

CVB FINANCIAL CORP
Form 10-K/A
March 24, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2015

or

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

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

Commission file number: 1-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)
701 N. Haven Avenue, Suite 350

95-3629339
(I.R.S. Employer
Identification No.)

Ontario, California
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (909) 980-4030

91764
(Zip Code)

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

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

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

None

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

PART OF

Part III of Form 10-K

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (Form 10-K/A) to our Annual Report on Form 10-K for the year ended December 31, 2015, initially filed with the Securities and Exchange Commission on February 29, 2016 (the Original Filing), is being filed for the sole purpose of including the Report of Independent Registered Public Accounting Firm dated February 29, 2016 within Item 8. Financial Statements and Supplementary Data, which was inadvertently omitted from the Annual Report. Except as stated above, this Form 10-K/A does not reflect events occurring after the Original Filing and does not amend, modify, update or change in any way the disclosures or any other information, including any of the financial information, contained in the Original Filing. Accordingly, this Form 10-K/A should be read in conjunction with the Original Filing.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Form 10-K/A.

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

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- (1) Included in this amendment No. 1 on Form 10-K/A (Form 10-K/A) to the Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission on February 29, 2016. This Form 10-K/A is being filed for the sole purpose of including the Report of Independent Registered Public Accounting Firm dated February 29, 2016, within Item 8. Financial Statements and Supplementary Data, which was inadvertently omitted from the Annual Report. Except as stated above, this Form 10-K/A does not reflect events occurring after the Original Filing and does not amend, modify, update, or change in any way the disclosures or any other information, including any of the financial information, contained in the Original Filing.

All schedules are omitted because they are not applicable, not material or because the information is included in the financial statements or the notes thereto.

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

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

Accrued interest payable	264	1,161
Deferred compensation	11,269	10,291
Junior subordinated debentures	25,774	25,774
Payable for securities purchased	1,696	
Other liabilities	54,834	48,821
Total liabilities	6,747,801	6,499,811
Commitments and Contingencies		
Stockholders Equity		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 106,384,982 at December 31, 2015, and 105,893,216 at December 31, 2014	502,571	495,220
Retained earnings	399,919	351,814
Accumulated other comprehensive income, net of tax	20,909	31,075
Total stockholders equity	923,399	878,109
Total liabilities and stockholders equity	\$ 7,671,200	\$ 7,377,920

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

	For the Year Ended December 31,		
	2015	2014	2013
Interest income:			
Loans and leases, including fees	\$ 185,663	\$ 181,619	\$ 179,631
Investment securities:			
Investment securities available-for-sale	63,190	68,214	50,211
Investment securities held-to-maturity	9,018	164	188
Total investment income	72,208	68,378	50,399
Dividends from FHLB stock	2,774	2,130	2,033
Federal funds sold	634	427	221
Interest-earning deposits with other institutions	234	349	489
Total interest income	261,513	252,903	232,773
Interest expense:			
Deposits	5,266	4,977	4,887
Borrowings	2,867	10,991	10,999
Junior subordinated debentures	438	421	621
Total interest expense	8,571	16,389	16,507
Net interest income before recapture of provision for loan losses	252,942	236,514	216,266
Recapture of provision for loan losses	(5,600)	(16,100)	(16,750)
Net interest income after recapture of provision for loan losses	258,542	252,614	233,016
Noninterest income:			
Service charges on deposit accounts	15,567	15,778	15,923
Trust and investment services	8,642	8,118	8,071
Bankcard services	3,094	3,386	3,481
BOLI income	2,561	2,428	2,511
Gain on sale of loans	732	6,001	
(Loss) gain on sale of securities, net	(22)		2,094
Decrease in FDIC loss sharing asset, net	(902)	(3,591)	(12,860)
Gain on OREO, net	416	1,020	3,131
Other	3,395	3,272	2,936

Total noninterest income	33,483	36,412	25,287
Noninterest expense:			
Salaries and employee benefits	78,878	77,118	71,015
Occupancy and equipment	14,892	15,264	14,504
Professional services	6,188	6,018	5,709
Software licenses and maintenance	3,930	4,464	4,671
Promotion	5,015	5,195	4,681
(Recapture of) provision for unfunded loan commitments	(500)	(1,250)	500
Amortization of intangible assets	949	1,137	1,127
Debt termination expense	13,870		
OREO expense	443	307	856
Insurance reimbursements		(372)	(4,155)
Acquisition related expenses	475	1,973	
Other	16,519	16,375	15,120
Total noninterest expense	140,659	126,229	114,028
Earnings before income taxes	151,366	162,797	144,275
Income taxes	52,221	58,776	48,667
Net earnings	\$ 99,145	\$ 104,021	\$ 95,608
Other comprehensive income:			
Unrealized (loss) gain on securities arising during the period	\$ (17,550)	\$ 69,661	\$ (88,562)
Less: Reclassification adjustment for net loss (gain) on securities included in net income	22		(2,094)
Other comprehensive (loss) income, before tax	(17,528)	69,661	(90,656)
Less: Income tax benefit (expense) related to items of other comprehensive (loss) income	7,362	(29,256)	38,075
Other comprehensive (loss) income, net of tax	(10,166)	40,405	(52,581)
Comprehensive income	\$ 88,979	\$ 144,426	\$ 43,027
Basic earnings per common share	\$ 0.93	\$ 0.98	\$ 0.91
Diluted earnings per common share	\$ 0.93	\$ 0.98	\$ 0.91
Cash dividends declared per common share	\$ 0.480	\$ 0.400	\$ 0.385

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars and shares in thousands)

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

Shares issued pursuant to stock-based compensation plan	97	2,733			2,733
Cash dividends declared on common stock (\$0.480 per share)			(51,040)		(51,040)
Net earnings			99,145		99,145
Other comprehensive loss				(10,166)	(10,166)
Balance, December 31, 2015	106,385	\$ 502,571	\$ 399,919	\$ 20,909	\$ 923,399

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Year Ended December 31,		
	2015	2014	2013
Cash Flows from Operating Activities			
Interest and dividends received	\$ 277,593	\$ 263,878	\$ 244,205
Service charges and other fees received	29,604	34,527	30,494
Interest paid	(9,467)	(16,067)	(16,616)
Net cash paid to vendors, employees and others	(132,499)	(134,913)	(93,076)
Income taxes paid	(58,500)	(58,589)	(53,200)
(Payments to) proceeds from FDIC, loss share agreement	(1,089)	(1,134)	4
Net cash provided by operating activities	105,642	87,702	111,811
Cash Flows from Investing Activities			
Proceeds from redemption of FHLB stock	7,750	10,413	24,320
Net change in interest-earning balances from depository institutions	(5,573)	53,687	
Proceeds from sale of investment securities available-for-sale	975		99,155
Proceeds from repayment of investment securities available-for-sale	395,430	349,473	414,881
Proceeds from maturity of investment securities available-for-sale	128,709	75,916	80,546
Purchases of investment securities available-for-sale	(694,630)	(805,544)	(920,657)
Proceeds from repayment of investment securities held-to-maturity	23,677		
Proceeds from maturity of investment securities held-to-maturity	27,348		
Net increase in loan and lease finance receivables	(189,707)	(16,767)	(87,276)
Proceeds from sale of loans	3,629	9,668	
Proceeds from sales of premises and equipment	926	663	25
Purchase of premises and equipment	(1,869)	(1,893)	(2,421)
Proceeds from sales of other real estate owned	2,587	5,825	12,971
Cash acquired on purchase of American Security Bank, net of cash paid		50,038	
Net cash used in investing activities	(300,748)	(268,521)	(378,456)
Cash Flows from Financing Activities			
Net increase in other deposits	378,321	291,005	149,271
Net (decrease) increase in time deposits	(65,719)	44,647	(32,627)

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Repayment of FHLB advances	(200,000)		
Repayment of junior subordinated debentures			(41,238)
Net (decrease) increase in other borrowings		(23,000)	43,000
Net increase (decrease) in customer repurchase agreements	127,077	(79,624)	170,007
Cash dividends on common stock	(48,862)	(42,298)	(29,939)
Repurchase of common stock	(834)	(5,474)	(559)
Proceeds from exercise of stock options	5,144	5,522	4,517
Tax benefit related to exercise of stock options	308	1,116	475
Net cash provided by financing activities	195,435	191,894	262,907
Net increase in cash and cash equivalents	329	11,075	(3,738)
Cash and cash equivalents, beginning of period	105,768	94,693	98,431
Cash and cash equivalents, end of period	\$ 106,097	\$ 105,768	\$ 94,693

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CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

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

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE YEARS ENDED DECEMBER 31, 2015

1. BUSINESS

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

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

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

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for Form 10-K and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for financial reporting.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Segments The Company's operating business units have been divided into two reportable segments: (i) Business Financial and Commercial Banking Centers (Centers) and (ii) Treasury. The Business Financial and Commercial Banking Centers lines of business generally consist of loans, deposits, and fee generating products and services that

the Bank offers to its clients and prospects. The other segment is Treasury, which manages the investment portfolio of the Company. The Company's remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in Other. Refer to Note 21 *Business Segments* of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

Troubled Debt Restructurings Loans are reported as a Troubled Debt Restructuring (TDR) if the Company for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Types of modifications that may be considered concessions, which in turn result in a TDR include, but are not limited to, (i) a reduction of the stated interest rate for the remaining original life of the debt, (ii) an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement, or (iv) a reduction of interest. As a result of these concessions, restructured loans are considered impaired, and the measurement of impairment is based on the Company's policy for impaired loans. In addition, the Company may provide a concession to the debtor where it offers collateral and the value of such collateral is significant in proportion to the nature of the concession requested, and it substantially reduces the Company's risk of

loss. In such cases, these modifications are not considered a TDR as, in substance, no concession was made as a result of the significant additional collateral obtained.

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

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

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

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

The frequency of payments due;

The debt's original contractual maturity; or

The debt's original expected duration.

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

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

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

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

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

Provision and Allowance for Loan Losses The allowance for loan losses is management's estimate of probable losses inherent in the loan and lease receivables portfolio. The allowance is increased (decreased) by the provision for losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are added to the allowance. The determination of the balance in the allowance for loan losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management's judgment, is appropriate to provide for probable loan losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past loan loss

experience, and such other factors that would deserve current recognition in estimating inherent loan losses.

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

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

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

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

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

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

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

applicable historical loss rates and the qualitative factors applicable to each pool of loans.

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

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

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

FDIC Loss Sharing Asset On October 16, 2009, the Bank acquired substantially all of the assets and assumed substantially all of the liabilities of SJB from the FDIC in an FDIC-assisted transaction. The Bank entered into a loss sharing agreement with the FDIC, whereby the FDIC covered a substantial portion of any future losses on certain acquired assets. The acquired assets subject to the loss sharing agreement are referred to collectively as covered assets during the term of the indemnification agreement. Under the terms of such loss sharing agreement, the FDIC absorbs 80% of losses and shares in 80% of loss recoveries up to \$144.0 million with respect to covered assets, after a first loss amount of \$26.7 million. The FDIC will reimburse the Bank for 95% of losses and share in 95% of loss recoveries in excess of \$144.0 million with respect to covered assets. The loss sharing agreement covered 5 years for commercial loans and 10 years for single-family residential loans from the October 16, 2009 acquisition date and the loss recovery provisions are in effect for 8 and 10 years, respectively, for commercial and single-family residential

loans from the acquisition date.

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

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

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

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

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

Goodwill and Intangible Assets Goodwill resulting from business combinations prior to January 1, 2009, represents the excess of the purchase price over the fair value of the net assets of the businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interest in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for

impairment at least annually, or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

aware of any material pending legal action or complaints asserted against the Company.

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Recent Accounting Pronouncements In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis . The new guidance reduces the number of consolidation models from four to two as well as simplifies the FASB Accounting Standards Codification and improves GAAP by placing more of an emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related party guidance when determining a controlling financial interest in a variable interest entity (VIE), and changing the consolidation conclusions for public and private companies in several industries that typically make use of VIE s. ASU 2015-02 will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period-Adjustments . ASU 2015-16 eliminates the requirement for an acquirer to retrospectively adjust the financial statement for measurement-period adjustments that occur in periods after a business combination is consummated. ASU 2015-16 will be effective for the first interim period within annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

4. BUSINESS COMBINATIONS

American Security Bank Acquisition (ASB)

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

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

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

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

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

Table of Contents**5. INVESTMENT SECURITIES**

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

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

	December 31, 2014				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	<i>(Dollars in thousands)</i>				
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%

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Other securities	5,000	87		5,087	0.16%
Total available-for-sale securities	\$ 3,083,582	\$ 65,754	\$ (12,178)	\$ 3,137,158	100.00%
Investment securities held-to-maturity (1):					
CMO	\$ 1,528	\$ 649	\$	\$ 2,177	100.00%
Total held-to-maturity securities	\$ 1,528	\$ 649	\$	\$ 2,177	100.00%

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

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

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

Approximately 85% of the total investment securities portfolio at December 31, 2015 represents securities issued by the U.S. government or U.S. government-sponsored enterprises, with the implied guarantee of payment of principal and interest. All non-agency available-for-sale Collateralized Mortgage Obligations (CMO)/Real Estate Mortgage Investment Conduit (REMIC) issues held are rated investment grade or better by either Standard & Poor's or Moody's, as of December 31, 2015 and 2014. At December 31, 2015, the Bank had \$1.5 million in CMOs backed by whole loans issued by private-label companies (non-government sponsored).

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

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

	Less Than 12 Months		December 31, 2015		Total	
	Fair Value	Gross Unrealized Holding Losses	12 Months or Longer	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	<i>(Dollars in thousands)</i>					
Investment securities available-for-sale:						
Government agency/GSEs	\$ 5,745	\$ (7)	\$	\$	\$ 5,745	\$ (7)
Residential mortgage-backed securities	437,699	(1,761)			437,699	(1,761)
CMOs/REMICs residential	171,923	(1,074)			171,923	(1,074)
Municipal bonds	398	(2)	5,961	(1)	6,359	(3)

Other securities

Total available-for-sale securities	\$ 615,765	\$ (2,844)	\$ 5,961	\$ (1)	\$ 621,726	\$ (2,845)
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Investment securities

held-to-maturity:

Government agency/GSEs	\$ 84,495	\$ (734)	\$	\$	\$ 84,495	\$ (734)
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Residential mortgage-backed securities	230,760	(1,293)			230,760	(1,293)
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CMO

Municipal bonds	110,119	(719)			110,119	(719)
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Other securities

Total held-to-maturity securities	\$ 425,374	\$ (2,746)	\$	\$	\$ 425,374	\$ (2,746)
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	Less Than 12 Months		December 31, 2014 12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
<i>(Dollars in thousands)</i>						
Investment securities available-for-sale:						
Government agency/GSEs	\$ 22,224	\$ 28	\$ 307,873	\$ 8,200	\$ 330,097	\$ 8,228
Residential mortgage-backed securities	19,636	4	145,681	3,024	165,317	3,028
CMOs/REMICs residential			31,143	277	31,143	277
Municipal bonds	1,953	23	24,812	622	26,765	645
Other securities						
Total available-for-sale securities	\$ 43,813	\$ 55	\$ 509,509	\$ 12,123	\$ 553,322	\$ 12,178

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

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

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

Municipal Bonds The majority of our municipal bonds, with maturities of approximately 8.4 years, are insured by the largest U.S. bond insurance companies. The Company diversifies its holdings by owning selections of securities

from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Company's exposure to any single adverse event. The decline in fair value is attributable to the changes in interest rates and not credit quality. Since the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized costs. These investments are not considered other than temporarily impaired at December 31, 2015.

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

At December 31, 2015 and 2014, investment securities having a carrying value of approximately \$2.81 billion and \$3.11 billion, respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at December 31, 2015, by contractual maturity, are shown in the table below. Although mortgage-backed securities and CMOs/REMICs have contractual maturities through 2043, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed securities and CMOs/REMICs are included in maturity categories based upon estimated prepayment speeds.

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

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

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

On October 16, 2009, the Bank acquired SJB and entered into a loss sharing agreements with the FDIC that is more fully discussed in the Note 3 *Summary of Significant Accounting Policies* included herein. The acquisition has been accounted for under the purchase method of accounting. The assets and liabilities were recorded at their estimated fair values as of the October 16, 2009 acquisition date. The acquired loans are accounted for as PCI loans. The application of the purchase method of accounting resulted in an after-tax gain of \$12.3 million which was included in 2009 earnings. The gain was the negative goodwill resulting from the acquired assets and liabilities recognized at fair value.

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

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

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

Credit Quality Indicators

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

	December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Pass	\$ 24,210	\$ 26,706
Watch list	52,191	77,371
Special mention	11,142	8,203
Substandard	6,169	21,216
Doubtful & loss		
Total PCI gross loans	\$ 93,712	\$ 133,496

Allowance for Loan Losses

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

in Note 3 *Summary of Significant Accounting Policies*, included herein. As of December 31, 2015 and 2014, there were no allowances for loan losses recorded for PCI loans.

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

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

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

- (1) Net amortization included accelerated amortization as a result of loans being paid off in full, sold, or transferred to OREO.

Through December 31, 2015, the Bank has submitted claims to the FDIC for net losses on PCI loans totaling \$120.1 million.

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

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

	December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Commercial and industrial	\$ 434,099	\$ 390,011
SBA	106,867	134,265
Real estate:		
Commercial real estate	2,643,184	2,487,803
Construction	68,563	55,173
SFR mortgage	233,754	205,124
Dairy & livestock and agribusiness	305,509	279,173
Municipal lease finance receivables	74,135	77,834
Consumer and other loans	69,278	69,884
Gross loans, excluding PCI loans	3,935,389	3,699,267
Less: Deferred loan fees, net	(8,292)	(8,567)
	3,927,097	3,690,700

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Gross loans, excluding PCI loans, net of deferred loan fees		
Less: Allowance for loan losses	(59,156)	(59,825)
Net loans, excluding PCI loans	3,867,941	3,630,875
PCI Loans	93,712	133,496
Discount on PCI loans	(3,872)	(7,129)
PCI loans, net	89,840	126,367
Total loans and lease finance receivables	\$ 3,957,781	\$ 3,757,242

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As of December 31, 2015, 67.16% of the total gross loan portfolio (excluding PCI loans) consisted of commercial real estate loans and 1.74% of the total loan portfolio consisted of construction loans. Substantially all of the Company's real estate loans and construction loans are secured by real properties located in California. As of December 31, 2015, \$173.0 million, or 6.54% of the total commercial real estate loans included loans secured by farmland, compared to \$165.6 million, or 6.66%, at December 31, 2014. The loans secured by farmland included \$128.4 million for loans secured by dairy & livestock land and \$44.6 million for loans secured by agricultural land at December 31, 2015, compared to \$144.1 million for loans secured by dairy & livestock land and \$21.5 million for loans secured by agricultural land at December 31, 2014. As of December 31, 2015, dairy & livestock and agribusiness loans of \$305.5 million was comprised of \$287.0 million for dairy & livestock loans and \$18.5 million for agribusiness loans, compared to \$268.1 million for dairy & livestock loans and \$11.1 million for agribusiness loans at December 31, 2014.

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

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

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

Credit Quality Indicators

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

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

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

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

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

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

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

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

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

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

	December 31, 2014					
	Pass	Watch List	Special Mention	Substandard	Doubtful & Loss	Total
	<i>(Dollars in thousands)</i>					
Commercial and industrial	\$ 234,029	\$ 105,904	\$ 33,795	\$ 16,031	\$ 252	\$ 390,011
SBA	84,769	24,124	15,858	7,920	1,594	134,265
Real estate:						
Commercial real estate						
Owner occupied	552,072	159,908	46,248	32,139		790,367
Non-owner occupied	1,347,006	241,809	56,353	52,268		1,697,436

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Construction						
Speculative	28,310	613		7,651		36,574
Non-speculative	18,071	528				18,599
SFR mortgage	174,311	20,218	2,442	8,153		205,124
Dairy & livestock and agribusiness	174,783	85,660	8,612	10,015	103	279,173
Municipal lease finance receivables	35,463	22,349	20,022			77,834
Consumer and other loans	62,904	2,233	1,789	2,763	195	69,884
Total gross loans, excluding PCI loans	\$ 2,711,718	\$ 663,346	\$ 185,119	\$ 136,940	\$ 2,144	\$ 3,699,267

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SBA	2,332	(50)	114	161	2,557
Real estate:					
Commercial real estate	39,402	(353)	140	(5,816)	33,373
Construction	1,305		885	(1,202)	988
SFR mortgage	2,718		401	(775)	2,344
Dairy & livestock and agribusiness	11,728	(1,061)	492	(5,680)	5,479
Municipal lease finance receivables	2,335			(923)	1,412
Consumer and other loans	960	(17)	154	165	1,262
Unallocated (1)	5,953			(617)	5,336
Total allowance for loan losses	\$ 75,235	\$ (2,369)	\$ 3,059	\$ (16,100)	\$ 59,825

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

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

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

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

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

Past Due and Nonperforming Loans

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

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

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

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

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

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

	December 31, 2014					Total Loans and Financing Receivables
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	
	<i>(Dollars in thousands)</i>					
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						

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Speculative (2)					36,574	36,574
Non-speculative					18,599	18,599
SFR mortgage	425		425	3,240	201,459	205,124
Dairy & livestock and agribusiness				103	279,070	279,173
Municipal lease finance receivables					77,834	77,834
Consumer and other loans	64	17	81	736	69,067	69,884
Total gross loans, excluding PCI Loans	\$ 1,543	\$ 138	\$ 1,681	\$ 32,186	\$ 3,665,400	\$ 3,699,267

- (1) As of December 31, 2014, \$20.1 million of nonaccruing loans were current, \$3.7 million were 30-59 days past due, \$8.5 million were 90+ days.
- (2) Speculative construction loans are generally for properties where there is no identified buyer or renter.

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At December 31, 2015, the Company had impaired loans, excluding PCI loans, of \$63.7 million. Of this amount, there was \$14.5 million of nonaccrual commercial real estate loans, \$2.7 million of nonaccrual SFR mortgage loans, \$2.6 million of nonaccrual SBA loans, \$704,000 of nonaccrual commercial and industrial loans, and \$519,000 of nonaccrual consumer and other loans. These impaired loans included \$55.3 million of loans whose terms were modified in a troubled debt restructuring, of which \$12.6 million are classified as nonaccrual. The remaining balance of \$42.7 million consisted of 34 loans performing according to the restructured terms. The impaired loans had a specific allowance of \$669,000 at December 31, 2015. At December 31, 2014, the Company had classified as impaired, loans, excluding PCI loans, with a balance of \$85.8 million with a related allowance of \$1.5 million.

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

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

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Non-speculative					
SFR mortgage	588	640	20	607	12
Dairy & livestock and agribusiness					
Municipal lease finance receivables					
Consumer and other loans	43	45		45	
Total	8,949	9,078	669	8,985	400
Total impaired loans	\$ 63,706	\$ 71,062	\$ 669	\$ 65,177	\$ 2,676

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

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

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

Reserve for Unfunded Loan Commitments

The allowance for off-balance sheet credit exposure relates to commitments to extend credit, letters of credit and undisbursed funds on lines of credit. The Company evaluates credit risk associated with the off-balance sheet loan commitments at the same time it evaluates credit risk associated with the loan and lease portfolio. The Company recorded a recapture of the reserve for unfunded loan commitments of \$500,000 for the year ended

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

Troubled Debt Restructurings

Loans that are reported as TDRs are considered impaired and charge-off amounts are taken on an individual loan basis, as deemed appropriate. The majority of restructured loans are loans for which the terms of repayment have been renegotiated, resulting in a reduction in interest rate or deferral of principal. Refer to Note 3 *Summary of Significant Accounting Policies, Troubled Debt Restructurings*, included herein.

As of December 31, 2015, there were \$55.3 million of loans classified as a TDR, of which \$12.6 million were nonperforming and \$42.7 million were performing. TDRs on accrual status are comprised of loans that were accruing interest at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. At December 31, 2015, performing TDRs were comprised of 13 commercial real estate loans of \$25.8 million, one construction loan of \$7.7 million, two dairy & livestock and agribusiness loans of \$3.7 million, 11 SFR mortgage loans of \$3.6 million, five commercial and industrial loans of \$939,000, one consumer loan of \$414,000 and one SBA loan of \$681,000. There were no loans removed from TDR classification for the years ended December 31, 2015 and 2014.

The majority of TDRs have no specific allowance allocated as any impairment amount is normally charged off at the time a probable loss is determined. We have allocated \$607,000 and \$726,000 of specific allowance to TDRs as of December 31, 2015 and December 31, 2014, respectively.

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

	For the Year Ended December 31,	
	2015	2014 (1)
	<i>(Dollars in thousands)</i>	
Performing TDRs:		
Beginning balance	\$ 53,589	\$ 66,955
New modifications	3,689	462
Payoffs and payments, net	(15,235)	(14,527)
TDRs returned to accrual status	644	699
TDRs placed on nonaccrual status		
Ending balance	\$ 42,687	\$ 53,589
Nonperforming TDRs:		
Beginning balance	\$ 20,285	\$ 25,119
New modifications	661	4,372
Charge-offs		(1,061)
Transfer to OREO	(842)	

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Payoffs and payments, net	(6,838)	(7,446)
TDRs returned to accrual status	(644)	(699)
TDRs placed on nonaccrual status		
Ending balance	\$ 12,622	\$ 20,285
Total TDRs	\$ 55,309	\$ 73,874

- (1) New modifications for the year ended December 31, 2014 included six 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 Year Ended December 31, 2015					
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at December 31, 2015	Financial Effect Resulting From Modifications (2)
<i>(Dollars in thousands)</i>					
Commercial and industrial:					
Interest rate reduction		\$	\$	\$	\$
Change in amortization period or maturity	1	203	203	203	203
SBA:					
Interest rate reduction					
Change in amortization period or maturity	1	330	330	320	
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction					
Change in amortization period or maturity	2	823	823	821	
Non-owner occupied					
Interest rate reduction	1	2,376	2,376	2,316	
Change in amortization period or maturity	1	280	280	280	
SFR mortgage:					
Interest rate reduction	1	322	322	326	
Change in amortization period or maturity					
Total loans	7	\$ 4,334	\$ 4,334	\$ 4,266	\$ 203

For the Year Ended December 31, 2014					
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at December 31, 2014	Financial Effect Resulting From Modifications (2)
<i>(Dollars in thousands)</i>					
Commercial and industrial:					

Interest rate reduction (3) (4)	3	\$	553	\$	553	\$	522	\$	185
Change in amortization period or maturity									
Real estate:									
Commercial real estate:									
Owner occupied									
Interest rate reduction (3)	1		199		199		187		
Change in amortization period or maturity									
Non-owner occupied									
Interest rate reduction (3)	3		3,573		3,573		3,469		
Change in amortization period or maturity									
Dairy & livestock and agribusiness:									
Interest rate reduction									
Change in amortization period or maturity									
Consumer:									
Interest rate reduction (4)	1		421		421		419		
Change in amortization period or maturity									
Total loans	8	\$	4,746	\$	4,746	\$	4,597	\$	185

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For the Year Ended December 31, 2013					
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at December 31, 2013	Financial Effect Resulting From Modifications (2)
<i>(Dollars in thousands)</i>					
Commercial and industrial:					
Interest rate reduction		\$	\$	\$	\$
Change in amortization period or maturity	4	621	621	570	95
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction					
Change in amortization period or maturity	1	168	168	138	
Non-owner occupied					
Interest rate reduction					
Change in amortization period or maturity					
Construction:					
Speculative					
Interest rate reduction					
Change in amortization period or maturity					
SFR mortgage:					
Interest rate reduction	3	1,365	1,365	1,349	
Change in amortization period or maturity					
Dairy & livestock and agribusiness:					
Interest rate reduction					
Change in amortization period or maturity	10	26,915	26,915	22,662	149
Total loans	18	\$ 29,069	\$ 29,069	\$ 24,719	\$ 244

(1) The tables above exclude modified loans that were paid off prior to the end of the period.

- (2) Financial effects resulting from modifications represent charge-offs and specific allowance recorded at modification date.
- (3) New modifications for the year ended December 31, 2014 included six TDRs acquired from ASB.
- (4) New modifications for the year ended December 31, 2014 included three TDRs that include both an interest rate reduction and a maturity extension.

As of December 31, 2015, 2014 and 2013, there were no loans that were previously modified as a troubled debt restructuring within the previous 12 months that subsequently defaulted during each of the years ended December 31, 2015, 2014 and 2013, respectively.

Table of Contents**8. OTHER REAL ESTATE OWNED**

The following table summarizes the activity related to total OREO for the periods presented.

	For the Year Ended December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Balance, beginning of period	\$ 5,637	\$ 6,979
Additions	3,721	3,591
Dispositions	(2,203)	(4,868)
Valuation adjustments	(162)	(65)
Balance, end of period	\$ 6,993	\$ 5,637

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents the changes in the carrying amount of goodwill for the periods presented.

	As of and for the Year Ended	
	December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Balance, beginning of period	\$ 74,244	\$ 55,097
Addition from the ASB acquisition		19,147
Balance, end of period	\$ 74,244	\$ 74,244

The following summarizes activity of amortizable core deposit intangible (CDI) assets for the for the periods presented.

	As of and For the Year Ended December 31,					
	2015			2014		
	Gross CDI Accumulated	Net CDI	Gross CDI Accumulated	Net CDI	Gross CDI Accumulated	Net CDI
	Amount	Amortization	Amount	Amortization	Amount	Amount
	<i>(Dollars in thousands)</i>					
Balance of intangible assets, beginning of period	\$ 34,089	\$ (30,875)	\$ 3,214	\$ 31,999	\$ (29,738)	\$ 2,261
Additions due to acquisitions				2,090		
Balance of intangible assets, end of period	\$ 34,089	\$ (31,824)	\$ 2,265	\$ 34,089	\$ (30,875)	\$ 3,214

Aggregate amortization expense:

For year ended December 31,	\$ 949	\$ 1,137
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Estimated Amortization Expense:

For the year ending December 31, 2016	\$ 737
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For the year ending December 31, 2017	631
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For the year ending December 31, 2018	562
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For the year ending December 31, 2019	335
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Thereafter

At December 31, 2015 the weighted average remaining life of intangible assets is approximately 1.2 years.

Table of Contents**10. PREMISES AND EQUIPMENT**

Premises and equipment were comprised of the following for the periods presented.

	As of December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Land	\$ 8,425	\$ 8,425
Bank premises	48,251	48,481
Furniture and equipment	36,265	39,272
Premises and equipment, gross	92,941	96,178
Accumulated depreciation and amortization	(61,559)	(62,587)
Premises and equipment, net	\$ 31,382	\$ 33,591

Leases

The Company leases land and buildings under operating leases for varying periods extending to 2026, at which time the Company can exercise options that could extend certain leases through 2036. The future minimum annual rental payments required for leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2015, excluding property taxes and insurance, are as follows:

Year:	As of December 31, 2015	
	<i>(Dollars in thousands)</i>	
2016	\$	5,307
2017		4,905
2018		3,500
2019		2,213
2020		1,232
Thereafter		1,435
Total	\$	18,592

Total rental expense for the Company was approximately \$5.5 million, \$5.7 million and \$5.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

11. OTHER ASSETS

Other assets were comprised of the following for the periods presented.

	As of December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Prepaid expenses	\$ 4,104	\$ 4,109
Interest rate swaps	9,344	10,080
Other assets	8,137	11,311
 Total	 \$ 21,585	 \$ 25,500

Table of Contents**12. INCOME TAXES**

Income tax expense consists of the following.

	For the Year Ended December 31,		
	2015	2014	2013
	<i>(Dollars in thousands)</i>		
Current provision:			
Federal	\$ 40,021	\$ 38,957	\$ 38,881
State	17,040	15,968	13,996
	57,061	54,925	52,877
Deferred provision/(benefit):			
Federal	(3,443)	2,534	(3,260)
State	(1,397)	1,317	(950)
	(4,840)	3,851	(4,210)
Total	\$ 52,221	\$ 58,776	\$ 48,667

Income tax asset consists of the following.

	As of December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Current:		
Federal	\$ 7,414	\$ 4,522
State	2,998	4,437
	10,402	8,959
Deferred:		
Federal	28,799	18,304
State	8,050	4,198
	36,849	22,502
Total	\$ 47,251	\$ 31,461

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The components of the net deferred tax asset are as follows.

	As of December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Federal		
Deferred tax assets:		
Bad debt and credit loss deduction	\$ 23,180	\$ 23,805
Depreciation	121	
Net operating loss carryforward	562	672
Deferred compensation	3,642	3,300
Other intangibles		5
PCI loans	10,572	23,667
FDIC loss sharing asset	210	
California franchise tax	2,613	3,461
Other, net	3,897	6,140
Gross deferred tax asset	44,797	61,050
Deferred tax liabilities:		
Depreciation		4,019
Intangibles acquisitions	868	1,858
FDIC loss sharing asset		13,831
FHLB Stock	2,747	3,913
Deferred income	2,745	2,430
Unrealized gain on investment securities, net	9,638	16,695
Gross deferred tax liability	15,998	42,746
Net deferred tax asset federal	\$ 28,799	\$ 18,304
State		
Deferred tax assets:		
Bad debt and credit loss deduction	\$ 7,172	\$ 6,014
Depreciation	440	
Net operating loss carryforward		34
Deferred compensation	1,127	1,030
Other intangibles		668
PCI loans	3,242	
FDIC loss sharing asset	97	6,498
Other, net	1,206	1,911
Gross deferred tax asset	13,284	16,155
Deferred tax liabilities:		
Depreciation		589

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Intangibles acquisitions	269	
PCI loans		4,389
FHLB Stock	851	797
Deferred income	762	374
Unrealized gain on investment securities, net	3,352	5,808
Gross deferred tax liability	5,234	11,957
Net deferred tax asset state	\$ 8,050	\$ 4,198

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A reconciliation of the statutory income tax rate to the consolidated effective income tax rate follows.

	For the Year Ended December 31,					
	2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
	<i>(Dollars in thousands)</i>					
Federal income tax at statutory rate	\$ 52,978	35.0%	\$ 56,979	35.0%	\$ 50,496	35.0%
State franchise taxes, net of federal benefit	10,457	6.9%	11,233	6.9%	8,734	6.1%
Tax-exempt income	(7,619)	(5.0%)	(8,622)	(5.3%)	(10,189)	(7.1%)
Tax credits	(1,014)	(0.7%)	(1,014)	(0.6%)	(940)	(0.7%)
Other, net	(2,581)	(1.7%)	200	0.1%	566	0.4%
Provision for income taxes	\$ 52,221	34.5%	\$ 58,776	36.1%	\$ 48,667	33.7%

The change in unrecognized tax benefits in 2015 and 2014 follows.

	For the Year Ended December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Balance, beginning of period	\$ 3,016	\$ 3,016
Additions for tax positions related to prior years		
Reductions due to lapse of statute of limitations	(156)	
Settlement with tax authorities	(1,185)	
Balance, end of period	\$ 1,675	\$ 3,016

The total amount of unrecognized tax benefits at December 31, 2015 of \$1.7 million would, if recognized, affect the effective tax rate. The amount accrued for payment of interest as of December 31, 2015 was \$196,000. The Company records interest and penalties related to uncertain tax positions as part of other operating expense. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Company is subject to federal income tax and franchise tax of the state of California. Our federal income tax returns for the years ended December 31, 2009 through 2015 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2006 through 2015 are open to audit by state authorities.

13. DEPOSITS

The composition of deposits is summarized below.

	As of December 31,			
	2015		2014	
	<i>(Dollars in thousands)</i>			
Noninterest-bearing deposits				
Demand deposits	\$ 3,250,174	54.9%	\$ 2,866,365	51.1%
Interest-bearing deposits				
Savings deposits	1,956,598	33.1%	1,962,086	35.0%
Time deposits	710,488	12.0%	776,207	13.9%
Total deposits	\$ 5,917,260	100.0%	\$ 5,604,658	100.0%

Time deposits with balances of \$250,000 or more amounted to approximately \$418.0 million and \$438.3 million at December 31, 2015 and 2014, respectively. Interest expense on such deposits amounted to approximately \$787,000, \$667,000 and \$657,000, for the years ended December 31, 2015, 2014 and 2013, respectively.

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At December 31, 2015, the scheduled maturities of time certificates of deposit are as follows.

Year of maturity:	December 31, 2015 <i>(Dollars in thousands)</i>
2016	\$ 684,549
2017	9,754
2018	1,470
2019	1,591
2020 and thereafter	13,124
Total	\$ 710,488

At December 31, 2015, the Company had a single public depositor with certificates of deposit balances of approximately \$280.1 million. These certificates mature January through March 2016.

14. BORROWINGS***Customer Repurchase Agreements***

In November 2006, the Bank began a repurchase agreement product with its customers. This product, known as Citizens Sweep Manager, sells the Bank's securities overnight to its customers under an agreement to repurchase them the next day. As of December 31, 2015 and 2014, total funds borrowed under these agreements were \$690.7 million and \$563.6 million, respectively, with a weighted average interest rate of 0.24% for both years.

Federal Home Loan Bank Advances

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

At December 31, 2015, \$2.91 billion of loans and \$2.81 billion of investment securities, at carrying value, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The Bank incurred prepayment penalties on borrowings of \$13.9 million in 2015, compared to zero for 2014 and 2013.

Other Borrowings

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

Junior Subordinated Debentures

On January 31, 2006, CVB Statutory Trust III completed a \$25,000,000 offering of Trust Preferred Securities and used the gross proceeds from the offering and other cash totaling \$25,774,000 to purchase a like amount of junior subordinated debentures of the Company. The junior subordinated debentures were issued concurrent with the issuance of the Trust Preferred Securities. The interest on junior subordinated debentures, paid by the Company to CVB Statutory Trust III, represents the sole revenues of CVB Statutory Trust III and the sole source of dividend distributions to the holders of the Trust Preferred Securities. The Company has fully and conditionally guaranteed all of CVB Statutory Trust III's obligations under the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payments of interest on the junior subordinated debenture at any time for a period not to exceed 20 consecutive quarters. The Trust Preferred

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Securities will mature on March 15, 2036, but became callable in part or in total on March 15, 2011 by CVB Statutory Trust III. The Trust Preferred Securities have a variable per annum rate equal to LIBOR (as defined in the indenture dated as of January 31, 2006 (*Indenture*) between the Company and U.S. Bank National Association, as debenture trustee) plus 1.38% (the *Variable Rate*). As of December 31, 2015, these securities continue to be outstanding.

15. COMMITMENTS AND CONTINGENCIES

Commitments

At December 31, 2015 and 2014, the Bank had commitments to extend credit of approximately \$744.0 million and \$694.4 million, respectively, and obligations under letters of credit of \$35.1 million and \$34.6 million, respectively. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. The Bank uses the same credit underwriting policies in granting or accepting such commitments or contingent obligations as it does for on-balance-sheet instruments, which consist of evaluating customers creditworthiness individually. The Bank had a reserve for unfunded loan commitments of \$7.2 million as of December 31, 2015 and \$7.7 million as of December 31, 2014 included in other liabilities.

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

At December 31, 2015, the Bank has available lines of credit totaling \$3.23 billion from correspondent banks, FHLB and Federal Reserve Bank of which \$2.84 billion were secured.

Other Contingencies

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

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

A purported shareholder class action complaint was filed against the Company on August 23, 2010, in an action captioned *Lloyd v. CVB Financial Corp., et al.*, Case No. CV 10-06256- MMM, in the United States District Court for the Central District of California. Along with the Company, Christopher D. Myers (our President and Chief Executive Officer) and Edward J. Biebrich, Jr. (our former Chief Financial Officer) were also named as defendants. On September 14, 2010, a second purported shareholder class action complaint was

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filed against the Company, in an action originally captioned Englund v. CVB Financial Corp., et al., Case No. CV 10-06815-RGK, in the United States District Court for the Central District of California. The Englund complaint named the same defendants as the Lloyd complaint and made allegations substantially similar to those included in the Lloyd complaint. On January 21, 2011, the District Court consolidated the two actions for all purposes under the Lloyd action, now captioned as Case No. CV 10-06256-MMM (PJWx). At the same time, the District Court also appointed the Jacksonville Police and Fire Pension Fund (the Jacksonville Fund) as lead plaintiff in the consolidated action and approved the Jacksonville Fund's selection of lead counsel for the plaintiffs in the consolidated action.

On March 7, 2011, the Jacksonville Fund filed a consolidated complaint naming the same defendants and alleging violations by all defendants of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and violations by the individual defendants of Section 20(a) of the Exchange Act. The consolidated complaint alleges that defendants, among other things, misrepresented and failed to disclose conditions adversely affecting the Company throughout the purported class period, which is alleged to be between October 21, 2009 and August 9, 2010. Specifically, defendants are alleged to have violated applicable accounting rules and to have made misrepresentations in connection with the Company's allowance for loan loss methodology, loan underwriting guidelines, methodology for grading loans, and the process for making provisions for loan losses. The consolidated complaint sought compensatory damages and other relief in favor of the purported class.

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

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

The Company intends to continue to vigorously contest and defend the plaintiff's allegations with respect to the remaining claims in this case.

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

relief.

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On June 20, 2011, defendants filed a demurrer requesting dismissal of the derivative complaint. Following the filing by each side of additional motions, over the succeeding four year period, the parties filed repeated notices to postpone the Court's hearing on the defendants' demurrer, pending resolution of the consolidated federal securities shareholder class action complaint. However, on January 18, 2016, subsequent to the end of the reporting period covered by this Form 10-K, the Court signed a Minute Order agreeing to the parties' joint stipulation to dismiss the shareholder derivative action complaint without prejudice.

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

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

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

16. EMPLOYEE BENEFIT PLANS***Deferred Compensation Plans***

As of December 31, 2015, the Company has various deferred compensation plans, and severance arrangements it assumed through the acquisition of other banks in prior years. These plans require the Company to make periodic

payments to former employees upon retirement, upon a change in control, and in certain instances, to beneficiaries of former employees upon death. Payments made by the Company under these

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agreements totaled approximately \$751,000, \$866,000 and \$881,000 for each of the years ended December 31, 2015, 2014 and 2013, respectively. The total expense recorded by the Company for these deferred compensation agreements was approximately \$600,000, \$544,000 and \$561,000 for each of the years ended December 31, 2015, 2014 and 2013, respectively.

On December 22, 2006, the Company approved a deferred compensation plan for its President and Chief Executive Officer, Christopher D. Myers. Under the plan, which became effective on January 1, 2007, Mr. Myers may defer up to 75% of his base salary and up to 100% of his bonus for each calendar year in which the Plan is effective. The Company has the discretion to make additional contributions to the Plan for the benefit of Mr. Myers. No discretionary payments were made by the Company during the years ended December 31, 2015, 2014 and 2013.

On March 31, 2007, the Company approved the Executive Non-qualified Excess Plan, a deferred compensation plan for certain management employees to provide a means by which they may elect to defer receipt of compensation in order to provide retirement benefits. The plan is intended to be unfunded and primarily serve the purpose of providing deferred compensation benefits for a select group of employees. The Bank, however, does fund the cost of these plans through the purchase of life insurance policies, which are recorded in other assets of the consolidated balance sheets. The amounts funded by employees totaled \$2.5 million as of December 31, 2015.

401(k) and Profit Sharing Plan

The Bank sponsors a 401(k) and profit-sharing plan for the benefit of its employees. Employees are eligible to participate in the plan immediately upon hire. Employees may make contributions to the plan under the plan's 401(k) component. The Bank contributes 3%, non-matching, to the plan to comply with ERISA's safe harbor provisions. The Bank may make additional contributions under the plan's profit-sharing component, subject to certain limitations. The Bank's total contributions are determined by the Board of Directors and amounted to approximately \$2.8 million in 2015, \$3.1 million in 2014 and \$2.7 million in 2013.

17. EARNINGS PER SHARE RECONCILIATION

Basic earnings per common share are computed by dividing income allocated to common stockholders by the weighted-average number of common shares outstanding during each period. The computation of diluted earnings per common share considers the number of tax-effected shares issuable upon the assumed exercise of outstanding common stock options. Antidilutive common shares are not included in the calculation of diluted earnings per common share. For the years ended December 31, 2015, 2014 and 2013, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were 238,000, 213,000 and 744,000 million, respectively.

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

	For the Year Ended December 31,		
	2015	2014	2013
	<i>(In thousands, except per share amounts)</i>		
Earnings per common share:			
Net earnings	\$ 99,145	\$ 104,021	\$ 95,608
Less: Net earnings allocated to restricted stock	515	544	298
Net earnings allocated to common shareholders	\$ 98,630	\$ 103,477	\$ 95,310
Weighted average shares outstanding	105,715	105,239	104,729
Basic earnings per common share	\$ 0.93	\$ 0.98	\$ 0.91
Diluted earnings per common share:			
Net income allocated to common shareholders	\$ 98,630	\$ 103,477	\$ 95,310
Weighted average shares outstanding	105,715	105,239	104,729
Incremental shares from assumed exercise of outstanding options	477	520	397
Diluted weighted average shares outstanding	106,192	105,759	105,126
Diluted earnings per common share	\$ 0.93	\$ 0.98	\$ 0.91

18. STOCK OPTION PLANS AND RESTRICTED STOCK AWARDS

In May 2008, the shareholders approved the 2008 Equity Incentive Plan which authorizes the issuance of up to 3,949,891 shares of Company common stock for grants of stock options and restricted stock to employees, officers, consultants and directors of the Company and its subsidiaries, and expires in 2018. The plan authorizes the issuance of incentive and non-qualified stock options, as well as, restricted stock awards. The 2008 Equity Incentive Plan replaced the 2000 Stock Option Plan. No further grants will be made under the 2000 Stock Option Plan, but shares may continue to be issued under such plan pursuant to grants previously made. As of December 31, 2015, we have 166,710 outstanding options under our 2000 Stock Option Plan.

Stock Options

The Company expensed \$549,000, \$876,000 and \$850,000, for the years ended December 31, 2015, 2014 and 2013, respectively.

The estimated fair value of the options granted during 2015 and prior years was calculated using the Black-Scholes options pricing model. There were 83,000, 169,000 and 45,000 options granted during 2015, 2014 and 2013, respectively. The options will vest, in equal installments, over a five-year period. The fair value of each stock option granted in 2015, 2014 and 2013, was estimated on the date of grant using the following weighted-average assumptions.

	For the Year Ended December 31,		
	2015	2014	2013
Dividend yield	2.5%	2.6%	2.9%
Volatility	47.7%	50.3%	50.5%
Risk-free interest rate	1.5%	1.5%	1.2%
Expected life	6.1 years	6.3 years	6.6 years
Weighted average grant date fair value	\$ 5.83	\$ 5.70	\$ 4.68

The expected volatility is solely based on the daily historical stock price volatility over the expected option life. The expected life of options granted is derived from the output of the option valuation model and represents

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the period of time an optionee will hold an option before exercising it. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury five-year constant maturity yield curve in effect at the time of the grant. The Company estimates its forfeiture rates based on its historical experience. The forfeiture rate for 2015 was 6.0%.

The following table presents option activity under the Company's stock option plans as of and for the year ended December 31, 2015.

	Number of Stock Options Outstanding <i>(In thousands)</i>	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term <i>(In years)</i>	Aggregate Intrinsic Value <i>(In thousands)</i>
Outstanding at January 1, 2015	1,688	\$ 10.92		
Granted	83	16.00		
Exercised	(449)	11.45		
Forfeited or expired	(34)	13.11		
Outstanding at December 31, 2015	1,288	\$ 11.00	4.63	\$ 7,629
Vested or expected to vest at December 31, 2015	1,251	\$ 10.93	4.55	\$ 7,502
Exercisable at December 31, 2015	984	\$ 10.04	3.64	\$ 6,774

The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 was \$2.1 million, \$2.5 million and \$1.4 million, respectively.

As of December 31, 2015, there was a total of \$1.1 million in unrecognized compensation cost related to nonvested options granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 3.1 years. The total fair value of options vested was \$524,000, \$841,000 and \$918,000 during 2015, 2014 and 2013, respectively. Cash received from stock option exercises was \$5.1 million, \$5.5 million and \$4.5 million, in 2015, 2014 and 2013, respectively.

At December 31, 2015, options for the purchase of 1,288,438 shares of the Company's common stock were outstanding under the above plans, of which options to purchase 984,238 shares were exercisable at prices ranging from \$7.68 to \$16.97.

The Company has a policy of issuing new shares to satisfy share option exercises.

Restricted Stock

Under the 2008 Equity Incentive Plan, the Company granted 97,000, 400,000 and 100,000 restricted stock awards during 2015, 2014 and 2013 respectively. The weighted average grant date fair value of restricted stock awards granted in 2015, 2014 and 2013 was \$16.07 per share, \$14.78 per share and \$13.25 per share, respectively. These

awards will vest, in equal installments, over a five-year period.

Compensation cost is recognized over the requisite service period, which is five years, and amounted to \$2.2 million, \$2.1 million and \$1.1 million during the years ended December 31, 2015, 2014 and 2013, respectively. Total unrecognized compensation cost related to restricted stock awards was \$5.5 million at December 31, 2015.

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The table below summarizes activity related to the Company's non-vested restricted shares for the year ended December 31, 2015.

	Shares <i>(In thousands)</i>	Weighted Average Fair Value
Nonvested at January 1, 2015	570	\$ 13.81
Granted	97	16.07
Vested	(157)	12.81
Forfeited	(4)	14.94
Nonvested at December 31, 2015	506	\$ 14.55

Under the 2008 Equity Incentive Plan, 843,392 shares of common stock were available for the granting of future options and restricted stock awards as of December 31, 2015.

19. REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct, material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk-weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Effective January 1, 2015, the Company and the Bank became subject to a new regulatory capital measure called common equity Tier 1 to risk-weighted assets which was implemented as a result of the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital, Tier 1 capital and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2015 and 2014, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2015 and 2014, the most recent notifications from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based, and Tier 1 leverage (tangible Tier 1 capital divided by average total assets) ratios as set forth in the table below must be maintained. There are no conditions or events since said notification that management believes have changed the Bank's category.

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As of December 31, 2015 and 2014, the Company had \$25.0 million of trust-preferred securities, which were included in Tier 1 capital for regulatory purposes, respectively. The following table summarizes regulatory capital amounts and ratios for the Company and the Bank as of December 31, 2015 and 2014.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<i>(Dollars in thousands)</i>					
As of December 31, 2015:						
Total Capital (to Risk-Weighted Assets)						
Company	\$ 914,972	18.23%	\$ 401,532	³ 8.00%		N/A
Bank	\$ 905,563	18.06%	\$ 401,053	³ 8.00%	\$ 501,316	³ 10.00%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	\$ 852,189	16.98%	\$ 301,149	³ 6.00%		N/A
Bank	\$ 842,854	16.81%	\$ 300,790	³ 6.00%	\$ 401,053	³ 8.00%
Common equity Tier 1 capital ratio						
Company	\$ 827,547	16.49%	\$ 225,861	³ 4.50%		N/A
Bank	\$ 842,854	16.81%	\$ 225,592	³ 4.50%	\$ 325,856	³ 6.50%
Tier 1 Capital (to Average-Assets)						
Company	\$ 852,189	11.22%	\$ 303,794	³ 4.00%		N/A
Bank	\$ 842,854	11.11%	\$ 303,527	³ 4.00%	\$ 379,409	³ 5.00%
As of December 31, 2014:						
Total Capital (to Risk-Weighted Assets)						
Company	\$ 853,147	18.24%	\$ 374,144	³ 8.00%		N/A
Bank	\$ 845,951	18.11%	\$ 373,758	³ 8.00%	\$ 467,197	³ 10.00%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	\$ 794,576	16.99%	\$ 187,072	³ 4.00%		N/A
Bank	\$ 787,439	16.85%	\$ 186,879	³ 4.00%	\$ 280,318	³ 6.00%
Tier 1 Capital (to Average-Assets)						
Company	\$ 794,576	10.86%	\$ 292,615	³ 4.00%		N/A
Bank	\$ 787,439	10.77%	\$ 292,392	³ 4.00%	\$ 365,490	³ 5.00%

In addition, California Banking Law limits the amount of dividends a bank can pay without obtaining prior approval from bank regulators. Under this law, the Bank could, as of December 31, 2015, declare and pay additional dividends of approximately \$152.5 million.

20. FAIR VALUE INFORMATION*Fair Value Hierarchy*

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

The following disclosure provides the fair value information for financial assets and liabilities as of December 31, 2015. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2 and Level 3).

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

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

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

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

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

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

There were no transfers in and out of Level 1 and Level 2 during the years ended December 31, 2015 and 2014.

Determination of Fair Value

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

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

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

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

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

Investment Securities Held to Maturity Investment securities held-to-maturity are generally valued based upon quotes obtained from an independent third-party pricing service, which uses evaluated pricing applications and model processes. Observable market inputs, such as, benchmark yields, reported trades, broker/dealer quotes, issuer spreads,

two-sided markets, benchmark securities, bids, offers and reference data are considered as part of the evaluation. The inputs are related directly to the security being evaluated, or indirectly

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to a similarly situated security. Market assumptions and market data are utilized in the valuation models. The Company reviews the market prices provided by the third-party pricing service for reasonableness based on the Company's understanding of the market place and credit issues related to the securities. The Company has not made any adjustments to the market quotes provided by them and, accordingly, the Company categorized its investment portfolio within Level 2 of the fair value hierarchy. The held-to-maturity CMO investment is valued based upon quotes obtained from an independent third-party pricing service. The Company categorized its held-to-maturity CMO investment as Level 3.

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

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

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

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

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

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

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

Description of assets	Carrying Value at December 31, 2015	Quoted Prices in Active Markets for		
		Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(Dollars in thousands)</i>				
Description of assets				
Investment securities AFS:				
Government agency/GSEs	\$ 5,745	\$	\$ 5,745	\$
Residential mortgage-backed securities	1,813,097		1,813,097	
CMOs/REMICs residential	383,781		383,781	
Municipal bonds	160,973		160,973	
Other securities	5,050		5,050	
Total investment securities AFS	2,368,646		2,368,646	
Interest rate swaps	9,344		9,344	
Total assets	\$ 2,377,990	\$	\$ 2,377,990	\$
Description of liability				
Interest rate swaps	\$ 9,344	\$	\$ 9,344	\$
Total liabilities	\$ 9,344	\$	\$ 9,344	\$

Description of assets	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)
<i>(Dollars in thousands)</i>				
Description of assets				
Investment securities AFS:				
Government agency/GSEs	\$ 330,843	\$	\$ 330,843	\$
Residential mortgage-backed securities	1,917,496		1,917,496	
CMOs/REMICs residential	304,091		304,091	
Municipal bonds	579,641		579,641	
Other securities	5,087		5,087	
Total investment securities AFS	3,137,158		3,137,158	

Interest rate swaps		10,080			10,080
Total assets	\$	3,147,238	\$	\$	3,147,238
Description of liability					
Interest rate swaps	\$	10,080	\$	\$	10,080
Total liabilities	\$	10,080	\$	\$	10,080

Table of Contents**Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

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

Description of assets	Carrying Value at December 31, 2015	Quoted Prices in Active Markets for			Total Losses For the Year Ended December 31, 2015
		Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(Dollars in thousands)</i>					
Description of assets					
Impaired loans, excluding PCI Loans:					
Commercial and industrial	\$ 228	\$	\$	\$ 228	\$ 228
SBA	41			41	15
Real estate:					
Commercial real estate					
Construction	7,651			7,651	13
SFR mortgage	588			588	20
Dairy & livestock and agribusiness					
Consumer and other loans	258			258	101
Other real estate owned	948			948	162
Total assets	\$ 9,714	\$	\$	\$ 9,714	\$ 539

Description of assets	Carrying Value at December 31, 2014	Quoted Prices in Active Markets for			Total Losses For the Year Ended December 31, 2014
		Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(Dollars in thousands)</i>					
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					
Construction	2,500			2,500	271
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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Table of Contents***Fair Value of Financial Instruments***

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

	Carrying Amount	December 31, 2015			Total
		Level 1	Level 2	Level 3	
<i>(Dollars in thousands)</i>					
Assets					
Total cash and cash equivalents	\$ 106,097	\$ 106,097	\$	\$	\$ 106,097
Interest-earning balances due from depository institutions	32,691		32,691		32,691
FHLB stock	17,588		17,588		17,588
Investment securities available-for-sale	2,368,646		2,368,646		2,368,646
Investment securities held-to-maturity	850,989		851,186	1,853	853,039
Total loans, net of allowance for loan losses	3,957,781			3,971,329	3,971,329
Swaps	9,344		9,344		9,344
Liabilities					
Deposits:					
Noninterest-bearing	\$ 3,250,174	3,250,174	\$	\$	\$ 3,250,174
Interest-bearing	2,667,086		2,666,186		2,666,186
Borrowings	736,704		736,575		736,575
Junior subordinated debentures	25,774		27,210		27,210
Swaps	9,344		9,344		9,344

	Carrying Amount	December 31, 2014			Total
		Level 1	Level 2	Level 3	
<i>(Dollars in thousands)</i>					
Assets					
Total cash and cash equivalents	\$ 105,768	\$ 105,768	\$	\$	\$ 105,768
Interest-earning balances due from depository institutions	27,118		27,118		27,118
FHLB stock	25,338		25,338		25,338
Investment securities available-for-sale	3,137,158		3,137,158		3,137,158
Investment securities held-to-maturity	1,528			2,177	2,177
Total loans, net of allowance for loan losses	3,757,242			3,794,454	3,794,454
Swaps	10,080		10,080		10,080
Liabilities					
Deposits:					

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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

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

21. BUSINESS SEGMENTS

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

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

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

	Centers	For the Year Ended December 31, 2015			Total
		Treasury	Other	Eliminations	
		<i>(Dollars in thousands)</i>			
Interest income, including loan fees	\$ 143,577	\$ 75,914	\$ 42,022	\$	\$ 261,513
Credit for funds provided (1)	34,876		52,193	(87,069)	
Total interest income	178,453	75,914	94,215	(87,069)	261,513
Interest expense	6,584	1,611	376		8,571
Charge for funds used (1)	4,236	62,137	20,696	(87,069)	
Total interest expense	10,820	63,748	21,072	(87,069)	8,571
Net interest income	167,633	12,166	73,143		252,942
Recapture of provision for loan losses			(5,600)		(5,600)
Net interest income after recapture of provision for loan losses	167,633	12,166	78,743		258,542
Noninterest income	20,677	(22)	12,828		33,483
Noninterest expense	48,568	859	77,362		126,789
Debt termination expense		13,870			13,870
Segment pre-tax profit (loss)	\$ 139,742	\$ (2,585)	\$ 14,209	\$	\$ 151,366
Segment assets as of December 31, 2015	\$ 6,458,711	\$ 3,345,060	\$ 804,258	\$(2,936,829)	\$ 7,671,200

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

	Centers	For the Year Ended December 31, 2014			Total
		Treasury	Other	Eliminations	
		<i>(Dollars in thousands)</i>			
Interest income, including loan fees	\$ 139,061	\$ 71,369	\$ 42,473	\$	\$ 252,903
Credit for funds provided (1)	31,188		46,770	(77,958)	

Total interest income	170,249	71,369	89,243	(77,958)	252,903
Interest expense	6,494	9,590	305		16,389
Charge for funds used (1)	3,823	54,885	19,250	(77,958)	
Total interest expense	10,317	64,475	19,555	(77,958)	16,389
Net interest income	159,932	6,894	69,688		236,514
Recapture of provision for loan losses			(16,100)		(16,100)
Net interest income after recapture of provision for loan losses	159,932	6,894	85,788		252,614
Noninterest income	20,513		15,899		36,412
Noninterest expense	47,493	784	77,952		126,229
Debt termination expense					
Segment pre-tax profit	\$ 132,952	\$ 6,110	\$ 23,735	\$	\$ 162,797
Segment assets as of December 31, 2014	\$ 6,002,390	\$ 3,268,551	\$ 757,093	\$ (2,650,114)	\$ 7,377,920

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

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	For the Year Ended December 31, 2013					Total
	Centers	Treasury	Other	Eliminations		
	<i>(Dollars in thousands)</i>					
Interest income, including loan fees	\$ 139,369	\$ 53,234	\$ 40,170	\$		\$ 232,773
Credit for funds provided (1)	26,754		41,987	(68,741)		
Total interest income	166,123	53,234	82,157	(68,741)		232,773
Interest expense	6,137	9,700	670			16,507
Charge for funds used (1)	3,193	45,269	20,279	(68,741)		
Total interest expense	9,330	54,969	20,949	(68,741)		16,507
Net interest income	156,793	(1,735)	61,208			216,266
Recapture of provision for loan losses			(16,750)			(16,750)
Net interest income after recapture of provision for loan losses	156,793	(1,735)	77,958			233,016
Noninterest income	20,733	2,094	2,460			25,287
Noninterest expense	45,268	714	68,046			114,028
Debt termination expense						
Segment pre-tax profit (loss)	\$ 132,258	\$ (355)	\$ 12,372	\$		\$ 144,275
Segment assets as of December 31, 2013	\$ 5,405,939	\$ 2,866,760	\$ 710,844	\$ (2,318,576)		\$ 6,664,967

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

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank is exposed to certain risks relating to its ongoing business operations and utilizes interest rate swap agreements (swaps) as part of its asset/liability management strategy to help manage its interest rate risk position. As of December 31, 2015, the Bank has entered into 77 interest-rate swap agreements with customers. The Bank then entered into identical offsetting swaps with a counterparty bank. The swap agreements are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and to provide the customer the financial effects of a fixed-rate loan without creating significant volatility in the Bank's earnings.

The structure of the swaps is as follows. The Bank enters into a swap with its customers to allow them to convert variable rate loans to fixed rate loans, and at the same time, the Bank enters into a swap with the counterparty bank to allow the Bank to pass on the interest-rate risk associated with fixed rate loans. The net effect of the transaction allows

the Bank to receive interest on the loan from the customer at a variable rate based on LIBOR plus a spread. The changes in the fair value of the swaps primarily offset each other and therefore should not have a significant impact on the Company's results of operations, although the Company does incur credit and counterparty risk with respect to performance on the swap agreements by the Bank's customer and counterparty, respectively. Our interest rate swap derivatives are subject to a master netting arrangement with one counterparty bank. None of our derivative assets and liabilities are offset in the balance sheet.

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

Table of Contents**Balance Sheet Classification of Derivative Financial Instruments**

As of December 31, 2015 and 2014, the total notional amount of the Company's swaps was \$189.0 million and \$197.4 million, respectively. The location of the asset and liability, and their respective fair values are summarized in the tables below.

	December 31, 2015			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<i>(Dollars in thousands)</i>				
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	\$ 9,344	Other liabilities	\$ 9,344
Total derivatives		\$ 9,344		\$ 9,344

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

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

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

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivative Instruments	Amount of Gain Recognized in Income on Derivative Instruments For the Year Ended December 31,		
		2015	2014	2013
<i>(Dollars in thousands)</i>				
Interest rate swaps	Other income	\$ 333	\$ 133	\$

Total	\$	333	\$	133	\$
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Table of Contents**23. OTHER COMPREHENSIVE INCOME (LOSS)**

The tables below provide a summary of the components of OCI for the periods presented.

	For the Year Ended December 31,								
	2015	2014			2013				
	Before-tax	Tax effect	After-tax	Before-tax	Tax effect	After-tax	Before-tax	Tax effect	After-tax
	<i>(Dollars in thousands)</i>								
Investment securities:									
Change in fair value recorded in accumulated OCI	\$ (22,667)	\$ (9,519)	\$ (13,148)	\$ 69,661	\$ 29,256	\$ 40,405	\$ (88,562)	\$ (37,196)	\$ (51,366)
Change in cumulative-effect adjustment for unrealized gains on securities transferred from available-for-sale to maturity	6,690	2,808	3,882						
Change in cumulative-effect adjustment for unrealized gains on securities transferred from available-for-sale to maturity	(1,573)	(660)	(913)						
Change in net unrealized loss (gain) reclassified into earnings	22	9	13				(2,094)	(879)	(1,215)
Change	\$ (17,528)	\$ (7,362)	\$ (10,166)	\$ 69,661	\$ 29,256	\$ 40,405	\$ (90,656)	\$ (38,075)	\$ (52,790)

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

	Investment Securities
	<i>(Dollars in thousands)</i>
Balance, January 1, 2014	\$ (9,330)
Net change in fair value recorded in accumulated OCI	40,405
Net realized loss reclassified into earnings	

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Balance, December 31, 2014	\$	31,075
Net change in fair value recorded in accumulated OCI		(10,179)
Net realized loss reclassified into earnings		13
Balance, December 31, 2015	\$	20,909

Table of Contents**24. BALANCE SHEET OFFSETTING**

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

	Gross Amounts Gross Amounts Recognized in the Consolidated Balance Sheets		Gross Amounts offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
	Balance Sheets	Balance Sheets	Balance Sheets	Financial Instruments	Collateral Pledged		
December 31, 2015							
Financial assets:							
Derivatives not designated as hedging instruments	\$ 9,344	\$	\$	\$ 9,344	\$	\$	\$ 9,344
Total	\$ 9,344	\$	\$	\$ 9,344	\$	\$	\$ 9,344
Financial liabilities:							
Derivatives not designated as hedging instruments	\$ 9,348	\$ (4)	\$ 9,344	\$ 4	\$ (16,572)	\$	\$ (7,224)
Repurchase agreements	690,704		690,704		(721,102)		(30,398)
Total	\$ 700,052	\$ (4)	\$ 700,048	\$ 4	\$ (737,674)	\$	\$ (37,622)
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:							
	\$ 10,200	\$ (120)	\$ 10,080	\$ 120	\$ (16,734)	\$	\$ (6,534)

Derivatives not
designated as hedging
instruments

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

Table of Contents**25. CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY**

The following tables provide the parent company only condensed balance sheets, condensed statements of earnings and condensed statements of cash flows for the periods presented.

CVB FINANCIAL CORP.**CONDENSED BALANCE SHEETS**

	As of December 31,	
	2015	2014
	<i>(Dollars in thousands)</i>	
Assets		
Investment in subsidiaries	\$ 939,064	\$ 895,972
Other assets, net	23,642	19,069
Total assets	\$ 962,706	\$ 915,041
Liabilities	\$ 39,307	\$ 36,932
Stockholders equity	923,399	878,109
Total liabilities and stockholders equity	\$ 962,706	\$ 915,041

CVB FINANCIAL CORP.**CONDENSED STATEMENTS OF EARNINGS**

	For the Year Ended December 31,		
	2015	2014	2013
	<i>(Dollars in thousands)</i>		
Excess in net earnings of subsidiaries	\$ 53,259	\$ 66,119	\$ 33,149
Dividends from the Bank	49,000	41,000	63,000
Other expense, net	(3,114)	(3,098)	(541)
Net earnings	\$ 99,145	\$ 104,021	\$ 95,608

Table of Contents**CVB FINANCIAL CORP.****CONDENSED STATEMENTS OF CASH FLOWS**

	For the Year Ended December 31,		
	2015	2014	2013
	<i>(Dollars in thousands)</i>		
Cash Flows from Operating Activities			
Net earnings	\$ 99,145	\$ 104,021	\$ 95,608
Adjustments to reconcile net earnings to cash used in operating activities:			
Earnings of subsidiaries	(102,259)	(107,119)	(96,149)
Tax settlement received from the Bank	1,233	1,812	1,903
Stock-based compensation	2,733	2,988	1,926
Other operating activities, net	(2,180)	(3,080)	241
Total adjustments	(100,473)	(105,399)	(92,079)
Net cash (used in) provided by operating activities	(1,328)	(1,378)	3,529
Cash Flows from Investing Activities			
Dividends received from the Bank	49,000	41,000	63,000
Net cash provided by investing activities	49,000	41,000	63,000
Cash Flows from Financing Activities			
Repayment of junior subordinated debentures			(41,238)
Cash dividends on common stock	(48,862)	(42,298)	(29,939)
Proceeds from exercise of stock options	5,144	5,522	4,517
Tax benefit related to exercise of stock options	308	1,116	475
Repurchase of common stock	(834)	(5,474)	(559)
Net cash used in financing activities	(44,244)	(41,134)	(66,744)
Net increase (decrease) in cash and cash equivalents	3,428	(1,512)	(215)
Cash and cash equivalents, beginning of period	13,532	15,044	15,259
Cash and cash equivalents, end of period	\$ 16,960	\$ 13,532	\$ 15,044

26. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth our unaudited, quarterly results for the periods indicated.

For the Three Months Ended
December 31, September 30, June 30, March 31,
(Dollars in thousands, except per share amounts)

2015				
	\$ 63,258	\$ 65,917	\$ 62,758	\$ 61,009
Net interest income				
Recapture of provision for loan losses	(1,100)	(2,500)	(2,000)	
Net earnings	28,613	27,886	26,813	15,833
Basic earnings per common share	0.27	0.26	0.25	0.15
Diluted earnings per common share	0.27	0.26	0.25	0.15
2014				
Net interest income	\$ 61,175	\$ 61,238	\$ 57,159	\$ 56,942
Recapture of provision for loan losses		(1,000)	(7,600)	(7,500)
Net earnings	25,581	24,295	25,484	28,661
Basic earnings per common share	0.24	0.23	0.24	0.27
Diluted earnings per common share	0.24	0.23	0.24	0.27

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

CVB Financial Corp.:

We have audited the accompanying consolidated balance sheets of CVB Financial Corp. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of earnings and comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CVB Financial Corp. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVB Financial Corp. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California

February 29, 2016

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements

(a) (1) All Financial Statements

Reference is made to the Index to Financial Statements on page 3 for a list of financial statements filed as part of this Form 10-K/A. This Form 10-K/A is being filed for the sole purpose of including the Report of Independent Registered Public Accounting Firm dated February 29, 2016, within Item 8. Financial Statements and Supplementary Data, which was inadvertently omitted from the Annual Report. Except as stated above, this Form 10-K/A does not reflect events occurring after the Original Filing and does not amend, modify, update, or change in any way the disclosures or any other information, including any of the financial information, contained in the Original Filing.

(2) Financial Statement Schedules

Reference is made to the Index to Financial Statements on page 3 for the listing of supplementary financial statement schedules required by this item. This Form 10-K/A is being filed for the sole purpose of including the Report of Independent Registered Public Accounting Firm dated February 29, 2016, within Item 8. Financial Statements and Supplementary Data, which was inadvertently omitted from the Annual Report. Except as stated above, this Form 10-K/A does not reflect events occurring after the Original Filing and does not amend, modify, update, or change in any way the disclosures or any other information, including any of the financial information, contained in the Original Filing.

(3) Exhibits

The listing of exhibits required by this item is set forth in the Index to Exhibits on page 68 of this Form 10-K/A.

(b) Exhibits

See Index to Exhibits on page 68 of this Form 10-K/A.

(c) Financial Statement Schedules

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 24th day of March 2016.

CVB FINANCIAL CORP.

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

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INDEX TO EXHIBITS

Exhibit No.

2.1	Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, receiver of San Joaquin Bank, Bakersfield, California, the Federal Deposit Insurance Corporation and Citizens Business Bank, dated as of October 16, 2009, and related addendum. (1)
3.1	Articles of Incorporation of CVB Financial Corp., as amended (2)
3.2	Bylaws of CVB Financial Corp., as amended (3)
4.1	Form of CVB Financial Corp. s Common Stock certificate (4)
10.1(a)	Employment Agreement by and among Christopher D. Myers, CVB Financial Corp. and Citizens Business Bank, dated February 4, 2014 (5)
10.1(b)	Restricted Stock Agreement by and between CVB Financial Corp. and Christopher D. Myers dated June 1, 2006 (6)
10.1(c)	Deferred Compensation Plan for Christopher D. Myers, effective January 1, 2007 (7)
10.2	CVB Financial Corp. 401(k) & Profit Sharing Plan, as amended (8)
10.3	Form of Indemnification Agreement (9)
10.4	CVB Financial Corp. 2000 Stock Option Plan (10)
10.5(a)	CVB Financial Corp. 2008 Equity Incentive Plan (11)
10.5(b)	CVB Financial Corp. Amendment No. 1 to the 2008 Equity Incentive Plan (12)
10.5(c)	CVB Financial Corp. Amendment No. 2 to the 2008 Equity Incentive Plan (13)
10.5(d)	CVB Financial Corp. Amendment No. 3 to the 2008 Equity Incentive Plan (14)
10.5(e)	Form of Stock Option Agreement pursuant to the 2008 Equity Compensation Plan (15)
10.5(f)	Form of Restricted Stock Agreement pursuant to the 2008 Equity Compensation Plan (16)
10.6	The Executive Non Qualified Excess Plan(SM) Plan Document effective February 21, 2007 (17)
10.7(a)	Offer letter for Richard C. Thomas, dated November 24, 2010 (18)
10.7(b)	Severance Compensation Agreement for Richard C. Thomas, dated January 1, 2012 (19)
10.8(a)	Offer letter for David A. Brager, dated November 17, 2010 (20)
10.8(b)	Severance Compensation Agreement for David A. Brager, dated January 1, 2012 (21)
10.9(a)	Offer letter for James F. Dowd, dated May 16, 2008 (22)
10.9(b)	Severance Compensation Agreement for James F. Dowd, dated January 1, 2012 (23)
10.10(a)	Offer letter for David C. Harvey, dated December 7, 2009 (24)

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10.10(b)	Severance Compensation Agreement for David C. Harvey, dated January 1, 2012 (25)
10.11	CVB Financial Corp. 2015 Executive Incentive Plan (26)
12	Statements regarding computation of ratios(8)
21	Subsidiaries of the Company(8)
23	Consent of KPMG LLP(8)
31.1	Certification of Christopher D. Myers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Richard C. Thomas pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Christopher D. Myers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Richard C. Thomas pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Indicates a management contract or compensation plan.

* Except as noted below, Form 8-A12G, Form 8-K, Form 10-Q, Form 10-K and Form DEF 14A identified in the exhibit index have SEC file number 001-10140.

D We have entered into the following trust preferred security issuances and agree to furnish a copy to the SEC upon request:

(a) Indenture by and between CVB Financial Corp. and U.S. Bank, National Association, as Trustee, dated as of January 31, 2006 (CVB Statutory Trust III).

- (1) Incorporated herein by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on October 20, 2009.
- (2) Incorporated herein by reference to Exhibit 3.1 to our Form 10-Q filed with the SEC on August 9, 2010.
- (3) Incorporated herein by reference to Exhibits 3.2(A) and 3.2(B) to our Annual Report on Form 10-K filed with the SEC on February 27, 2009.
- (4) Incorporated herein by reference to Exhibit 4.1 to our Form 8-A12G filed with the SEC on June 11, 2001.
- (5) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on February 6, 2014.
- (6) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on June 7, 2006.
- (7) Incorporated herein by reference to Exhibit 10.23 to our Annual Report on Form 10-K filed with the SEC on March 1, 2007.
- (8) Incorporated herein by reference to our Annual Report on Form 10-K filed with the SEC on February 29, 2016.
- (9) Incorporated herein by reference to Exhibit 10.13 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1988, which is incorporated herein by this reference.
- (10) Incorporated herein by reference to Exhibit 99.1 to our Registration Statement on Form S-8 filed with the SEC on July 12, 2000, Commission file number 333-41198.

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- (11) Incorporated herein by reference to Annex A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 16, 2008.
- (12) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on September 22, 2009
- (13) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on November 24, 2009.
- (14) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on February 6, 2014.
- (15) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on May 23, 2008.

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- (16) Incorporated herein by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on May 23, 2008.
- (17) Incorporated herein by reference to Exhibit 10.26 to our Annual Report on Form 10-K filed with the SEC on March 1, 2007.
- (18) Incorporated herein by reference to Exhibit 10.10(A) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (19) Incorporated herein by reference to Exhibit 10.10(B) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (20) Incorporated herein by reference to Exhibit 10.13(A) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (21) Incorporated herein by reference to Exhibit 10.13 (B) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (22) Incorporated herein by reference to Exhibit 10.15(A) to our Annual Report on Form 10-K filed with the SEC on February 27, 2009.
- (23) Incorporated herein by reference to Exhibit 10.14(B) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (24) Incorporated herein by reference to Exhibit 10.21(A) to our Annual Report on Form 10-K filed with the SEC on March 4, 2010.
- (25) Incorporated herein by reference to Exhibit 10.15(B) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
- (26) Incorporated herein by reference to Annex A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 3, 2015.