CVB FINANCIAL CORP
Form 10-Q
August 09, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 0-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

(909) 980-4030

(Registrant s telephone number,

including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, non-accelerated filer or smaller reporting company, or emerging growth company. See definition of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

Number of shares of common stock of the registrant: 110,301,160 outstanding as of July 31, 2018.

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PART I FINANCIAL INFORMATION (UNAUDITED)

GENERAL

Cautionary Note Regarding Forward-Looking Statements

Certain matters set forth herein (including the exhibits hereto) constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including forward-looking statements relating to the Company s current business plans and expectations and our future financial position and operating results. Words such as will likely result , aims , anticipates , believes , could , estimates , expects , hopes , intends , may , plans , projects , seeks , should , will , strategy , possibility , and variations of these words and similar expressions help to identify these forward looking statements, which involve risks and uncertainties. These forward-looking statements are subject to risks and uncertainties that could cause actual results, performance and/or achievements to differ materially from those projected. These risks and uncertainties include, but are not limited to:

- *local, regional, national and international economic and market conditions and events and the impact they may have on us, our customers and our assets and liabilities;*
- *our ability to attract deposits and other sources of funding or liquidity;*
- *supply and demand for real estate and periodic deterioration in real estate prices and/or values in California or other states where we lend, including both residential and commercial real estate;*
- *a prolonged slowdown or decline in real estate construction, sales or leasing activities;*
- *changes in the financial performance and/or condition of our borrowers, key vendors or counterparties;*
- *changes in our levels of delinquent loans, nonperforming assets, allowance for loan losses and charge-offs;*
- *the costs or effects of mergers, acquisitions or dispositions we may make, including the pending merger of Community Bank with and into Citizens Business Bank, whether we are able to obtain any required governmental approvals in connection with any such mergers, acquisitions or dispositions, and/or our ability to realize the contemplated financial or business benefits, including any anticipated cost savings or synergies, associated with any such mergers, acquisitions or dispositions;*
- *the effect of changes in laws, regulations and applicable judicial decisions (including laws, regulations and judicial decisions concerning financial reforms, taxes, bank capital levels, consumer, commercial or secured lending, securities and securities trading and hedging, compliance, fair lending, employment, executive compensation, insurance, vendor management and information privacy and security) with which we and our subsidiaries must comply or believe we should comply, including additional legal and regulatory requirements to which we may become subject in the event our total assets exceed $10 billion;*
- *changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant regulatory and accounting requirements, including changes in the Basel Committee framework establishing capital standards for credit, operations and market risk;*
- *the accuracy of the assumptions and estimates and the absence of technical error in implementation or calibration of models used to estimate the fair value of financial instruments or expected credit losses;*
- *inflation, interest rate, securities market and monetary fluctuations;*
- *changes in government interest rates or monetary or tax policies;*
- *changes in the amount and availability of deposit insurance;*
- *political developments, uncertainties or instability;*

disruptions in the infrastructure that supports our business and the communities where we are located, which are concentrated in California, involving or related to physical site access, cyber incidents, terrorist and political activities, disease pandemics, catastrophic events, natural disasters such as earthquakes, extreme weather events, electrical, facilities, computer servers, and communications or other services we use, or that affect our employees or third parties with whom we conduct business;
our timely development and acceptance of new banking products and services and the perceived overall value of these products and services by customers and potential customers;
the Company s relationships with and reliance upon vendors with respect to certain of the Company s key internal and external systems and applications;
changes in commercial or consumer spending, borrowing and savings preferences or behaviors;
technological changes and the expanding use of technology in banking (including the adoption of mobile banking, funds transfer applications and electronic marketplaces for loans and other banking products or services);
our ability to retain and increase market share, retain and grow customers and control expenses;
changes in the competitive environment among financial and bank holding companies, banks and other financial service providers;
competition and innovation with respect to financial products and services by banks, financial institutions and

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- *non-traditional providers including retail businesses and technology companies;*
- *volatility in the credit and equity markets and its effect on the general economy or local or regional business conditions;*
- *fluctuations in the price of the Company s common stock or other securities, and the resulting impact on the Company s ability to raise capital or make acquisitions;*
- *the effect of changes in accounting policies and practices, as may be adopted from time-to-time by the regulatory agencies, as well as by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard-setters;*
- *changes in our organization, management, compensation and benefit plans, and our ability to retain or expand our workforce, management team and/or board of directors;*
- *the costs and effects of legal, compliance and regulatory actions, changes and developments, including the initiation and resolution of legal proceedings (such as securities, bank operations, consumer or employee class action litigation);*
- *regulatory or other governmental inquiries or investigations, and/or the results of regulatory examinations or reviews;*
- *our ongoing relations with our various federal and state regulators, including the SEC, Federal Reserve Board, FDIC and California DBO;*
- *our success at managing the risks involved in the foregoing items; and*
- *all other factors set forth in the Company s public reports including its Annual Report on Form 10-K for the year ended December 31, 2017, and particularly the discussion of risk factors within that document.*

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by law. Any statements about future operating results, such as those concerning accretion and dilution to the Company s earnings or shareholders, are for illustrative purposes only, are not forecasts, and actual results may differ.

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 119,495	$ 119,841
Interest-earning balances due from Federal Reserve	61,994	24,536
Total cash and cash equivalents	181,489	144,377
Interest-earning balances due from depository institutions	7,150	17,952
Investment securities available-for-sale, at fair value (with amortized cost of $1,964,251 at June 30, 2018, and $2,078,131 at December 31, 2017)	1,929,994	2,080,985
Investment securities held-to-maturity (with fair value of $747,589 at June 30, 2018, and $819,215 at December 31, 2017)	772,469	829,890
Total investment securities	2,702,463	2,910,875
Investment in stock of Federal Home Loan Bank (FHLB)	17,688	17,688
Loans and lease finance receivables	4,816,956	4,830,631
Allowance for loan losses	(59,583)	(59,585)
Net loans and lease finance receivables	4,757,373	4,771,046
Premises and equipment, net	44,691	46,166
Bank owned life insurance (BOLI)	147,419	146,486
Accrued interest receivable	21,778	22,704
Intangibles	6,179	6,838
Goodwill	116,564	116,564
Other real estate owned (OREO)	-	4,527
Income taxes	50,288	40,046
Other assets	40,781	25,317
Total assets	$ 8,093,863	$ 8,270,586
Liabilities and Stockholders Equity		
Liabilities:		

Deposits:		
Noninterest-bearing	$ 3,980,666	$ 3,846,436
Interest-bearing	2,554,640	2,700,417
Total deposits	6,535,306	6,546,853
Customer repurchase agreements	384,054	553,773
Deferred compensation	19,012	18,223
Junior subordinated debentures	25,774	25,774
Other liabilities	46,300	56,697
Total liabilities	7,010,446	7,201,320
Commitments and Contingencies		
Stockholders Equity		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 110,302,468 at June 30, 2018, and 110,184,922 at December 31, 2017	575,502	573,453
Retained earnings	533,413	494,361
Accumulated other comprehensive (loss) income, net of tax	(25,498)	1,452
Total stockholders equity	1,083,417	1,069,266
Total liabilities and stockholders equity	$ 8,093,863	$ 8,270,586

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended June 30, 2018	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017
Interest income:				
Loans and leases, including fees	$ 57,368	$ 53,614	$ 112,564	$ 102,255
Investment securities:				
Investment securities available-for-sale	11,697	13,007	23,565	25,647
Investment securities held-to-maturity	4,807	5,323	9,572	10,830
Total investment income	16,504	18,330	33,137	36,477
Dividends from FHLB stock	298	359	630	752
Interest-earning deposits with other institutions and federal funds sold	635	286	1,171	553
Total interest income	74,805	72,589	147,502	140,037
Interest expense:				
Deposits	1,549	1,559	3,074	2,992
Borrowings and customer repurchase agreements	337	382	790	811
Junior subordinated debentures	231	165	429	318
Total interest expense	2,117	2,106	4,293	4,121
Net interest income before recapture of provision for loan losses	72,688	70,483	143,209	135,916
Recapture of provision for loan losses	(1,000)	(1,000)	(2,000)	(5,500)
Net interest income after recapture of provision for loan losses	73,688	71,483	145,209	141,416
Noninterest income:				
Service charges on deposit accounts	4,091	3,982	8,136	7,709
Trust and investment services	2,399	2,613	4,556	4,909
Bankcard services	958	871	1,762	1,636
BOLI income	1,069	1,497	2,048	2,212
Gain on OREO, net	-	2	3,540	2
Other	1,178	1,811	2,569	3,030

Total noninterest income	9,695	10,776	22,611	19,498
Noninterest expense:				
Salaries and employee benefits	21,051	21,706	43,365	43,281
Occupancy and equipment	4,318	4,554	8,510	8,238
Professional services	1,690	1,843	3,220	3,100
Software licenses and maintenance	1,759	1,627	3,519	3,188
Marketing and promotion	1,148	1,190	2,504	2,429
Acquisition related expenses	494	1,250	1,297	1,926
Other	3,794	4,703	7,785	8,828
Total noninterest expense	34,254	36,873	70,200	70,990
Earnings before income taxes	49,129	45,386	97,620	89,924
Income taxes	13,756	17,013	27,334	33,047
Net earnings	$ 35,373	$ 28,373	$ 70,286	$ 56,877
Other comprehensive income (loss):				
Unrealized (loss) gain on securities arising during the period, before tax	$ (6,598)	$ 1,642	$ (38,768)	$ 2,066
Less: Reclassification adjustment for net gain on securities included in net income	-	(402)	-	(402)
Other comprehensive (loss) income, before tax	(6,598)	1,240	(38,768)	1,664
Less: Income tax benefit (expense) related to items of other comprehensive income	1,951	(521)	11,462	(699)
Other comprehensive (loss) income, net of tax	(4,647)	719	(27,306)	965
Comprehensive income	$ 30,726	$ 29,092	$ 42,980	$ 57,842
Basic earnings per common share	$ 0.32	$ 0.26	$ 0.64	$ 0.52
Diluted earnings per common share	$ 0.32	$ 0.26	$ 0.64	$ 0.52
Cash dividends declared per common share	$ 0.14	$ 0.14	$ 0.28	$ 0.26

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Three months ended June 30, 2018 and 2017

(Dollars and shares in thousands)

(Unaudited)

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2017	108,252	$ 531,192	$ 449,499	$ 10,171	$ 990,862
Cumulative adjustment upon adoption of ASU 2016-09	-	116	(66)	-	50
Repurchase of common stock	(37)	(833)	-	-	(833)
Issuance of common stock for acquisition of Valley Commerce Bancorp	1,634	37,637	-	-	37,637
Exercise of stock options	257	2,389	-	-	2,389
Shares issued pursuant to stock-based compensation plan	43	1,457	-	-	1,457
Cash dividends declared on common stock ($0.26 per share)	-	-	(28,635)	-	(28,635)
Net earnings	-	-	56,877	-	56,877
Other comprehensive income	-	-	-	965	965
Balance, June 30, 2017	110,149	$ 571,958	$ 477,675	$ 11,136	$ 1,060,769
Balance, January 1, 2018	110,185	$ 573,453	$ 494,361	$ 1,452	$ 1,069,266
Cumulative adjustment upon adoption of ASU 2018-02	-	-	(356)	356	-
Repurchase of common stock	(36)	(837)	-	-	(837)
Exercise of stock options	138	1,417	-	-	1,417
Shares issued pursuant to stock-based compensation plan	15	1,469	-	-	1,469
Cash dividends declared on common stock ($0.28 per share)	-	-	(30,878)	-	(30,878)
Net earnings	-	-	70,286	-	70,286
Other comprehensive income	-	-	-	(27,306)	(27,306)
Balance, June 30, 2018	110,302	$ 575,502	$ 533,413	$ (25,498)	$ 1,083,417

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	For the Six Months Ended June 30, 2018	2017
Cash Flows from Operating Activities		
Interest and dividends received	$ 150,590	$ 145,978
Service charges and other fees received	17,032	17,456
Interest paid	(4,288)	(4,168)
Net cash paid to vendors, employees and others	(68,564)	(54,185)
Income taxes	(26,379)	(40,097)
Payments to FDIC, loss share agreement	(65)	(474)
Net cash provided by operating activities	68,326	64,510
Cash Flows from Investing Activities		
Proceeds from redemption of FHLB stock	-	1,952
Net change in interest-earning balances from depository institutions	10,802	23,277
Proceeds from sale of investment securities held-for-sale	-	5,403
Proceeds from repayment of investment securities available-for-sale	195,715	201,546
Proceeds from maturity of investment securities available-for-sale	10,806	16,615
Purchases of investment securities available-for-sale	(98,709)	(235,061)
Proceeds from repayment and maturity of investment securities held-to-maturity	55,021	70,949
Purchases of investment securities held-to-maturity	-	(30,112)
Net increase in equity investments	(21,827)	(601)
Net decrease in loan and lease finance receivables	20,802	25,211
Proceeds from BOLI death benefit	882	2,457
Purchase of premises and equipment	(1,225)	(2,469)
Proceeds from sales of other real estate owned	8,067	-
Cash acquired from acquisition, net of cash paid	-	28,325
Net cash provided by investing activities	180,334	107,492
Cash Flows from Financing Activities		
Net increase in other deposits	11,299	58,901
Net decrease in time deposits	(22,846)	(33,197)
Net decrease in other borrowings	-	(53,000)
Net decrease in customer repurchase agreements	(169,719)	(56,943)
Cash dividends on common stock	(30,862)	(26,205)
Repurchase of common stock	(837)	(833)

Proceeds from exercise of stock options	1,417	2,389
Net cash used in financing activities	(211,548)	(108,888)
Net increase in cash and cash equivalents	37,112	63,114
Cash and cash equivalents, beginning of period	144,377	121,633
Cash and cash equivalents, end of period	$ 181,489	$ 184,747

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

(Unaudited)

	For the Six Months Ended June 30, 2018	2017
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities		
Net earnings	$ 70,286	$ 56,877
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain loss on sale of investment securities	-	(402)
Gain on sale of other real estate owned	(3,540)	-
Increase in BOLI	(1,815)	(3,691)
Net amortization of premiums and discounts on investment securities	7,302	8,989
Accretion of PCI discount	(2,137)	(505)
Recapture of provision for loan losses	(2,000)	(5,500)
Payments to FDIC, loss share agreement	(65)	(474)
Stock-based compensation	1,469	1,457
Depreciation and amortization, net	354	(402)
Change in other assets and liabilities	(1,528)	8,161
Total adjustments	(1,960)	7,633
Net cash provided by operating activities	$ 68,326	$ 64,510
Supplemental Disclosure of Non-cash Investing Activities		
Securities purchased and not settled	$ -	$ 16,346
Issuance of common stock for acquisition	$ -	$ 37,637

See accompanying notes to the unaudited condensed consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BUSINESS

The condensed consolidated financial statements include 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 CitizensTrust. The Bank s customers consist primarily of small to mid-sized businesses and individuals located in the Inland Empire, Los Angeles County, Orange County, San Diego County, Ventura County, Santa Barbara County, and the Central Valley area of California. The Bank operates 51 banking centers and three trust office locations. The Company is headquartered in the city of Ontario, California.

On February 26, 2018, we entered into a definitive agreement to merge Community Bank with and into Citizens Business Bank. As of June 30, 2018, Community Bank had approximately $3.71 billion in total assets, $2.79 billion in gross loans and $2.86 billion in total deposits. Under the terms of the merger, Community Bank shareholders will have the right to receive, in respect of each share of common stock of Community Bank, 9.4595 shares of CVB common stock and $56.00 per share in cash, subject to any adjustments set forth in the Merger Agreement. The merger transaction is valued at approximately $885.2 million based on CVB s closing stock price of $23.60 on February 26, 2018. The shareholders of both Companies approved the merger on June 21, 2018. All regulatory approvals have been received and the merger is expected to close on August 10, 2018.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results for the full year. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies and financial notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC. A summary of the significant accounting policies consistently applied in the preparation of the accompanying unaudited condensed consolidated financial statements follows.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as discussed below, our accounting policies are described in Note 3 Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC (Form 10-K).

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

Adoption of New Accounting Standards In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) , which provides revenue recognition guidance that is intended to create greater consistency with respect to how and when revenue from contracts with customers is shown in the income statement. This update to the ASC requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in U.S. GAAP. In applying the revenue model to contracts within its scope, an entity should apply the following steps: (1) Identify the contract(s) with a customer, (2) Identify the performance obligations in the contract, (3) Determine the transaction price, (4) Allocate the transaction price to the performance obligations in the contract, and (5) Recognize revenue when (or as) the entity satisfies a performance obligation. The standard applies to all contracts with customers except those that are within the scope of other topics in the FASB Codification. The standard also requires significantly expanded disclosures about revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date , which deferred the effective date of ASU No. 2014-09 to January 1, 2018. The Company adopted the ASU during the first quarter of 2018, as required, using the modified retrospective approach. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements, as substantially all of the Company s revenues are excluded from the scope of the new standard. Since there was no net income impact upon adoption of this ASU, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 14 *Revenue Recognition* for more information.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities , which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The guidance in this ASU among other things, (i) requires equity investments with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. This amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities are required to apply the amendment by means of a cumulative-effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted ASU 2016-01 effective January 1, 2018 and it did not have a material impact on the Company s consolidated financial statements. In accordance with (iv) above, the Company measured the fair value of its loan portfolio at June 30, 2018 using an exit price notion. See Note 9 *Fair Value Information*.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance clarifies the classification within the statement of cash flows for certain transactions, including debt extinguishment costs, zero-coupon debt, and contingent consideration related to business combinations, insurance proceeds, equity method distributions and beneficial interests in securitizations. The guidance also clarifies that cash flows with aspects of multiple classes of cash flows or that cannot be separated by source or use should be classified based on the activity that is likely to be the predominant source or use of cash flows for the item. This guidance is effective for fiscal years beginning after December 15, 2017 and will require application using a retrospective transition method. The Company adopted this ASU retrospectively effective January 1, 2018 and it did not have a material impact on the Company s consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all the following are met: (1) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in ASU No. 2017-09 are effective for annual periods, and interim within those annual reporting periods, beginning after December 15, 2017; early adoption is permitted. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The Company adopted this ASU and it did not have a material impact on the Company s consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Job Act (Tax Reform Act). The amendments in this update also require entities to disclose their accounting policy for releasing income tax effects from accumulated other comprehensive income. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, and the provisions of the amendment should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform Act is recognized. The Company elected to early adopt ASU 2018-02 in the first quarter of 2018 and reclassified $356,000 related to the stranded tax effects from accumulated other comprehensive income to retained earnings within our consolidated statements of stockholders equity.

Recent Accounting Pronouncements In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842) . ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of adoption of this ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current incurred loss approach with an expected loss model. The new model, referred to as the Current Expected Credit Loss (CECL) model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Entities will apply the standard s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the impact of adoption of this ASU on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit s goodwill. Instead, an entity should recognized an impairment

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loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard will be effective for the Company beginning January 1, 2020, with early adoption permitted for goodwill impairment tests performed after January 1, 2017. The Company does not expect this ASU to have a material impact on the Company s consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 changes the recognition and presentation requirements of hedge accounting and makes certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The amendments in this ASU better align an entity s financial reporting and risk management activities for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both non-financial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. ASU No. 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The Company currently does not designate any derivative financial instruments as qualifying hedging relationships, and therefore, does not utilize hedge accounting. The Company does not expect this ASU to have a material impact on the Company s consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployees Share-Based Payment Accounting. The intention of ASU 2018-07 is to expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. These share-based payments will now be measured at grant-date fair value of the equity instrument issued. Upon adoption, only liability-classified awards that have not been settled and equity-classified awards for which a measurement date has not been established should be remeasured through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. ASU 2018-07 is effective for fiscal years beginning after December 15, 2019 and is applied retrospectively. The Company does not expect this ASU to have a material impact on the Company s consolidated financial statements.

4. BUSINESS COMBINATIONS

Valley Commerce Bancorp Acquisition

On March 10, 2017, the Company completed the acquisition of Valley Commerce Bancorp (VCBP), the holding company for Valley Business Bank (VBB), headquartered in the Central Valley area of California. The Company acquired all of the assets and assumed all of the liabilities of VCBP for $23.2 million in cash and $37.6 million in stock. As a result, VBB was merged with the Bank, the principal subsidiary of CVB. The Company believes this transaction serves to further strengthen its presence in the Central Valley area of California. At close, VBB had four branches located in Visalia, Tulare, Fresno, and Woodlake. The systems integration of VCBP and CBB was completed in May 2017. Three of these center locations were consolidated with nearby CBB locations in the third quarter of 2017 and the Company sold the Woodlake branch in the fourth quarter of 2017.

Goodwill of $27.0 million from the acquisition represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

The total fair value of assets acquired approximated $405.9 million, which included $28.3 million in cash and cash equivalents net of cash paid, $2.0 million in FHLB stock, $309.7 million in loans and lease finance receivables, $5.3 million in fixed assets, $9.4 million in BOLI, $3.2 million in core deposit intangible assets acquired and $21.0 million in other assets. The total fair value of liabilities assumed was $368.3 million, which included $361.8 million in deposits, and $6.5 million in other liabilities. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of March 10, 2017. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The purchase price allocation was finalized in the third quarter of 2017.

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

For the six months ended June 30, 2018, the Company did not incur any merger related expenses associated with the VCBP acquisition and incurred $1.3 million and $1.9 million for the three and six months ended June 30, 2017, respectively.

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5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are summarized below. The majority of securities held are available-for-sale securities with fair value based on quoted prices for similar assets in active markets or quoted prices for identical assets in markets that are not active. Estimated fair values were obtained from an independent pricing service based upon market quotes.

	June 30, 2018				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				
Investment securities available-for-sale:					
Residential mortgage-backed securities	$ 1,665,717	$ 1,489	$ (30,322)	$ 1,636,884	84.81%
CMO/REMIC - residential	244,227	357	(5,073)	239,511	12.41%
Municipal bonds	53,557	400	(1,108)	52,849	2.74%
Other securities	750	-	-	750	0.04%
Total available-for-sale securities	$ 1,964,251	$ 2,246	$ (36,503)	$ 1,929,994	100.00%
Investment securities held-to-maturity:					
Government agency/GSE	$ 149,693	$ 406	$ (2,948)	$ 147,151	19.38%
Residential mortgage-backed securities	164,914	-	(4,020)	160,894	21.35%
CMO	219,159	-	(12,773)	206,386	28.37%
Municipal bonds	238,703	574	(6,119)	233,158	30.90%
Total held-to-maturity securities	$ 772,469	$ 980	$ (25,860)	$ 747,589	100.00%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Dollars in thousands)				
Investment securities available-for-sale:					
Residential mortgage-backed securities	$ 1,747,780	$ 11,231	$ (8,102)	$ 1,750,909	84.14%
CMO/REMIC - residential	274,634	1,277	(2,082)	273,829	13.16%
Municipal bonds	54,966	774	(244)	55,496	2.66%
Other securities	751	-	-	751	0.04%
Total available-for-sale securities	$ 2,078,131	$ 13,282	$ (10,428)	$ 2,080,985	100.00%
Investment securities held-to-maturity:					
Government agency/GSE	$ 159,716	$ 854	$ (2,134)	$ 158,436	19.25%

Residential mortgage-backed securities		176,427		667		(382)		176,712	21.26%
CMO		225,072		-		(8,641)		216,431	27.12%
Municipal bonds		268,675		2,751		(3,790)		267,636	32.37%
Total held-to-maturity securities	$	829,890	$	4,272	$	(14,947)	$	819,215	100.00%

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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 Three Months Ended June 30, 2018	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017
	(Dollars in thousands)			
Investment securities available-for-sale:				
Taxable	$ 11,290	$ 12,420	$ 22,735	$ 24,346
Tax-advantaged	407	587	830	1,301
Total interest income from available-for-sale securities	11,697	13,007	23,565	25,647
Investment securities held-to-maturity:				
Taxable	3,048	3,203	5,926	6,480
Tax-advantaged	1,759	2,120	3,646	4,350
Total interest income from held-to-maturity securities	4,807	5,323	9,572	10,830
Total interest income from investment securities	$ 16,504	$ 18,330	$ 33,137	$ 36,477

Approximately 89% of the total investment securities portfolio at June 30, 2018 represents securities issued by the U.S government or U.S. government-sponsored enterprises, with the implied guarantee of payment of principal and interest.

The tables below show the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017. Management has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, evidenced any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market rates have fluctuated. However, we have the ability to hold and do not have the intent to sell these securities. As such, management does not deem these securities to be Other-Than-Temporarily-Impaired (OTTI).

	June 30, 2018					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses

	(Dollars in thousands)					
Investment securities available-for-sale:						
Residential mortgage-backed securities	$ 1,253,569	$ (18,601)	$ 272,657	$ (11,721)	$ 1,526,226	$ (30,322)
CMO/REMIC - residential	130,072	(2,291)	64,326	(2,782)	194,398	(5,073)
Municipal bonds	9,294	(221)	13,304	(887)	22,598	(1,108)
Total available-for-sale securities	$ 1,392,935	$ (21,113)	$ 350,287	$ (15,390)	$ 1,743,222	$ (36,503)
Investment securities held-to-maturity:						
Government agency/GSE	$ 53,518	$ (437)	$ 41,567	$ (2,511)	$ 95,085	$ (2,948)
Residential mortgage-backed securities	106,204	(2,225)	54,691	(1,795)	160,895	(4,020)
CMO	-	-	206,386	(12,773)	206,386	(12,773)
Municipal bonds	91,541	(1,499)	61,207	(4,620)	152,748	(6,119)
Total held-to-maturity securities	$ 251,263	$ (4,161)	$ 363,851	$ (21,699)	$ 615,114	$ (25,860)

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	December 31, 2017					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(Dollars in thousands)					
Investment securities available-for-sale:						
Residential mortgage-backed securities	$ 414,091	$ (1,828)	$ 303,746	$ (6,274)	$ 717,837	$ (8,102)
CMO/REMIC - residential	95,137	(487)	71,223	(1,595)	166,360	(2,082)
Municipal bonds	946	(4)	13,956	(240)	14,902	(244)
Total available-for-sale securities	$ 510,174	$ (2,319)	$ 388,925	$ (8,109)	$ 899,099	$ (10,428)
Investment securities held-to-maturity:						
Government agency/GSE	$ 18,950	$ (27)	$ 43,495	$ (2,107)	$ 62,445	$ (2,134)
Residential mortgage-backed securities	51,297	(188)	55,306	(194)	106,603	(382)
CMO	-	-	216,431	(8,641)	216,431	(8,641)
Municipal bonds	32,069	(492)	66,217	(3,298)	98,286	(3,790)
Total held-to-maturity securities	$ 102,316	$ (707)	$ 381,449	$ (14,240)	$ 483,765	$ (14,947)

At June 30, 2018 and December 31, 2017, investment securities having a carrying value of approximately $1.74 billion and $1.91 billion, respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at June 30, 2018, by contractual maturity, are shown in the table below. Although mortgage-backed and CMO/REMIC securities have contractual maturities through 2057, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed and CMO/REMIC securities are included in maturity categories based upon estimated average lives which incorporate estimated prepayment speeds.

	June 30, 2018	
	Available-for-sale	Held-to-maturity

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$ 26,487	$ 26,762	$ -	$ -
Due after one year through five years	1,711,078	1,682,200	283,278	270,230
Due after five years through ten years	197,590	192,738	209,623	205,138
Due after ten years	29,096	28,294	279,568	272,221
Total investment securities	$ 1,964,251	$ 1,929,994	$ 772,469	$ 747,589

The investment in FHLB stock is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through June 30, 2018.

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6. ACQUIRED SJB ASSETS AND FDIC LOSS SHARING ASSET

FDIC Assisted Acquisition

On October 16, 2009, the Bank acquired San Joaquin Bank (SJB) and entered into loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC) that is more fully discussed in Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2017. The acquisition has been accounted for under the purchase method of accounting. The assets and liabilities were recorded at their estimated fair values as of the October 16, 2009 acquisition date. The acquired loans were accounted for as Purchase Credit Impaired (PCI) loans.

At June 30, 2018, the remaining discount associated with the PCI loans was zero. The loss sharing agreement for commercial loans expired October 16, 2014. The loss sharing agreement with the FDIC for single-family residential loans, which would have expired on October 16, 2019, was terminated by the Bank on July 20, 2018.

The following table provides a summary of PCI loans and lease finance receivables by type and by internal risk ratings (credit quality indicators) for the periods indicated.

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Commercial and industrial	$ 562	$ 934
SBA	1,311	1,383
Real estate:		
Commercial real estate	17,214	27,431
Construction	-	-
SFR mortgage	154	162
Dairy & livestock and agribusiness	-	770
Municipal lease finance receivables	-	-
Consumer and other loans	185	228
Gross PCI loans	19,426	30,908
Less: Purchase accounting discount	-	(2,026)
Gross PCI loans, net of discount	19,426	28,882
Less: Allowance for PCI loan losses	(216)	(367)
Net PCI loans	$ 19,210	$ 28,515

Credit Quality Indicators

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

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	

Pass	$	18,137	$	26,439
Special mention		1,044		1,088
Substandard		245		3,381
Doubtful & loss		-		-
Total gross PCI loans	$	19,426	$	30,908

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

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

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Commercial and industrial	$ 509,188	$ 513,325
SBA	121,048	122,055
Real estate:		
Commercial real estate	3,454,030	3,376,713
Construction	84,400	77,982
SFR mortgage	237,154	236,202
Dairy & livestock and agribusiness	268,489	347,289
Municipal lease finance receivables	67,721	70,243
Consumer and other loans	60,875	64,229
Gross loans, excluding PCI loans	4,802,905	4,808,038
Less: Deferred loan fees, net	(5,375)	(6,289)
Gross loans, excluding PCI loans, net of deferred loan fees	4,797,530	4,801,749
Less: Allowance for loan losses	(59,367)	(59,218)
Net loans, excluding PCI loans	4,738,163	4,742,531
PCI Loans	19,426	30,908
Discount on PCI loans	-	(2,026)
Less: Allowance for loan losses	(216)	(367)
PCI loans, net	19,210	28,515
Total loans and lease finance receivables	$ 4,757,373	$ 4,771,046

As of June 30, 2018, 78.61% of the Company s total gross loan portfolio (excluding PCI loans) consisted of real estate loans, 71.92% of which consisted of commercial real estate loans. Substantially all of the Company s real estate loans and construction loans are secured by real properties located in California. As of June 30, 2018, $212.5 million, or 6.15% of the total commercial real estate loans included loans secured by farmland, compared to $206.1 million, or 6.10%, at December 31, 2017. The loans secured by farmland included $123.7 million for loans secured by dairy & livestock land and $88.8 million for loans secured by agricultural land at June 30, 2018, compared to $118.2 million for loans secured by dairy & livestock land and $87.9 million for loans secured by agricultural land at December 31, 2017. As of June 30, 2018, dairy & livestock and agribusiness loans of $268.5 million were comprised of $231.5 million for dairy & livestock loans and $37.0 million for agribusiness loans, compared to $310.6 million for dairy & livestock loans and $36.7 million for agribusiness loans at December 31, 2017.

At June 30, 2018, the Company held approximately $2.20 billion of total fixed rate loans, including PCI loans.

At June 30, 2018 and December 31, 2017, loans totaling $3.73 billion and $3.68 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 June 30, 2018 and December 31, 2017.

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Credit Quality Indicators

An important element of our approach to credit risk management is our loan risk rating system. The originating 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 or improvement 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, 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, including loans on the Bank s internal watch list, range from minimal credit risk to lower than average, but still acceptable, credit risk. Watch list loans usually require more than normal management attention. Loans on the 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 have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company s credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. Substandard loans are characterized by 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 characteristic that the weaknesses make collection or the liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets 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 asset with insignificant value even though partial recovery may be affected in the future.

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

	June 30, 2018				
	Pass	Special Mention	Substandard	Doubtful & Loss	Total
	(Dollars in thousands)				
Commercial and industrial	$ 490,231	$ 16,415	$ 2,542	$ -	$ 509,188
SBA	111,616	6,686	2,746	-	121,048
Real estate:					
Commercial real estate					
Owner occupied	1,063,163	61,509	19,102	-	1,143,774
Non-owner occupied	2,290,652	13,880	5,724	-	2,310,256
Construction					
Speculative	74,785	-	-	-	74,785
Non-speculative	9,615	-	-	-	9,615
SFR mortgage	229,831	3,070	4,253	-	237,154
Dairy & livestock and agribusiness	244,408	19,581	4,500	-	268,489
Municipal lease finance receivables	67,153	568	-	-	67,721
Consumer and other loans	59,076	921	878	-	60,875
Total gross loans, excluding PCI loans	$ 4,640,530	$ 122,630	$ 39,745	$ -	$ 4,802,905

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful & Loss	Total
	(Dollars in thousands)				
Commercial and industrial	$ 483,641	$ 19,566	$ 10,118	$ -	$ 513,325
SBA	112,835	5,358	3,862	-	122,055
Real estate:					
Commercial real estate					
Owner occupied	1,009,199	76,111	10,970	-	1,096,280
Non-owner occupied	2,257,130	16,434	6,869	-	2,280,433
Construction					
Speculative	60,042	-	-	-	60,042
Non-speculative	17,940	-	-	-	17,940
SFR mortgage	229,032	3,124	4,046	-	236,202
Dairy & livestock and agribusiness	321,413	9,047	16,829	-	347,289
Municipal lease finance receivables	69,644	599	-	-	70,243
Consumer and other loans	61,715	1,255	1,259	-	64,229
Total gross loans, excluding PCI loans	$ 4,622,591	$ 131,494	$ 53,953	$ -	$ 4,808,038

Allowance for Loan Losses (ALLL)

The Bank s Audit and Director Loan Committees provide Board oversight of the ALLL process and approves the ALLL on a quarterly basis.

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers the Bank s overall loan portfolio. Refer to Note 3 *Summary of Significant Accounting Policies* of the 2017 Annual Report on Form 10-K for the year ended December 31, 2017 for a more detailed discussion concerning the allowance for loan losses.

Management believes that the ALLL was appropriate at June 30, 2018 and December 31, 2017. No assurance can be given that economic conditions which adversely affect the Company s service areas or other circumstances will not be reflected in increased provisions for loan losses in the future.

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

	For the Three Months Ended June 30, 2018				
	Ending Balance March 31, 2018	Charge-offs	Recoveries	(Recapture of) Provision for Loan Losses	Ending Balance June 30, 2018
	(Dollars in thousands)				
Commercial and industrial	$ 7,499	$ -	$ 27	$ (556)	$ 6,970
SBA	884	-	5	(48)	841
Real estate:					
Commercial real estate	41,863	-	-	734	42,597
Construction	987	-	596	(580)	1,003
SFR mortgage	2,202	-	-	(47)	2,155
Dairy & livestock and agribusiness	4,666	-	19	(334)	4,351
Municipal lease finance receivables	834	-	-	(26)	808
Consumer and other loans	688	(2)	3	(47)	642
PCI loans	312	-	-	(96)	216
Total allowance for loan losses	$ 59,935	$ (2)	$ 650	$ (1,000)	$ 59,583

	For the Three Months Ended June 30, 2017				
	Ending Balance March 31, 2017	Charge-offs	Recoveries	(Recapture of) Provision for Loan Losses	Ending Balance June 30, 2017
	(Dollars in thousands)				
Commercial and industrial	$ 7,956	$ -	$ 42	$ 62	$ 8,060
SBA	871	-	38	4	913
Real estate:					
Commercial real estate	38,986	-	154	787	39,927
Construction	820	-	1,694	(1,455)	1,059
SFR mortgage	2,186	-	-	183	2,369
Dairy & livestock and agribusiness	5,842	-	19	(421)	5,440
Municipal lease finance receivables	889	-	-	(37)	852
Consumer and other loans	937	-	42	(57)	922
PCI loans	725	-	-	(66)	659
Total allowance for loan losses	$ 59,212	$ -	$ 1,989	$ (1,000)	$ 60,201

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	For the Six Months Ended June 30, 2018				
	Ending Balance December 31, 2017	Charge-offs	Recoveries	(Recapture of) Provision for Loan Losses	Ending Balance June 30, 2018
	(Dollars in thousands)				
Commercial and industrial	$ 7,280	$ -	$ 37	$ (347)	$ 6,970
SBA	869	-	10	(38)	841
Real estate:					
Commercial real estate	41,722	-	-	875	42,597
Construction	984	-	1,930	(1,911)	1,003
SFR mortgage	2,112	-	-	43	2,155
Dairy & livestock and agribusiness	4,647	-	19	(315)	4,351
Municipal lease finance receivables	851	-	-	(43)	808
Consumer and other loans	753	(9)	11	(113)	642
PCI loans	367	-	-	(151)	216
Total allowance for loan losses	$ 59,585	$ (9)	$ 2,007	$ (2,000)	$ 59,583

	For the Six Months Ended June 30, 2017				
	Ending Balance December 31, 2016	Charge-offs	Recoveries	(Recapture of) Provision for Loan Losses	Ending Balance June 30, 2017
	(Dollars in thousands)				
Commercial and industrial	$ 8,154	$ -	$ 94	$ (188)	$ 8,060
SBA	871	-	42	-	913
Real estate:					
Commercial real estate	37,443	-	154	2,330	39,927
Construction	1,096	-	3,719	(3,756)	1,059
SFR mortgage	2,287	-	64	18	2,369
Dairy & livestock and agribusiness	8,541	-	19	(3,120)	5,440
Municipal lease finance receivables	941	-	-	(89)	852
Consumer and other loans	988	(2)	71	(135)	922
PCI loans	1,219	-	-	(560)	659
Total allowance for loan losses	$ 61,540	$ (2)	$ 4,163	$ (5,500)	$ 60,201

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The following tables present the recorded investment in loans held-for-investment and the related allowance for loan losses by loan type, based on the Company s methodology for determining the allowance for loan losses for the periods presented. Acquired loans are also supported by a credit discount established through the determination of fair value for the acquired loan portfolio.

	June 30, 2018					
	Recorded Investment in Loans			Allowance for Loan Losses		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality
	(Dollars in thousands)					
Commercial and industrial	$ 355	$ 508,833	$ -	$ -	$ 6,970	$ -
SBA	1,174	119,874	-	-	841	-
Real estate:						
Commercial real estate	7,741	3,446,289	-	-	42,597	-
Construction	-	84,400	-	-	1,003	-
SFR mortgage	4,133	233,021	-	13	2,142	-
Dairy & livestock and agribusiness	800	267,689	-	-	4,351	-
Municipal lease finance receivables	-	67,721	-	-	808	-
Consumer and other loans	509	60,366	-	3	639	-
PCI loans	-	-	19,426	-	-	216
Total	$ 14,712	$ 4,788,193	$ 19,426	$ 16	$ 59,351	$ 216

	June 30, 2017					
	Recorded Investment in Loans			Allowance for Loan Losses		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality
	(Dollars in thousands)					
Commercial and industrial	$ 1,605	$ 535,742	$ -	$ 13	$ 8,047	$ -
SBA	2,478	126,805	-	6	907	-
Real estate:						
Commercial real estate	18,558	3,247,300	-	-	39,927	-
Construction	-	77,294	-	-	1,059	-
SFR mortgage	4,195	245,738	-	-	2,369	-
Dairy & livestock and agribusiness	829	244,426	-	-	5,440	-
	-	66,048	-	-	852	-

Municipal lease finance receivables												
Consumer and other loans		1,131		72,778		-		94		828		-
PCI loans		-		-		49,869		-		-		659
Total	$	28,796	$	4,616,131	$	49,869	$	113	$	59,429	$	659

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*, included in our Annual Report on Form 10-K for the year ended December 31, 2017, for additional discussion concerning the Bank s policy for past due and nonperforming loans.

A loan is reported as a Troubled Debt Restructuring (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 one or more 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

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discounted at the interest rate of the original loan agreement to the carrying value of the loan. 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.

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.

	June 30, 2018					
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Financing Receivables
			(Dollars in thousands)			
Commercial and industrial	$ -	$ -	$ -	$ 204	$ 508,984	$ 509,188
SBA	-	-	-	574	120,474	121,048
Real estate:						
Commercial real estate						
Owner occupied	-	-	-	4,294	1,134,706	1,139,000
Non-owner occupied	-	-	-	2,223	2,312,807	2,315,030
Construction						
Speculative (2)	-	-	-	-	74,785	74,785
Non-speculative	-	-	-	-	9,615	9,615
SFR mortgage	-	-	-	1,578	235,576	237,154
Dairy & livestock and agribusiness	-	-	-	800	267,689	268,489
Municipal lease finance receivables	-	-	-	-	67,721	67,721
Consumer and other loans	47	-	47	509	60,319	60,875
Total gross loans, excluding PCI loans	$ 47	$ -	$ 47	$ 10,182	$ 4,792,676	$ 4,802,905

(1) As of June 30, 2018, $3.2 million of nonaccruing loans were current, $164,000 were 30-59 days past due, $129,000 were 60-89 days past due and $6.7 million were 90+ days past due.

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

	December 31, 2017					
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Financing Receivables
	(Dollars in thousands)					
Commercial and industrial	$ 768	$ -	$ 768	$ 250	$ 512,307	$ 513,325
SBA	403	-	403	906	120,746	122,055
Real estate:						
Commercial real estate						
Owner occupied	-	-	-	4,365	1,091,915	1,096,280
Non-owner occupied	-	-	-	2,477	2,277,956	2,280,433
Construction						
Speculative (2)	-	-	-	-	60,042	60,042
Non-speculative	-	-	-	-	17,940	17,940
SFR mortgage	-	-	-	1,337	234,865	236,202
Dairy & livestock and agribusiness	-	-	-	829	346,460	347,289
Municipal lease finance receivables	-	-	-	-	70,243	70,243
Consumer and other loans	1	-	1	552	63,676	64,229
Total gross loans, excluding PCI loans	$ 1,172	$ -	$ 1,172	$ 10,716	$ 4,796,150	$ 4,808,038

(1) As of December 31, 2017, $3.6 million of nonaccruing loans were current, $376,000 were 60-89 days past due and $6.8 million were 90+ days past due.

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

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Impaired Loans

At June 30, 2018, the Company had impaired loans, excluding PCI loans, of $14.7 million. Impaired loans included $6.5 million of nonaccrual commercial real estate loans, $1.6 million of nonaccrual single-family residential (SFR) mortgage loans, $800,000 of nonaccrual dairy & livestock and agribusiness loans, $574,000 of nonaccrual Small Business Administration (SBA) loans, $509,000 of nonaccrual consumer and other loans, and $204,000 of nonaccrual commercial and industrial loans. These impaired loans included $8.4 million of loans whose terms were modified in a troubled debt restructuring, of which $3.9 million were classified as nonaccrual. The remaining balance of $4.5 million consisted of 15 loans performing according to the restructured terms. The impaired loans had a specific allowance of $16,000 at June 30, 2018. At December 31, 2017, the Company had classified as impaired, loans, excluding PCI loans, with a balance of $15.5 million with a related allowance of $75,000.

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 Six Months Ended June 30, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 355	$ 864	$ -	$ 378	$ 4
SBA	1,174	1,302	-	1,204	23
Real estate:					
Commercial real estate					
Owner occupied	4,294	4,747	-	4,331	-
Non-owner occupied	3,447	4,894	-	3,565	44
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SFR mortgage	4,120	4,860	-	4,159	55
Dairy & livestock and agribusiness	800	1,091	-	819	-
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	506	716	-	568	-
Total	14,696	18,474	-	15,024	126
With a related allowance recorded:					
Commercial and industrial	-	-	-	-	-
SBA	-	-	-	-	-
Real estate:					
Commercial real estate					
Owner occupied	-	-	-	-	-
Non-owner occupied	-	-	-	-	-
Construction					

Speculative		-		-		-		-		-
Non-speculative		-		-		-		-		-
SFR mortgage		13		13		13		13		-
Dairy & livestock and agribusiness		-		-		-		-		-
Municipal lease finance receivables		-		-		-		-		-
Consumer and other loans		3		3		3		3		-
Total		16		16		16		16		-
Total impaired loans	$	14,712	$	18,490	$	16	$	15,040	$	126

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	As of and For the Six Months Ended June 30, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 1,465	$ 1,939	$ -	$ 1,572	$ 13
SBA	2,472	2,750	-	2,538	32
Real estate:					
Commercial real estate					
Owner occupied	5,541	5,866	-	5,240	69
Non-owner occupied	13,017	15,469	-	12,908	798
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SFR mortgage	4,195	4,983	-	4,242	73
Dairy & livestock and agribusiness	829	1,091	-	1,123	1
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	734	941	-	752	9
Total	28,253	33,039	-	28,375	995
With a related allowance recorded:					
Commercial and industrial	140	187	13	157	1
SBA	6	23	6	9	-
Real estate:					
Commercial real estate					
Owner occupied	-	-	-	-	-
Non-owner occupied	-	-	-	-	-
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SFR mortgage	-	-	-	-	-
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	397	402	94	399	-
Total	543	612	113	565	1
Total impaired loans	$ 28,796	$ 33,651	$ 113	$ 28,940	$ 996

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	As of December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$ 440	$ 980	$ -
SBA	1,530	1,699	-
Real estate:			
Commercial real estate			
Owner occupied	4,365	4,763	-
Non-owner occupied	3,768	5,107	-
Construction			
Speculative	-	-	-
Non-speculative	-	-	-
SFR mortgage	4,040	4,692	-
Dairy & livestock and agribusiness	829	1,091	-
Municipal lease finance receivables	-	-	-
Consumer and other loans	174	370	-
Total	15,146	18,702	-
With a related allowance recorded:			
Commercial and industrial	-	-	-
SBA	1	18	1
Real estate:			
Commercial real estate			
Owner occupied	-	-	-
Non-owner occupied	-	-	-
Construction			
Speculative	-	-	-
Non-speculative	-	-	-
SFR mortgage	-	-	-
Dairy & livestock and agribusiness	-	-	-
Municipal lease finance receivables	-	-	-
Consumer and other loans	378	391	74
Total	379	409	75
Total impaired loans	$ 15,525	$ 19,111	$ 75

The Company recognizes the charge-off of the impairment allowance on impaired loans in the period in which a loss is identified for collateral dependent loans. Therefore, the majority of the nonaccrual loans as of June 30, 2018, December 31, 2017 and June 30, 2017 have already been written down to the estimated net realizable value. An allowance is recorded on impaired loans for the following: nonaccrual loans where a charge-off is not yet processed, nonaccrual SFR mortgage 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. There was no provision or recapture of provision for unfunded loan commitments for the three and six months ended June 30, 2018, and 2017. As of June 30, 2018 and December 31, 2017, the balance in this reserve was $6.3 million and was included in other liabilities.

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Troubled Debt Restructurings (TDRs)

Loans that are reported as TDRs are considered impaired and charge-off amounts are taken on an individual loan basis, as deemed appropriate. The majority of restructured loans are loans for which the terms of repayment have been renegotiated, resulting in a reduction in interest rate or deferral of principal. Refer to Note 3 *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2017 for a more detailed discussion regarding TDRs.

As of June 30, 2018, there were $8.4 million of loans classified as a TDR, of which $3.9 million were nonperforming and $4.5 million were performing. TDRs on accrual status are comprised of loans that were accruing interest at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. At June 30, 2018, performing TDRs were comprised of 10 SFR mortgage loans of $2.6 million, two commercial real estate loans of $1.2 million, one SBA loan of $600,000, and two commercial and industrial loans of $151,000.

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 zero and $1,000 of specific allowance to TDRs as of June 30, 2018 and December 31, 2017, respectively.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
	(Dollars in thousands)			
Performing TDRs:				
Beginning balance	$ 4,285	$ 19,702	$ 4,809	$ 19,233
New modifications	311	-	311	3,143
Payoffs/payments, net and other	(66)	16	(590)	(2,987)
TDRs returned to accrual status	-	-	-	329
TDRs placed on nonaccrual status	-	(3,144)	-	(3,144)
Ending balance	$ 4,530	$ 16,574	$ 4,530	$ 16,574
Nonperforming TDRs:				
Beginning balance	$ 3,909	$ 1,407	$ 4,200	$ 1,626
New modifications	38	-	38	2,066
Charge-offs	-	-	-	-
Payoffs/payments, net and other	(55)	(160)	(346)	(2,116)
TDRs returned to accrual status	-	-	-	(329)
TDRs placed on nonaccrual status	-	3,144	-	3,144
Ending balance	$ 3,892	$ 4,391	$ 3,892	$ 4,391
Total TDRs	$ 8,422	$ 20,965	$ 8,422	$ 20,965

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The following table summarizes loans modified as troubled debt restructurings for the period presented.

Modifications (1)

	For the Three Months Ended June 30, 2018				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at June 30, 2018	Financial Effect Resulting From Modifications (2)
	(Dollars in thousands)				
Commercial and industrial:					
Interest rate reduction	-	$ -	$ -	$ -	$ -
Change in amortization period or maturity	1	38	38	31	-
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Non-owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
SFR mortgage:					
Interest rate reduction	1	311	311	307	-
Change in amortization period or maturity	-	-	-	-	-
Dairy & livestock and agribusiness:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Consumer:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Total loans	2	$ 349	$ 349	$ 338	$ -

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	For the Three Months Ended June 30, 2017				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at June 30, 2017	Financial Effect Resulting From Modifications (2)
	(Dollars in thousands)				
Commercial and industrial:					
Interest rate reduction	-	$ -	$ -	$ -	$ -
Change in amortization period or maturity	-	-	-	-	-
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Non-owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
SFR mortgage:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Dairy & livestock and agribusiness:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Consumer:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Total loans	-	$ -	$ -	$ -	$ -

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	For the Six Months Ended June 30, 2018				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment At June 30, 2018	Financial Effect Resulting From Modifications (2)
	(Dollars in thousands)				
Commercial and industrial:					
Interest rate reduction	-	$ -	$ -	$ -	$ -
Change in amortization period or maturity	1	38	38	31	-
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Non-owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
SFR mortgage:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	1	311	311	307	-
Dairy & livestock and agribusiness:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Consumer:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Total loans	2	$ 349	$ 349	$ 338	$ -

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	For the Six Months Ended June 30, 2017				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at June 30, 2017	Financial Effect Resulting From Modifications (2)
	(Dollars in thousands)				
Commercial and industrial:					
Interest rate reduction	-	$ -	$ -	$ -	$ -
Change in amortization period or maturity	-	-	-	-	-
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	1	3,143	3,143	3,143	-
Non-owner occupied					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
SFR mortgage:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
Dairy & livestock and agribusiness:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	1	1,984	1,984	78	-
Consumer:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	1	82	82	78	-
Total loans	3	$ 5,209	$ 5,209	$ 3,299	$ -

(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.

As of June 30, 2018, there were no loans that were previously modified as a TDR within the previous 12 months that subsequently defaulted during the three and six months ended June 30, 2018.

As of June 30, 2017, there was one commercial real estate loan with an outstanding balance of $3.1 million that was modified as a TDR within the previous 12 months that subsequently defaulted during the three and six months ended June 30, 2017.

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8. 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 shares issuable upon the assumed exercise of outstanding common stock options. Antidilutive common shares are not included in the calculation of diluted earnings per common share. For the three and six months ended June 30, 2018, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were 14,000 and 13,000, respectively. For the three and six months ended June 30, 2017, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were 11,000 and 8,000, respectively.

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 Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Earnings per common share:				
Net earnings	$ 35,373	$ 28,373	$ 70,286	$ 56,877
Less: Net earnings allocated to restricted stock	94	105	202	217
Net earnings allocated to common shareholders	$ 35,279	$ 28,268	$ 70,084	$ 56,660
Weighted average shares outstanding	109,983	109,730	109,921	109,039
Basic earnings per common share	$ 0.32	$ 0.26	$ 0.64	$ 0.52
Diluted earnings per common share:				
Net income allocated to common shareholders	35,279	28,268	70,084	56,660
Weighted average shares outstanding	109,983	109,730	109,921	109,039
Incremental shares from assumed exercise of outstanding options	372	348	418	406
Diluted weighted average shares outstanding	110,355	110,078	110,339	109,445
Diluted earnings per common share	$ 0.32	$ 0.26	$ 0.64	$ 0.52

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9. FAIR VALUE INFORMATION

Fair Value Hierarchy

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

The following disclosure provides the fair value information for financial assets and liabilities as of June 30, 2018. 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* Quoted prices in active markets for identical assets or liabilities in active markets that are accessible at the measurement date.

- *Level 2* Observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs or model derived valuations that can be corroborated by observable market data, either directly or indirectly, for substantially the full term of the financial instrument.

- *Level 3* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These valuation methodologies generally include pricing models, discounted cash flow models, or a determination of fair value that requires significant management judgment or estimation.

There were no transfers in and out of Level 1 and Level 2 during the six months ended June 30, 2018 and 2017.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Carrying Value at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Description of assets				
Investment securities - AFS:				
Residential mortgage-backed securities	$ 1,636,884	$ -	$ 1,636,884	$ -
CMO/REMIC - residential	239,511	-	239,511	-
Municipal bonds	52,849	-	52,849	-
Other securities	750	-	750	-
Total investment securities - AFS	1,929,994	-	1,929,994	-
Interest rate swaps	1,405	-	1,405	-
Total assets	$ 1,931,399	$ -	$ 1,931,399	$ -
Description of liability				
Interest rate swaps	$ 1,405	$ -	$ 1,405	$ -
Total liabilities	$ 1,405	$ -	$ 1,405	$ -

	Carrying Value at December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Description of assets				
Investment securities - AFS:				
Residential mortgage-backed securities	$ 1,750,909	$ -	$ 1,750,909	$ -
CMO/REMIC - residential	273,829	-	273,829	-
Municipal bonds	55,496	-	55,496	-
Other securities	751	-	751	-
Total investment securities - AFS	2,080,985	-	2,080,985	-
Interest rate swaps	3,211	-	3,211	-
Total assets	$ 2,084,196	$ -	$ 2,084,196	$ -

Description of liability								
Interest rate swaps	$	3,211	$	-	$	3,211	$	-
Total liabilities	$	3,211	$	-	$	3,211	$	-

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

We may be required to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or fair value accounting or impairment write-downs of individual assets.

For assets measured at fair value on a non-recurring basis that were held on the balance sheet at June 30, 2018 and December 31, 2017, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets that had losses during the period.

	Carrying Value at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Six Months Ended June 30, 2018
	(Dollars in thousands)				
Description of assets					
Impaired loans, excluding PCI loans:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
SBA	-	-	-	-	-
Real estate:					
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
SFR mortgage	13	-	-	13	13
Dairy & livestock and agribusiness	-	-	-	-	-
Consumer and other loans	3	-	-	3	3
Other real estate owned	-	-	-	-	-
Asset held-for-sale	-	-	-	-	-
Total assets	$ 16	$ -	$ -	$ 16	$ 16

	Carrying Value at December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Year Ended December 31, 2017
	(Dollars in thousands)				
Description of assets					
Impaired loans, excluding PCI loans:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
SBA	-	-	-	-	-
Real estate:					
Commercial real estate	-	-	-	-	-

Construction	-		-		-		-		-
SFR mortgage	-		-		-		-		-
Dairy & livestock and agribusiness	-		-		-		-		-
Consumer and other loans	378		-		-		378		74
Other real estate owned	-		-		-		-		-
Asset held-for-sale	-		-		-		-		-
Total assets	$ 378	$	-	$	-	$	378	$	74

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Fair Value of Financial Instruments

The following disclosure presents estimated fair value of our financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company may realize in a current market exchange as of June 30, 2018 and December 31, 2017, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	June 30, 2018				
		Estimated Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
			(Dollars in thousands)		
Assets					
Total cash and cash equivalents	$ 181,489	$ 181,489	$ -	$ -	$ 181,489
Interest-earning balances due from depository institutions	7,150	-	7,086	-	7,086
Investment securities available-for-sale	1,929,994	-	1,929,994	-	1,929,994
Investment securities held-to-maturity	772,469	-	747,589	-	747,589
Total loans, net of allowance for loan losses (1)	4,757,373	-	-	4,634,939	4,634,939
Swaps	1,405	-	1,405	-	1,405
Liabilities					
Deposits:					
Interest-bearing	$ 2,554,640	$ -	$ 2,551,285	$ -	$ 2,551,285
Borrowings	384,054	-	383,725	-	383,725
Junior subordinated debentures	25,774	-	-	20,910	20,910
Swaps	1,405	-	1,405	-	1,405

(1) The fair value of loans as of June 30, 2018 was measured using an exit price notion.

	December 31, 2017				
		Estimated Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
			(Dollars in thousands)		
Assets					

Total cash and due from banks	$	144,377	$	144,377	$	-	$	-	$	144,377
Interest-earning balances due from depository institutions		17,952		-		17,951		-		17,951
FHLB stock		17,688		-		17,688		-		17,688
Investment securities available-for-sale		2,080,985		-		2,080,985		-		2,080,985
Investment securities held-to-maturity		829,890		-		819,215		-		819,215
Total loans, net of allowance for loan losses		4,771,046		-		-		4,678,402		4,678,402
Swaps		3,211		-		3,211		-		3,211
Liabilities										
Deposits:										
Noninterest-bearing	$	3,846,436	$	3,846,436	$	-	$	-	$	3,846,436
Interest-bearing		2,700,417		-		2,697,781		-		2,697,781
Borrowings		553,773		-		553,416		-		553,416
Junior subordinated debentures		25,774		-		-		18,070		18,070
Swaps		3,211		-		3,211		-		3,211

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2018 and December 31, 2017. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented above.

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10. BUSINESS SEGMENTS

The Company has identified two principal reportable segments: Banking Centers (Centers) and Dairy & Livestock and Agribusiness. All other operations have been aggregated in Other . The Bank has 51 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 departments 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 two segments in deciding how to allocate resources and to assess performance. Our two principal reporting segments, Centers and Dairy & Livestock and Agribusiness, are aggregated into separate operating segments 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. All other operating departments have been aggregated and included in Other for reporting purposes. Recapture of provision for loan losses was allocated by reporting segment based on loan type. In addition, the Company allocates internal funds 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 the Other category.

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 in our Annual Report on Form 10-K for the year ended December 31, 2017. 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 Centers business segment are grouped in the Other category. Future changes in the Company s management structure or reporting methodologies may result in changes in the measurement of operating segment results.

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

	For the Three Months Ended June 30, 2018			
	Centers	**Dairy & livestock and agribusiness**	**Other (1)**	**Total**
	(Dollars in thousands)			
Net interest income	$ 52,271	$ 3,467	$ 16,950	$ 72,688
Recapture of provision for loan losses	(70)	(334)	(596)	(1,000)
Net interest income after recapture of provision for loan losses	52,341	3,801	17,546	73,688
Noninterest income	5,637	47	4,011	9,695
Noninterest expense	12,779	472	21,003	34,254

Segment pre-tax profit	$	45,199	$	3,376	$	554	$	49,129
Goodwill	$	116,564	$	-	$	-	$	116,564
Segment assets as of June 30, 2018	$	6,996,216	$	404,236	$	693,411	$	8,093,863

(1) Includes treasury and administration, as well as the elimination of certain items that are included in more than one department, most of which represents products and services for Centers customers.

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	For the Three Months Ended June 30, 2017			
	Centers	Dairy & livestock and agribusiness	Other (1)	Total
	(Dollars in thousands)			
Net interest income	$ 48,762	$ 2,369	$ 19,352	$ 70,483
(Recapture of) provision for loan losses	875	(421)	(1,454)	(1,000)
Net interest income after (recapture of) provision for loan losses	47,887	2,790	20,806	71,483
Noninterest income	5,303	49	5,424	10,776
Noninterest expense	13,206	504	23,163	36,873
Debt termination expense	-	-	-	-
Segment pre-tax profit	$ 39,984	$ 2,335	$ 3,067	$ 45,386
Goodwill	$ 119,193	$ -	$ -	$ 119,193
Segment assets as of June 30, 2017	$ 7,314,110	$ 348,570	$ 755,523	$ 8,418,203

(1) Includes treasury and administration, as well as the elimination of certain items that are included in more than one department, most of which represents products and services for Centers customers.

	For the Six Months Ended June 30, 2018			
	Centers	Dairy & livestock and agribusiness	Other (1)	Total
	(Dollars in thousands)			
Net interest income	$ 101,854	$ 7,318	$ 34,037	$ 143,209
(Recapture of) provision for loan losses	259	(315)	(1,944)	(2,000)
Net interest income after (recapture of) provision for loan losses	101,595	7,633	35,981	145,209
Noninterest income	10,938	92	11,581	22,611
Noninterest expense	26,004	989	43,207	70,200
Debt termination expense	-	-	-	-
Segment pre-tax profit	$ 86,529	$ 6,736	$ 4,355	$ 97,620
Goodwill	$ 116,564	$ -	$ -	$ 116,564
Segment assets as of June 30, 2018	$ 6,996,216	$ 404,236	$ 693,411	$ 8,093,863

(1) Includes treasury and administration, as well as the elimination of certain items that are included in more than one department, most of which represents products and services for Centers customers.

	For the Six Months Ended June 30, 2017			
	Centers	**Dairy & livestock and agribusiness**	**Other (1)**	**Total**
	(Dollars in thousands)			
Net interest income	$ 94,340	$ 4,513	$ 37,063	$ 135,916
(Recapture of) provision for loan losses	1,386	(3,120)	(3,766)	(5,500)
Net interest income after (recapture of) provision for loan losses	92,954	7,633	40,829	141,416
Noninterest income	10,510	104	8,884	19,498
Noninterest expense	25,644	1,005	44,341	70,990
Debt termination expense	-	-	-	-
Segment pre-tax profit	$ 77,820	$ 6,732	$ 5,372	$ 89,924
Goodwill	$ 119,193	$ -	$ -	$ 119,193
Segment assets as of June 30, 2017	$ 7,314,110	$ 348,570	$ 755,523	$ 8,418,203

(1) Includes treasury and administration, as well as the elimination of certain items that are included in more than one department, most of which represents products and services for Centers customers.

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11. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank is exposed to certain risks relating to its ongoing business operations and utilizes interest rate swap agreements (swaps) as part of its asset/liability management strategy to help manage its interest rate risk position. As of June 30, 2018, the Bank has entered into 75 interest-rate swap agreements with customers. The Bank then entered into identical offsetting swaps with a counterparty bank. The swap agreements are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and to provide the customer the financial effects of a fixed-rate loan without creating significant volatility in the Bank s earnings.

The structure of the swaps is as follows. The Bank enters into an interest rate swap with its customers in which the Bank pays the customer a variable rate and the customer pays the Bank a fixed rate, therefore allowing customers to convert variable rate loans to fixed rate loans. At the same time, the Bank enters into a swap with the counterparty bank in which the Bank pays the counterparty a fixed rate and the counterparty in return pays the Bank a variable rate, which has th