CVB FINANCIAL CORP
Form 10-Q
August 10, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from __________ to __________

Commission File Number: 0-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

(909) 980-4030

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

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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)

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Six months ended June 30, 2015 and 2014

(Dollars and shares in thousands)

(Unaudited)

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

(Unaudited)

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results for the full year. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies and financial notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC. A summary of the significant accounting policies consistently applied in the preparation of the accompanying unaudited condensed consolidated financial statements follows.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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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.

	June 30, 2015				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				
Investment securities available-for-sale:					
Government agency/GSEs	$ 358,052	$ 16	$ (6,785)	$ 351,283	11.14%
Residential mortgage-backed securities	1,830,381	30,770	(4,661)	1,856,490	58.86%
CMOs/REMICs - residential	403,108	7,265	(626)	409,747	12.99%
Municipal bonds	516,798	16,488	(1,671)	531,615	16.85%
Other securities	5,000	82		5,082	0.16%
Total	$ 3,113,339	$ 54,621	$ (13,743)	$ 3,154,217	100.00%

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

Approximately 83% of the available-for-sale portfolio at June 30, 2015 represents securities issued by the U.S government or U.S. government-sponsored enterprises, with the implied guarantee of payment of principal and interest. All non-agency available-for-sale collateralized mortgage obligations (CMO)/Real Estate Mortgage Investment Conduit (REMIC) issues held are rated investment grade or better by either Standard & Poor s or Moody s, as of June 30, 2015 and December 31, 2014. The Bank had $234,000 in CMOs/REMICs backed by whole loans issued by private-label companies (nongovernment sponsored).

The tables below show the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014. Management has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary.

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	June 30, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(Dollars in thousands)					
Available-for-sale:						
Government agency/GSEs	$ 45,332	$ 119	$ 284,011	$ 6,666	$ 329,343	$ 6,785
Residential mortgage-backed securities	212,143	1,128	122,027	3,533	334,170	4,661
CMOs/REMICs - residential	114,943	458	6,315	168	121,258	626
Municipal bonds	52,881	813	24,599	858	77,480	1,671
Other securities						
Total	$ 425,299	$ 2,518	$ 436,952	$ 11,225	$ 862,251	$ 13,743

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

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

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

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

Government Agency & Government-Sponsored Enterprise (GSE) The government agency bonds are backed by the full faith and credit of agencies of the U.S. Government. While the Government-Sponsored Enterprise bonds are not expressly guaranteed by the U.S. Government, they are currently being supported by the U.S. Government under a conservatorship arrangement with the

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Government-Sponsored Enterprises. As of June 30, 2015, approximately $240.1 million in U.S. government agency bonds are callable. These securities are bullet securities, that is, they have a defined maturity date on which the principal is due to be paid. The contractual terms of these investments provide that the Company will receive the face value of the bond at maturity which will equal the amortized cost of the bond. Interest is received throughout the life of the security. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the bonds.

Mortgage-Backed Securities and CMOs/REMICs Almost all of the Company s available-for-sale mortgage-backed and CMOs/REMICs securities are issued by Government Agencies or Government-Sponsored Enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying residential mortgages. All mortgage-backed securities are considered to be rated investment grade with a weighted average life of approximately 4.3 years. Of the total MBS/CMO, 99.99% have the implied guarantee of U.S. Government-Sponsored Agencies and Enterprises. The remaining 0.01% are issued by banks. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the bonds.

Municipal Bonds The majority of the Company s municipal bonds, with a weighted-average life of approximately 8.5 years, are insured by the largest bond insurance companies. The Company diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Company s exposure to any single adverse event. The decline in fair value is attributable to the changes in interest rates and not credit quality. Since the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized costs, these investments are not considered other than temporarily impaired at June 30, 2015.

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

At June 30, 2015 and December 31, 2014, investment securities having a carrying value of approximately $2.92 billion and $3.11 billion, respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at June 30, 2015, by contractual maturity, are shown in the table below. Although mortgage-backed securities and CMOs/REMICs have contractual maturities through 2043, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed securities and CMOs/REMICs are included in maturity categories based upon estimated prepayment speeds.

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

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

The investment in FHLB stock is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through June 30, 2015.

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

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

Credit Quality Indicators

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

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

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

Allowance for Loan Losses

The Company s Credit Management Division is responsible for regularly reviewing the ALLL methodology for PCI loans. The ALLL for PCI loans is determined separately from total loans, and is based on expectations of future cash flows from the underlying pools of loans or individual loans in accordance with ASC 310-30, as more fully described in Note 3 *Summary of Significant*

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

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

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

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

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

At June 30, 2015 and December 31, 2014, loans totaling $2.80 billion and $2.78 billion, respectively, were pledged to secure borrowings and available lines of credit from the FHLB and the Federal Reserve Bank.

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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.

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

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

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

Total gross loans, excluding PCI loans

Allowance for Loan Losses

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

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

Management believes that the ALLL was appropriate at June 30, 2015 and December 31, 2014. No assurance can be given that economic conditions which adversely affect the Company s service areas or other circumstances will not be reflected in increased provisions for loan losses in the future.

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

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

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

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

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

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

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

	June 30, 2015			
	Recorded Investment in Loans		Allowance for Loan Losses	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
	(Dollars in thousands)			
Commercial and industrial	$ 1,562	$ 404,861	$ 435	$ 6,750
SBA	3,146	117,420	12	2,073
Real estate:				
Commercial real estate	39,981	2,529,430		35,414
Construction	7,651	39,276	24	722
SFR mortgage	7,044	207,459	77	2,487
Dairy & livestock and agribusiness	7,091	176,893		3,974
Municipal lease finance receivables		74,691		1,014
Consumer and other loans	915	70,261	2	832
Unallocated				5,738
Total	$ 67,390	$ 3,620,291	$ 550	$ 59,004

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

Past Due and Nonperforming Loans

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

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

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

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

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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.

	June 30, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Financing Receivables
	(Dollars in thousands)					
Commercial and industrial	$ 246	$	$ 246	$ 903	$ 405,274	$ 406,423
SBA				2,456	118,110	120,566
Real estate:						
Commercial real estate						
Owner occupied				2,290	789,109	791,399
Non-owner occupied	945	388	1,333	12,677	1,764,002	1,778,012
Construction						
Speculative					36,564	36,564
Non-speculative					10,363	10,363
SFR mortgage		355	355	3,400	210,748	214,503
Dairy & livestock and agribusiness					183,984	183,984
Municipal lease finance receivables					74,691	74,691
Consumer and other loans		2	2	498	70,676	71,176
Total gross loans, excluding PCI loans	$ 1,191	$ 745	$ 1,936	$ 22,224	$ 3,663,521	$ 3,687,681

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

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

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

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

Impaired Loans

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

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

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

	As of and For the Six Months Ended June 30, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 1,097	$ 1,941	$	$ 1,172	$ 15
SBA	3,087	3,688		3,167	26
Real estate:					
Commercial real estate					
Owner occupied	5,987	7,080		5,865	127
Non-owner occupied	33,994	39,946		34,567	838
Construction					
Speculative					
Non-speculative					
SFR mortgage	6,228	7,175		6,102	50
Dairy & livestock and agribusiness	7,091	7,559		7,269	167
Municipal lease finance receivables					
Consumer and other loans	906	1,426		940	8
Total	58,390	68,815		59,082	1,231
With a related allowance recorded:					
Commercial and industrial	465	536	435	478	1
SBA	59	59	12	63	
Real estate:					
Commercial real estate					
Owner occupied					
Non-owner occupied					
Construction					
Speculative	7,651	7,651	24	7,651	192
Non-speculative					
SFR mortgage	816	824	77	826	3
Dairy & livestock and agribusiness					
Municipal lease finance receivables					
Consumer and other loans	9	14	2	10	

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

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

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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 the impairment allowance on impaired loans in the period in which a loss is identified for collateral dependent loans. Therefore, the majority of the nonaccrual loans as of June 30, 2015 and December 31, 2014 have already been written down to the estimated net realizable value. The impaired loans with a related allowance recorded are on nonaccrual loans where a charge-off is not yet processed, on nonaccrual SFR loans where there is a potential modification in process, or on smaller balance non-collateral-dependent loans.

Reserve for Unfunded Loan Commitments

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

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Troubled Debt Restructurings (TDRs)

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

As of June 30, 2015, there were $60.3 million of loans classified as TDRs, of which $15.2 million were nonperforming and $45.1 million were performing. TDRs on accrual status are comprised of loans that were accruing interest at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. At June 30, 2015, performing TDRs were comprised of 10 commercial real estate loans of $25.0 million, one construction loan of $7.7 million, five dairy & livestock and agribusiness loans of $7.1 million, 11 SFR mortgage loans of $3.6 million, four commercial and industrial loans of $659,000, one SBA loan of $691,000 and one consumer loan of $417,000. There were no loans removed from TDR classification during the three and six months ended June 30, 2015 and 2014.

The majority of TDRs have no specific allowance allocated as any impairment amount is normally charged off at the time a probable loss is determined. We have allocated $432,000 and $726,000 of specific allowance to TDRs as of June 30, 2015 and December 31, 2014, respectively.

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

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

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

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

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

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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 June 30, 2015				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at June 30, 2015	Financial Effect Resulting From Modifications (2)
	(Dollars in thousands)				
Commercial and industrial:					
Interest rate reduction		$	$	$	$
Change in amortization period or maturity	1	30	30	30	
Other					
SBA					
Interest rate reduction					
Change in amortization period or maturity	1	330	330	330	12
Other					
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction					
Change in amortization period or maturity					
Non-owner occupied					
Interest rate reduction					
Change in amortization period or maturity					
Dairy & livestock and agribusiness:					
Interest rate reduction					
Change in amortization period or maturity					
Consumer					
Interest rate reduction					
Total loans	2	$ 360	$ 360	$ 360	$ 12

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

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

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

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

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

(1) The tables exclude modified loans that were paid off prior to the end of the period.
(2) Financial effects resulting from modifications represent charge-offs and specific allowance recorded at modification date.
(3) New modifications for the three and six months ended June 30, 2014 represent TDRs acquired from ASB.

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

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

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

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

8. FAIR VALUE INFORMATION

Fair Value Hierarchy

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

The following disclosure provides the fair value information for financial assets and liabilities as of June 30, 2015. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2 and Level 3).

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

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

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

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

Determination of Fair Value

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

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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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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Carrying Value at June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Description of assets				
Investment securities - AFS:				
Government agency/GSEs	$ 351,283	$	$ 351,283	$
Residential mortgage-backed securities	1,856,490		1,856,490	
CMO s/REMIC s - residential	409,747		409,747	
Municipal bonds	531,615		531,615	
Other securities	5,082		5,082	
Total investment securities - AFS	3,154,217		3,154,217	
Interest rate swaps	8,861		8,861	
Total assets	$ 3,163,078	$	$ 3,163,078	$
Description of liability				
Interest rate swaps	$ 8,861	$	$ 8,861	$
Total liabilities	$ 8,861	$	$ 8,861	$

	Carrying Value at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Description of assets				
Investment securities - AFS:				
Government agency/GSEs	$ 330,843	$	$ 330,843	$
Residential mortgage-backed securities	1,917,496		1,917,496	
CMO s/REMIC s - residential	304,091		304,091	
Municipal bonds	579,641		579,641	
Other securities	5,087		5,087	

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

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

	Carrying Value at June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Six Months Ended June 30, 2015
	(Dollars in thousands)				
Description of assets					
Impaired loans, excluding PCI Loans:					
Commercial and industrial	$ 37	$	$	$ 37	$ 22
SBA	59			59	12
Real estate:					
Commercial real estate					
Construction	7,651			7,651	24
SFR mortgage	1,389			1,389	292
Dairy & livestock and agribusiness					
Consumer and other loans	206			206	77
Other real estate owned	948			948	162
Total assets	$ 10,290	$	$	$ 10,290	$ 589

	Carrying Value at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Year Ended December 31, 2014
	(Dollars in thousands)				
Description of assets					
Impaired loans, excluding PCI Loans:					
Commercial and industrial	$ 1,911	$	$	$ 1,911	$ 771
SBA	1,327			1,327	296
Real estate:					
Commercial real estate	2,500			2,500	271

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

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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 June 30, 2015 and December 31, 2014, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

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

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2015 and December 31, 2014. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented above.

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

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

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

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

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

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

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

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

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

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

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10. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank is exposed to certain risks relating to its ongoing business operations and utilizes interest rate swap agreements (swaps) as part of its asset/liability management strategy to help manage its interest rate risk position. As of June 30, 2015, the Bank has entered into 75 interest-rate swap agreements with customers. The Bank then entered into identical offsetting swaps with a counterparty bank. The swap agreements are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and to provide the customer the financial effects of a fixed-rate loan without creating significant volatility in the Bank s earnings.

The structure of the swaps is as follows. The Bank enters into a swap with its customers to allow them to convert variable rate loans to fixed rate loans, and at the same time, the Bank enters into a swap with the counterparty bank to allow the Bank to pass on the interest-rate risk associated with fixed rate loans. The net effect of the transaction allows the Bank to receive interest on the loan from the customer at a variable rate based on LIBOR plus a spread. The changes in the fair value of the swaps primarily offset each other and therefore should not have a significant impact on the Company s results of operations, although the Company does incur credit and counterparty risk with respect to performance on the swap agreements by the Bank s customer and counterparty, respectively. Our interest rate swap derivatives are subject to a master netting arrangement with one counterparty bank. None of our derivative assets and liabilities are offset in the balance sheet.

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

Balance Sheet Classification of Derivative Financial Instruments

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

	June 30, 2015			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(Dollars in thousands)		
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 8,861	Other liabilities	$ 8,861
Total derivatives		$ 8,861		$ 8,861

	December 31, 2014			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

		(Dollars in thousands)		
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 10,080	Other liabilities	$ 10,080
Total derivatives		$ 10,080		$ 10,080

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

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

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivative Instruments	Amount of Gain Recognized in Income on Derivative Instruments			
		For the Three Months Ended June 30,		For the Six Months Ended June 30,	
		2015	2014	2015	2014
		(Dollars in thousands)			
Interest rate swaps	Other income	$ 199	$	$ 199	$
Total		$ 199	$	$ 199	$

11. OTHER COMPREHENSIVE INCOME (LOSS)

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

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

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

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

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

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

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

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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. We offer a repurchase agreement product to our customers, which include master netting agreements that allow for the netting of collateral positions. This product, known as Citizens Sweep Manager, sells certain of our securities overnight to our customers under an agreement to repurchase them the next day. The repurchase agreements are not offset in the condensed consolidated balances.

	Gross Amounts Recognized in the Condensed Consolidated Balance Sheets	Gross Amounts offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Collateral Pledged	Net Amount
	(Dollars in thousands)					
June 30, 2015						
Financial assets:						
Derivatives not designated as hedging instruments	$ 8,861	$	$	$ 8,861	$	$ 8,861
Total	$ 8,861	$	$	$ 8,861	$	$ 8,861
Financial liabilities:						
Derivatives not designated as hedging instruments	$ 9,004	$ (143)	$ 8,861	$ 143	$ (16,611)	$ (7,607)
Repurchase agreements	662,326		662,326		(714,663)	(52,337)
Total	$ 671,330	$ (143)	$ 671,187	$ 143	$ (731,274)	$ (59,944)
December 31, 2014						
Financial assets:						
Derivatives not designated as hedging instruments	$ 10,080	$	$	$ 10,080	$	$ 10,080
Total	$ 10,080	$	$	$ 10,080	$	$ 10,080
Financial liabilities:						
Derivatives not designated as hedging instruments	$ 10,200	$ (120)	$ 10,080	$ 120	$ (16,734)	$ (6,534)
Repurchase agreements	563,627		563,627		(624,578)	(60,951)

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

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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 utilize information available to us to make the necessary estimates to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables and information could change future valuations and impact the results of operations.

Allowance for Loan Losses (ALLL)

Troubled Debt Restructurings

Investment Securities

Goodwill Impairment

Acquired Loans

Purchase Credit Impaired (PCI) Loans

Other Real Estate Owned (OREO)

Fair Value of Financial Instruments

Income Taxes

Share-Based Compensation

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

OVERVIEW

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

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

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

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

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

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

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

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

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

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

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ANALYSIS OF THE RESULTS OF OPERATIONS

Financial Performance

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

(1) Includes $13.9 million debt termination expense.

Noninterest Expense and Efficiency Ratio Reconciliation (Non-GAAP)

We use certain non-GAAP financial measures to provide supplemental information regarding our performance. Noninterest expense for the six months ended June 30, 2015, includes debt termination expense of $13.9 million. We believe that presenting the efficiency ratio, and the ratio of noninterest expense to average assets, excluding the impact of debt termination expense, provides additional clarity to the users of financial statements regarding core financial performance. The Company did not incur debt termination expense during the six months ended June 30, 2014.

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

[1] Annualized

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

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

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

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

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

Net Interest Income

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We use certain non-GAAP financial measures to provide supplemental information regarding our performance. Net interest income for the three months ended June 30, 2015 and 2014 include a yield adjustment of $1.0 million and $1.5 million, respectively. Net interest income for the six months ended June 30, 2015, and 2014 include a yield adjustment of $2.0 million and $3.2 million, respectively. These yield adjustments relate to discount accretion on PCI loans, and are reflected in the Company s net interest margin. We believe that presenting net interest income and the net interest margin excluding these yield adjustments provides additional clarity to the users of financial statements regarding core net interest income and net interest margin.

	Three Months Ended June 30,					
	2015			2014		
	(Dollars in thousands)					
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
Total interest-earning assets (TE)	$ 7,113,092	$ 66,261	3.74%	$ 6,666,046	$ 63,122	3.80%
Discount on acquired PCI loans	6,304	(1,032)		10,801	(1,467)	
Total interest-earning assets, excluding PCI loan discount and yield adjustment	$ 7,119,396	$ 65,229	3.68%	$ 6,676,847	$ 61,655	3.70%
Net interest income and net interest margin (TE)		$ 64,504	3.65%		$ 59,065	3.55%
Yield adjustment to interest income from discount accretion on acquired PCI loans		(1,032)			(1,467)	
Net interest income and net interest margin (TE), excluding yield adjustment		$ 63,472	3.58%		$ 57,598	3.46%

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

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

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

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

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

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

Net interest income, before provision for loan losses, of $62.8 million for the second quarter of 2015 increased $5.6 million, or 9.80%, compared to the second quarter of 2014. Second quarter net interest income was positively impacted by both loan income and income from investment securities. Dividends from FHLB stock of $1.4 million also increased $888,000 over the second quarter of 2014, primarily due to a special dividend of $923,000 for the second quarter of 2015. Interest income and fees on loans for the second quarter of 2015 totaled $45.3 million, which included $1.0 million of discount accretion from principal reductions, payoffs and improved credit loss experienced on PCI loans acquired from SJB. This represented a $220,000, or 0.48%, decrease when compared to interest income and fees on loans of $45.5 million for the first quarter of 2015, which included $980,000 of discount accretion on PCI loans, and an increase of $1.8 million, or 4.05%, from the second quarter of 2014, which included $1.5 million of discount accretion on PCI loans. Our net interest income for the second quarter of 2015 was also positively impacted by a $1.4 million decrease in quarter-over-quarter interest expense primarily as a result of the $200.0 million repayment of fixed rate borrowings from the FHLB.

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