13,870
Segment pre-tax profit	$ 34,067	$ (11,665)	$ 2,146	$	$ 24,548
Segment assets as of March 31, 2015	$ 6,216,028	$ 3,450,529	$ 898,554	$ (3,122,160)	$ 7,442,951

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

	For the Three Months Ended March 31, 2014				
	Centers	Treasury	Other	Eliminations	Total
	(Dollars in thousands)				
Interest income, including loan fees	$ 33,091	$ 16,432	$ 11,539	$	$ 61,062
Credit for funds provided (1)	7,074		11,463	(18,537)	
Total interest income	40,165	16,432	23,002	(18,537)	61,062
Interest expense	1,637	2,373	110		4,120
Charge for funds used (1)	1,090	12,797	4,650	(18,537)	
Total interest expense	2,727	15,170	4,760	(18,537)	4,120
Net interest income	37,438	1,262	18,242		56,942
Provision for loan losses			(7,500)		(7,500)
Net interest income after provision for loan losses	37,438	1,262	25,742		64,442
Noninterest income	4,782		6,716		11,498
Noninterest expense	11,828	196	19,133		31,157
Debt termination expense					
Segment pre-tax profit	$ 30,392	$ 1,066	$ 13,325	$	$ 44,783
Segment assets as of March 31, 2014	$ 5,525,494	$ 3,264,736	$ 843,026	$ (2,730,738)	$ 6,902,518

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank is exposed to certain risks relating to its ongoing business operations and utilizes interest rate swap agreements (swaps) as part of its asset/liability management strategy to help manage its interest rate risk position. As of March 31, 2015, the Bank has entered into 75 interest-rate swap agreements with customers, all of which also involve 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 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.

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Balance Sheet Classification of Derivative Financial Instruments

As of March 31, 2015 and December 31, 2014, the total notional amount of the Company s swaps was $193.8 million, and $197.4 million, respectively. The location of the asset and liability, and their respective fair values are summarized in the table below.

	March 31, 2015			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars in thousands)			
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 11,624	Other liabilities	$ 11,624
Total derivatives		$ 11,624		$ 11,624

	December 31, 2014			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars in thousands)			
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 10,080	Other liabilities	$ 10,080
Total derivatives		$ 10,080		$ 10,080

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

There was no gain recognized in the condensed consolidated statements of earnings for the three months ended March 31, 2015 and 2014.

11. OTHER COMPREHENSIVE INCOME (LOSS)

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

	For the Three Months Ended March 31, 2015		
	Before-Tax	Tax Effect	After-Tax

	(Dollars in thousands)					
Investment securities available-for-sale:						
Net change in fair value recorded in accumulated OCI	$	20,270	$	8,514	$	11,756
Net change	$	20,270	$	8,514	$	11,756

	For the Three Months Ended March 31, 2014					
	Before-Tax		Tax Effect		After-Tax	
	(Dollars in thousands)					
Investment securities available-for-sale:						
Net change in fair value recorded in accumulated OCI	$	24,781	$	10,407	$	14,374
Net change	$	24,781	$	10,407	$	14,374

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

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

	Investment Securities Available-for-Sale *(Dollars in thousands)*
Balance, January 1, 2014	$ (9,330)
Net change in fair value recorded in accumulated OCI	14,374
Net realized gains reclassified into earnings	
Balance, March 31, 2014	$ 5,044

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12. BALANCE SHEET OFFSETTING

Assets and liabilities relating to certain financial instruments, including, derivatives and securities sold under repurchase agreements (repurchase agreements), may be eligible for offset in the condensed consolidated balance sheets as permitted under accounting guidance. As noted above, our interest rate swap derivatives are subject to a master netting arrangement with one counterparty bank. Our interest rate swap derivatives require the Company to pledge investment securities as collateral based on certain risk thresholds. Investment securities that have been pledged by the Company to the counterparty bank continue to be reported in the Company s condensed consolidated balance sheets unless the Company defaults. In November 2006, we began offering a repurchase agreement product to our customers, which include master netting agreements that allow for the netting of collateral positions. This product, known as Citizens Sweep Manager, sells certain of our securities overnight to our customers under an agreement to repurchase them the next day. The repurchase agreements are not offset in the condensed consolidated balances.

	Gross Amounts Recognized in the Condensed Consolidated Balance Sheets	Gross Amounts offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Collateral Pledged	Net Amount
	(Dollars in thousands)					
March 31, 2015						
Financial assets:						
Derivatives not designated as hedging instruments	$ 11,624	$	$	$ 11,624	$	$ 11,624
Total	$ 11,624	$	$	$ 11,624	$	$ 11,624
Financial liabilities:						
Derivatives not designated as hedging instruments	$ 11,624	$	$ 11,624	$	$ (16,761)	$ (5,137)
Repurchase agreements	560,352		560,352		(687,017)	(126,665)
Total	$ 571,976	$	$ 571,976	$	$ (703,778)	$ (131,802)
December 31, 2014						
Financial assets:						
Derivatives not designated as hedging instruments	$ 10,080	$	$	$ 10,080	$	$ 10,080
Total	$ 10,080	$	$	$ 10,080	$	$ 10,080
Financial liabilities:						
Derivatives not designated as hedging instruments	$ 10,200	$ (120)	$ 10,080	$ 120	$ (16,734)	$ (6,534)

Repurchase agreements	563,627		563,627		(624,578)	(60,951)
Total	$ 573,827	$ (120)	$ 573,707	$ 120	$ (641,312)	$ (67,485)

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

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of CVB Financial Corp. and its wholly owned subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014, and the unaudited condensed consolidated financial statements and accompanying notes presented elsewhere in this report.

CRITICAL ACCOUNTING POLICIES

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

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

- Allowance for Loan Losses (ALLL)
- Troubled Debt Restructurings
- Investment Securities
- Goodwill Impairment
- Acquired Loans
- Purchase Credit Impaired (PCI) Loans
- Other Real Estate Owned

Fair Value of Financial Instruments

Income Taxes

Stock-Based Compensation

Our significant accounting policies are described in greater detail in our 2014 Annual Report on Form 10-K in the Critical Accounting Policies section of Management s Discussion and Analysis of Financial Condition and Results of Operations and in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014, which are essential to understanding Management s Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

For the first quarter of 2015, we reported net income of $15.8 million, compared with $28.7 million for the first quarter of 2014. Diluted earnings per share were $0.15 per share for the first quarter of 2015, compared to $0.27 for the same period of 2014. The first quarter of 2015 included pre-tax debt termination expense of $13.9 million, related to the redemption of $200.0 million of fixed rate debt from the Federal Home Loan Bank (FHLB). The FHLB advance carried an interest rate of 4.52% and was scheduled to mature in late November 2016.

At March 31, 2015, total assets were $7.44 billion. This represents an increase of $65.0 million, or 0.88%, from total assets of $7.38 billion at December 31, 2014. Earning assets of $7.09 billion at March 31, 2015 increased $67.1 million, or 0.96%, when compared with $7.02 billion at December 31, 2014. The increase in earning assets during the first quarter of 2015 was primarily due to a $278.3 million increase in interest-earning balances due from the Federal Reserve. This was partially offset by a $108.9 million decrease in investment securities and a $101.0 million decrease in total loans. Approximately $106.6 million of the decrease in loans was due to the decline in dairy & livestock loans, most of which was seasonal.

Investment securities totaled $3.03 billion at March 31, 2015, a decrease of $108.9 million from $3.14 billion at December 31, 2014. As of March 31, 2015, we had a pre-tax unrealized net gain of $73.8 million on our overall investment securities portfolio, compared to a pre-tax unrealized net gain of $53.6 million at December 31, 2014. During the first quarter of 2015, we purchased $4.3 million of municipal securities with an average tax-equivalent (TE) yield of approximately 3.89%.

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Total loans and leases, net of deferred fees and discount, of $3.72 billion at March 31, 2015, decreased by $101.0 million, or 2.65%, from $3.82 billion at December 31, 2014. The decrease in loans was principally due to a decline of $106.6 million in dairy & livestock loans, a $3.7 million decline in agribusiness loans and a $7.9 million decrease in SBA loans. This was partially offset by growth of $13.0 million in commercial and industrial loans and $4.5 million in commercial real estate loans.

Noninterest-bearing deposits were $3.13 billion at March 31, 2015, an increase of $260.6 million, or 9.09%, compared to $2.87 billion at December 31, 2014. At March 31, 2015, noninterest-bearing deposits were 53.02% of total deposits, compared to 51.14% at December 31, 2014 and 52.61% at March 31, 2014. Our average cost of total deposits for the quarter ended March 31, 2015 was 9 basis points, compared to 10 basis points for the same period of 2014.

On February 23, 2015 we repaid our last remaining FHLB advance with a fixed rate of 4.52%. At December 31, 2014, FHLB advances were $199.5 million, compared to $199.3 million at March 31, 2014.

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

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

The allowance for loan losses totaled $60.7 million at March 31, 2015, compared to $59.8 million at December 31, 2014. There was no provision for loan losses for the first quarter of 2015, compared to a loan loss provision recapture of $7.5 million for the first quarter of 2014. The quarter-over-quarter increase in the allowance for loan losses was due to $884,000 in net loan recoveries.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory standards. As of March 31, 2015, our Tier 1 leverage capital ratio totaled 10.94%, our common equity Tier 1 ratio totaled 17.01%, our Tier 1 risk-based capital ratio totaled 17.56%, and our total risk-based capital ratio totaled 18.81%. Refer to our *Analysis of Financial Condition-Capital Resources* for discussion of the new capital rules effective for the first quarter ended March 31, 2015, included herein.

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ANALYSIS OF THE RESULTS OF OPERATIONS

Financial Performance

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014	Variance $	Variance %
	(Dollars in thousands, except per share amounts)			
Net interest income	$ 61,009	$ 56,942	$ 4,067	7.14%
(Provision for) recapture of loan losses		7,500	(7,500)	-100.00%
Noninterest income	8,011	11,498	(3,487)	-30.33%
Noninterest expense	(44,472)	(31,157)	(13,315)	-42.74%
Income taxes	(8,715)	(16,122)	7,407	45.94%
Net earnings	$ 15,833	$ 28,661	$ (12,828)	-44.76%
Earnings per common share:				
Basic	$ 0.15	$ 0.27	$ (0.12)	-44.43%
Diluted	$ 0.15	$ 0.27	$ (0.12)	-44.66%
Return on average assets	0.86%	1.72%	-0.86%	
Return on average shareholders equity	7.22%	14.74%	-7.52%	
Efficiency ratio	64.43%	45.52%	18.91%	
Non interest expense to average assets	2.42%	1.87%	0.55%	

Noninterest Expense and Efficiency Ratio Reconciliation (Non-GAAP)

We use certain non-GAAP financial measures to provide supplemental information regarding our performance. Noninterest expense for the quarter ended March 31, 2015, includes debt termination expense of $13.9 million. We believe that presenting the efficiency ratio, and the ratio of noninterest expense to average assets, excluding the impact of debt termination expense, provides additional clarity to the users of financial statements regarding core financial performance. The Company did not incur debt termination expense during the quarter ended March 31, 2014.

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Dollars in thousands)	
Net interest income	$ 61,009	$ 56,942
Noninterest income	8,011	11,498
Noninterest expense	44,472	31,157
Less: Debt termination expense	(13,870)	
Adjusted noninterest expense	$ 30,602	$ 31,157
Efficiency ratio	64.43%	45.52%
Adjusted efficiency ratio	44.34%	45.52%

Adjusted noninterest expense	$ 30,602	$ 31,157
Average assets	7,449,297	6,772,650
Adjusted noninterest expense to average assets [1]	1.67%	1.87%

[1] Annualized

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Income and Expense Related to Acquired SJB Assets

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

	For the Three Months Ended March 31, 2015	2014
	(Dollars in thousands)	
Interest income		
Interest income-accretion	$ 980	$ 1,707
Noninterest income		
Decrease in FDIC loss sharing asset (expense)	(390)	(1,707)
Noninterest expense		
Legal and professional	(31)	8
OREO expenses	1	(5)
Other expenses (appraisals, and etc.)	29	(43)
Net income (loss) before income tax (expense) benefit related to SJB assets	$ 589	$ (40)

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

The discount accretion of $980,000 for the first quarter 2015, recognized as part of interest income from PCI loans, decreased $727,000, compared to $1.7 million for the first quarter of 2014. The net decrease in the FDIC loss sharing asset was $390,000 for the first quarter of 2015, compared to a net decrease of $1.7 million for the first quarter of 2014.

PCI loans decreased $35.5 million to $121.0 million at March 31, 2015 from $156.5 million at March 31, 2014. At March 31, 2015, the remaining discount associated with the PCI loans approximated $6.6 million. Based on the Company s regular forecast of expected cash flows from these loans, approximately $4.4 million of the discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which approximates 3.7 years and 0.8, respectively. The loss sharing agreement for commercial loans expired October 16, 2014. At March 31, 2015, there was a $713,000 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 March 31, 2015 and December 31, 2014, respectively. Refer to Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2014 for a more detailed description of the FDIC loss sharing asset.

There were no gains on sale of OREO assets for the quarters ended March 31, 2015 and 2014.

Net Interest Income

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

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

	For the Three Months Ended March 31,					
	2015			2014		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
INTEREST-EARNING ASSETS						
Investment securities (1)						
Taxable	$ 2,493,973	$ 12,961	2.08%	$ 2,069,265	$ 10,279	2.01%
Tax-advantaged	562,461	5,011	4.87%	571,207	5,278	5.05%
Investment in FHLB stock	25,338	469	7.40%			