CVB FINANCIAL CORP
Form 10-K
March 02, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2014

or

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

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

Commission file number: 1-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

California	**95-3629339**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
701 N. Haven Avenue, Suite 350	
Ontario, California	**91764**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

None

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

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

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

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

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

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

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

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

As of June 30, 2014, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1,567,800,268.

Number of shares of common stock of the registrant outstanding as of February 17, 2015: 106,031,416.

DOCUMENTS INCORPORATED BY REFERENCE	PART OF
Definitive Proxy Statement for the Annual Meeting of Stockholders which will be filed within 120 days of the fiscal year ended December 31, 2014	Part III of Form 10-K

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CVB FINANCIAL CORP.

2014 ANNUAL REPORT ON FORM 10-K

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INTRODUCTION

Cautionary Note Regarding Forward-Looking Statements

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

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

- *Local, regional, national and international economic conditions and events and the impact they may have on us and our customers;*
- *Ability to attract deposits and other sources of liquidity and our cost of funds and other borrowings;*
- *Oversupply of inventory and/or deterioration in values of real estate, both residential and commercial in California or other states where we make loans;*
- *A prolonged slowdown in construction activity;*
- *Changes in our ability to receive dividends from our primary banking subsidiary;*
- *The effect of any goodwill impairment;*
- *The effect of climate change and attendant regulation on our customers and borrowers*;
- *Impact of reputational risk on such matters as business generation and retention, funding and liquidity;*
- *Changes in the financial performance and/or condition of our borrowers;*
- *Changes in the level of our nonperforming assets and charge-offs;*
- *Changes in critical accounting policies and judgments;*

Effects of acquisitions or sales we may make;

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

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

Inflation, interest rate, securities market and monetary fluctuations;

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

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Changes in government interest rate or monetary policies or practices;

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

Political developments or instability;

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

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

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

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

The ability to increase market share and to control expenses;

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

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

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

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

The costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries, including, but not limited to, the current investigation by the Securities and Exchange Commission and the related class-action and derivative lawsuits filed against us, and the results of regulatory examinations or reviews; and

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

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

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PART I

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

CVB Financial Corp. (referred to herein on an unconsolidated basis as CVB and on a consolidated basis as we , our or the Company) is a bank holding company incorporated in California on April 27, 1981 and registered with the Board of Governors of the Federal Reserve System (Federal Reserve) under the Bank Holding Company Act of 1956, as amended (the Bank Holding Company Act). The Company commenced business on December 30, 1981 when, pursuant to a reorganization, it acquired all of the voting stock of Chino Valley Bank. On March 29, 1996, Chino Valley Bank changed its name to Citizens Business Bank (CBB or the Bank). The Bank is our principal asset. The Company also has one inactive subsidiary, Chino Valley Bancorp. The Company is also the common stockholder of CVB Statutory Trust III. CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company.

CVB s principal business is to serve as a holding company for the Bank and for other banking or banking related subsidiaries, which the Company may establish or acquire. We have not engaged in any other material activities to date. As a legal entity separate and distinct from its subsidiaries, CVB s principal source of funds is, and will continue to be, dividends paid by and other funds advanced from the Bank and capital raised directly by CVB. Legal limitations are imposed on the amount of dividends that may be paid and loans that may be made by the Bank to CVB. See Item 1. Business Regulation and Supervision Dividends. As of December 31, 2014, the Company had $7.38 billion in total consolidated assets, $3.76 billion in net loans, $5.60 billion in deposits, $563.6 million in customer repurchase agreements, and $199.5 million in Federal Home Loan Bank (FHLB) advances.

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

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

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

Citizens Business Bank

The Bank commenced operations as a California state-chartered bank on August 9, 1974. The Bank s deposit accounts are insured under the Federal Deposit Insurance Act up to applicable limits. The Bank is not a member of the Federal Reserve System. At December 31, 2014, the Bank had $7.37 billion in assets, $3.76 billion in net loans, $5.62 billion in deposits, $563.6 million in customer repurchase agreements, and $199.5 million in FHLB advances.

As of December 31, 2014, we had 40 Business Financial Centers located in the Inland Empire, Los Angeles County, Orange County, San Diego County and the Central Valley areas of California.

The Bank opened a new Business Financial Center in San Diego County in February of 2014.

The Bank also has six Commercial Banking Centers. Although able to take deposits, these centers operate primarily as sales offices and focus on business clients and their principals, professionals, and high net-worth individuals. These centers are located in Encino, Los Angeles, Upland, Torrance, Burbank and Newport Beach. We also have three trust offices in Ontario, Newport Beach and Pasadena. These offices serve as sales offices for the Bank s wealth management, trust and investment products.

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

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

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

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

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

Business Segments

We are a community bank with two reportable operating segments: (i) Business Financial and Commercial Banking Centers (Centers) and (ii) Treasury. Our Centers are the focal points for customer sales and services. As such, these Centers comprise the largest active business segment of the Company. Our other reportable

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segment, Treasury, manages all of the investments for the Company. All administrative and other smaller operating departments are combined into the Other category for reporting purposes. See the sections captioned Results by Segment Operations in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 21 Business Segments in the notes to consolidated financial statements.

Competition

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

Economic Conditions/Government Policies

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

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

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

Regulation and Supervision

General

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

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

Legislation and Regulatory Developments

The implementation and impact of legislation and regulations enacted since 2008 in response to the U.S. economic downturn and financial industry instability continued in 2014 as modest recovery returned to many institutions in the banking sector. Many institutions have repaid and repurchased U.S. Treasury investments under the Troubled Asset Relief Program (TARP) and certain provisions of the Dodd-Frank are effective and have been fully implemented, including the revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in coverage to $250,000; the permissibility of paying interest on business checking accounts; the removal of barriers to interstate branching and required disclosure and shareholder advisory votes on executive compensation. Implementation in 2014 of additional Dodd-Frank regulatory provisions included aspects of (i) the final new capital rules and (ii) the so called Volcker Rule restrictions on certain proprietary trading and investment activities.

In the exercise of their supervisory and examination authority, the regulatory agencies have emphasized corporate governance, stress testing, enterprise risk management and other board responsibilities; anti-money laundering compliance and enhanced high risk customer due diligence; vendor management; cyber security and fair lending and other consumer compliance obligations.

Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. New capital rules described below were effective on January 1, 2014, and are being phased in over various periods (the New Capital Rules). The basic capital rule changes were fully effective on January 1, 2015, but many elements are being phased in over multiple future years. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations (See Prompt Corrective Action Provisions below), involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing the financial institution s qualifying capital by the institution s total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. To the extent that the new rules are not fully phased in, the prior capital rules continue to apply.

Under the risk-based capital guidelines in place prior to the effectiveness of the New Capital Rules, there were three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed well capitalized a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10%, 6% and 5%, respectively. Under the capital rules that applied in 2014, there was no Tier 1 leverage requirement for a holding company to be deemed well-capitalized. At December 31, 2014, the Company s and the Bank s total risk-based capital ratio were 18.24% and 18.11%; respectively; Tier 1 risk-based capital ratios were 16.99% and 16.85% respectively. The Company s leverage capital ratio was 10.86%, all of which ratios exceeded the minimum percentage requirements to be deemed well-capitalized for regulatory purposes. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources. The federal banking agencies may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required in order to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to restrictions, including such items as brokered deposits.

New Capital Rules and Minimum Capital Returns

The federal bank regulatory agencies adopted final regulations in July 2013, which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of Dodd Frank and to implement Basel III international agreements reached by the Basel Committee Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased in basis to all banking organizations, including the Company and the Bank.

The following are among the new requirements that are phased in beginning January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;
- A new category and a required 4.50% of risk-weighted assets ratio is established for common equity Tier 1 as a subset of Tier 1 capital limited to common equity;
- A minimum non-risk-based leverage ratio is set at 4.00%, eliminating a 3.00% exception for higher rated banks;
- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities;
- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures;
- An additional countercyclical capital buffer is required for larger and more complex institutions; and
- A new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

Including the capital conservation buffer of 2.5%, the new final capital rule would result in the following minimum ratios: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. While the new final capital rule sets higher regulatory capital standards for the Company and the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company s net income and return on equity, restrict the ability to pay dividends or executive bonuses and require the raising of additional capital.

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Management believes that, as of December 31, 2014, the Company and the Bank would meet all applicable capital requirements under the New Capital Rules on a fully phased-in basis if such requirements were currently in effect (see *Legislative and Regulatory Developments*).

Final Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of Dodd-Frank commonly referred to as the Volcker Rule. Under these rules and subject to certain exceptions, banking entities, including the Company and the Bank, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered covered funds. These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the Federal Reserve.

The Company and the Bank held no investment positions at December 31, 2014 which were subject to the final Volcker Rule . Therefore, while these new rules may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

Bank Holding Company Regulation

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

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

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

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

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

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

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

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

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

Require prior Federal agency approval of acquisitions and mergers with banks and consider certain competitive, management, financial, anti-money-laundering compliance, potential impact on U.S.

financial stability or other factors in granting these approvals, in addition to similar California or other state banking agency approvals which may also be required.

Other Restrictions on the Company s Activities

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

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

Securities Exchange Act of 1934

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

Sarbanes-Oxley Act

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

Bank Regulation

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FDIC, as the Bank s primary Federal regulator, and must additionally comply with certain applicable regulations of the Federal Reserve. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to insiders , including officers, directors, and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. Dodd-Frank expanded definitions and restrictions on transactions with affiliates and insiders under Sections 23A and 23B and also lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions

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

Enforcement Authority

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

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which could preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- Restrict the Bank s growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- Enter into or issue informal or formal enforcement actions, including required Board resolutions, Matters Requiring Board Attention (MRBA), written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
- Terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and

savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution s deposit insurance upon a finding that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank s depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank s charter by the DBO.

Our FDIC insurance expense totaled $3.6 million for 2014. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

Prompt Corrective Action Provisions

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

The prompt corrective action standards were changed when the new capital rule ratios become effective. Under the new standards, in order to be considered well-capitalized, the Bank is required to meet the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

Dividends

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

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

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

Operations and Consumer Compliance Laws

The Bank must comply with numerous federal and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection laws. Noncompliance with any of these laws could subject the Bank to compliance enforcement actions as well as lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

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

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

In 2014, the CFPB adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to the Dodd-Frank Act, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer s ability to repay and establish certain protections from liability under this requirement for qualified mortgages meeting certain standards. In particular, it will prevent banks from making no doc and low doc home loans, as the rules require that banks determine a consumer s ability to pay based in part on verified and documented information. Because we do not originate no doc or low doc loans, we do not believe this regulation will have a significant impact on our operations. However, because a substantial portion of the mortgage loans originated by the Bank do not meet the definitions for a qualified mortgage under final regulations adopted by the CFPB, the Bank may be subject to additional disclosure obligations and extended time periods for the assertion of defenses by the borrower against enforcement in connection with such mortgage loans.

Available Information

Reports filed with the SEC include our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports and other information on file can be inspected and copied on official business days between 10:00 a.m. and 3:00 p.m. at the public reference facilities of the SEC on file at 100 F Street, N.E., Washington D.C., 20549. The public may obtain information on the operation of the

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public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains the reports, proxy and information statements and other information we file with them. The address of the site is http://www.sec.gov. The Company also maintains an Internet website at http://www.cbbank.com. We make available, free of charge through our website, our Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and current Report on Form 8-K, and any amendment thereto, as soon as reasonably practicable after we file such reports with the SEC. None of the information contained in or hyperlinked from our website is incorporated into this Form 10-K.

Executive Officers of the Company

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

Executive Officers:

Name	Position	Age
Christopher D. Myers	President and Chief Executive Officer of the Company and the Bank	52
Richard C. Thomas	Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank	66
James F. Dowd	Executive Vice President and Chief Credit Officer of the Bank	62
David A. Brager	Executive Vice President and Sales Division Manager of the Bank	47
David C. Harvey	Executive Vice President and Chief Operations Officer of the Bank	47

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

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

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

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

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

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ITEM 1A. ***RISK FACTORS***

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

Risk Relating to Recent Economic Conditions and Government Response Efforts

Difficult economic and market conditions have adversely affected our industry

After suffering sharp declines in values during the Great Recession, housing prices appear to be showing signs of recovery. There are geographic regions that continue to have higher unemployment and more difficult economies where housing prices have not recovered from pre-recession levels. In areas that have not fully recovered, there continues to be delinquencies and foreclosure activities.

While there are signs that general economic conditions, including the employment markets, have started to show improvement, such signs remain tentative, and compared to prior periods of growth, most areas and industries continue to be guarded regarding expansion of their business. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers. In addition, the industry has been impacted by increased regulatory oversight, a continuing low interest rate environment, declines in global economies and various geopolitical issues.

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

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

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

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

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

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

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

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

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

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

For the year ended December 31, 2014, we recorded a $16.1 million loan loss provision recapture, charge- offs $2.4 million, and had recoveries of $3.1 million. As of December 31, 2014, we had $2.60 billion in commercial real estate loans, $55.2 million in construction loans and $205.3 million in single-family residential mortgages. Although there are signs that the U.S. economy may be emerging from a period of severe recession followed by slower than normal growth, business activity and real estate values remain below pre-recession levels, and may not recover fully or could again decline from current levels, and this in turn could affect the ability of our loan customers to service their debts, including those customers whose loans are secured by commercial or residential real estate. This, in turn, could result in loan charge-offs and provisions for credit losses in the future, which could have a material adverse effect on our financial condition, net income and capital. In addition, the Federal Reserve Board and other government officials have expressed concerns about banks concentration in commercial real estate lending and the ability of commercial real estate borrowers to perform pursuant to the terms of their loans.

Volatility in commodity prices may adversely affect our results of operations.

As of December 31, 2014, approximately 7.4% of our total gross loan portfolio was comprised of dairy & livestock and agribusiness loans. Recent volatility in certain commodity prices, including milk prices, could adversely impact the ability of those to whom we have made dairy & livestock and agribusiness loans to perform under the terms of their borrowing arrangements with us. In terms of the dairy industry, milk prices have fluctuated, in early 2014 milk prices increased but have recently shown signs of deterioration, while feed costs continued to be fairly stable. According to the California Department of Food and Agriculture (the CDFA), feed costs in California represented 62.2% of total milk production costs at the end of the third quarter of 2014, down from 65.4% of total milk production costs for the second quarter of 2014. It remains difficult, however, to project the future cost of feed and the cost of agribusiness operations, as it will continue to be dependent upon many factors, including weather and the availability of water. These situations, as well as others, could result in additional loan charge-offs and provisions for credit losses in the future, which could have a material adverse effect on our financial condition, net income and capital.

Risks Related to Our Market and Business

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

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

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

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

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

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

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

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

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

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

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

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

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

We may experience goodwill impairment

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

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

A substantial portion of our income is derived from the differential or spread between the interest earned on loans, securities and other interest-earning assets, and the interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. At December 31, 2014 our balance sheet was matched with asset sensitive bias over a two-year horizon assuming no balance sheet growth, and as a result, our net interest margin tends to expand in a rising interest rate environment and decrease in a declining interest rate environment. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability. In addition, loan origination volumes are affected by market interest rates. Rising interest rates, generally, are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase. In addition, in a rising interest rate environment, we may need to accelerate the pace of rate increases on our deposit accounts as compared to the pace of future increases in short-term market rates. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, as well as loan origination and prepayment volume.

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

Our operations are subject to extensive regulation by federal, state and local governmental authorities and we are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Similarly, the lending, credit and deposit products we offer are subject to broad oversight and regulation. This includes our residential mortgage lending operation revised in the second quarter of 2012 to enable our Bank to underwrite and retain SFR mortgage loans generated through our referral channels, as opposed to our past practice of contracting with an outside party for certain underwriting and related loan origination services. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. Perennially, various laws, rules and regulations are proposed, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products. Current and future legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd-Frank, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules, and may make it more difficult for us to attract and retain qualified executive officers and employees.

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

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

The implementation of final rules under the many provisions of Dodd-Frank Act could adversely affect us.

Regulation of the financial services industry is undergoing major changes from the enactment and ongoing implementation of Dodd-Frank. Certain provisions of Dodd-Frank are effective and have been fully implemented, including the revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in FDIC coverage to $250,000; the permissibility of paying interest on business checking accounts; the removal of remaining barriers to interstate branching and required disclosure and shareholder advisory votes on executive compensation. Other recent actions to implement the final Dodd-Frank provisions included (i) final new capital rules, (ii) a final rule to implement the Volcker Rule restrictions on certain proprietary trading and investment activities and (iii) the promulgation of final rules and increased enforcement action by the CFPB. The full implementation of certain final rules is delayed or phased in over several years; therefore, as yet we cannot definitively assess what may be the short or longer term specific or aggregate effect of the full implementation of Dodd-Frank on us.

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New mortgage regulations may adversely impact our business.

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

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

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

- impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital;
- introduce a new category of capital, called Common Equity Tier 1 capital, which must be at least 4.5 percent of risk-based assets, net of regulatory deductions, and a capital conservation buffer of an additional 2.5 percent of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7 percent;
- increase the minimum Tier 1 capital ratio to 8.5 percent inclusive of the capital conservation buffer;
- increase the minimum total capital ratio to 10.5 percent inclusive of the capital conservation buffer; and
- introduce a non-risk adjusted Tier 1 leverage ratio of 3 percent, based on a measure of total exposure rather than total assets, and new liquidity standards.

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

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

Failure to manage our growth may adversely affect our performance

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

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

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, on-line banking, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

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

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

Our business is exposed to the risk of changes in technology

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

Our controls and procedures could fail or be circumvented

Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and on the conducts of individuals, and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition.

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

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

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

Through the acquisition of San Joaquin Bank, we acquired approximately $673.1 million of assets and assumed $660.9 million of liabilities. The San Joaquin Bank acquisition was accounted for under the purchase method of accounting and we recorded an after-tax bargain purchase gain totaling $12.3 million as a result of the acquisition. This gain was included as a component of other operating income on our statement of earnings for 2009. The amount of the gain was equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities. The bargain purchase gain resulting from the acquisition was a one-time gain that is not expected to be repeated in future periods. The loss sharing agreement for commercial loans expired October 16, 2014. At December 31, 2014, the remaining discount associated with the SJB loans approximated $7.1 million.

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

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

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

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

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

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

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

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

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

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

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We are subject to legal and litigation risk, including a pending investigation by the SEC, a consolidated class action lawsuit and a similar state law derivative action which could adversely affect us.

Because our Company is extensively regulated by a variety of federal and state agencies, and because we are subject to a wide range of business and consumer laws and regulations at the federal, state and local levels, we are at risk of governmental investigations and lawsuits as well as claims and litigation from private parties. We are from time to time involved in disputes with and claims from investors, customers, government agencies, vendors, employees and other business parties, and such disputes and claims may result in litigation or settlements, any one of which or in the aggregate could have an adverse impact on the Company s operating flexibility, employee relations, financial condition or results of operations, as a result of the costs of any judgment, the terms of any settlement and/or the expenses incurred in defending the applicable claim.

We are subject to an investigation by the SEC. In addition, two federal securities class action lawsuits, which have been consolidated, were filed against us and certain of our officers, and a state law derivative action was filed in the name of the Company against our directors. See Item 3 Legal Proceedings below.

We are unable, at this time, to estimate our potential liability in these matters, but we may be required to pay judgments, settlements or other penalties and incur other costs and expenses in connection with the SEC investigation and the consolidated federal lawsuit and the state law derivative action, which could have a material adverse effect on our business, results of operations and financial condition. In addition, responding to requests for information in the SEC investigation and the federal and state lawsuits may divert internal resources away from managing our business. See Item 3 Legal Proceedings below.

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

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

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

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

- actual or anticipated fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- credit events or losses;
- failure to meet analysts revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;

actions or trades by institutional shareholders or other large shareholders;

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

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

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- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect the Company and/or the Bank; or
- domestic and international economic factors, whether related or unrelated to the Company s performance.

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

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

Various provisions of our articles of incorporation and by-laws and certain other actions we have taken could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our shareholders. The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, either Federal Reserve approval must be obtained or notice must be furnished to the Federal Reserve and not disapproved prior to any person or entity acquiring control of a state member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

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

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

We may face other risks

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

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

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ITEM 1B. ***UNRESOLVED STAFF COMMENTS***
None

ITEM 2. ***PROPERTIES***
The principal executive offices of the Company and the Bank are located in Ontario, California, and are owned by the Company.

As of December 31, 2014, the Bank occupied a total of 46 premises consisting of (i) 46 Business Financial and Commercial Banking Centers (Centers) of which one Center is located at our Corporate Headquarters, (ii) a Corporate Headquarters and two operations/administrative centers, and (iii) a storage facility. We own 13 of these locations and the remaining properties are leased under various agreements with expiration dates ranging from 2015 through 2022, some with lease renewal options that could extend certain leases through 2034. All properties are located in Southern and Central California.

As of December 31, 2014, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization totaled $33.6 million. Our total occupancy expense, exclusive of furniture and equipment expense, for the year ended December 31, 2014, was $11.3 million. We believe that our existing facilities are adequate for our present purposes. The Company believes that if necessary, it could secure suitable alternative facilities on similar terms without adversely affecting operations. For additional information concerning properties, see Note 10 Premises and Equipment of the Notes to the consolidated financial statements included in this report. See Item 8. Financial Statements and Supplemental Data.

ITEM 3. ***LEGAL PROCEEDINGS***
Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with FASB guidance over contingencies (ASC 450). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations. As of December 31, 2014, the Company does not have any litigation reserves.

The Company is involved in the following significant legal actions and complaints.

On July 26, 2010, we received a subpoena from the Los Angeles office of the SEC regarding the Company s allowance for loan loss methodology, loan underwriting guidelines, methodology for grading loans, and the process for making provisions for loan losses. In addition, the subpoena requested information regarding certain presentations Company officers have given or conferences Company officers have attended with analysts, brokers, investors or prospective investors. We have fully cooperated with the SEC in its investigation, and we will continue to do so if and to the extent any further information is requested, although we have not been contacted by the SEC in connection with this matter since October 2011. We cannot predict the timing or outcome of the SEC investigation or if it is still continuing.

In the wake of the Company s disclosure of the SEC investigation, on August 23, 2010, a purported shareholder class action complaint was filed against the Company, in an action captioned Lloyd v. CVB Financial Corp., et al., Case No. CV 10-06256- MMM, in the United States District Court for the Central District of California. Along with the Company, Christopher D. Myers (our President and Chief Executive Officer) and Edward J. Biebrich, Jr. (our former Chief Financial Officer) were also named as defendants. On September 14, 2010, a second purported shareholder class action complaint was filed against the Company, in an action originally captioned Englund v. CVB Financial Corp., et al., Case No. CV 10-06815-RGK, in the United States District Court for the Central District of California. The Englund complaint named the same defendants as the

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Lloyd complaint and made allegations substantially similar to those included in the Lloyd complaint. On January 21, 2011, the District Court consolidated the two actions for all purposes under the Lloyd action, now captioned as Case No. CV 10-06256-MMM (PJWx). That same day, the District Court also appointed the Jacksonville Police and Fire Pension Fund (the Jacksonville Fund) as lead plaintiff in the consolidated action and approved the Jacksonville Fund s selection of lead counsel for the plaintiffs in the consolidated action. On March 7, 2011, the Jacksonville Fund filed a consolidated complaint naming the same defendants and alleging violations by all defendants of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and violations by the individual defendants of Section 20(a) of the Exchange Act. Specifically, the complaint alleges that defendants misrepresented and failed to disclose conditions adversely affecting the Company throughout the purported class period, which is alleged to be between October 21, 2009 and August 9, 2010. The consolidated complaint sought compensatory damages and other relief in favor of the purported class.

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

Although the District Court s May 2013 order of dismissal provided the plaintiffs with leave to file a third amended and restated complaint within 30 days of the issuance of the order, on June 3, 2013, counsel for the plaintiffs instead filed a Notice of Intent Not to File an Amended Complaint, along with a request that the District Court convert its order to a dismissal with prejudice, so that plaintiffs could proceed straight to appeal at the U.S. Court of Appeals for the Ninth Circuit. On September 30, 2013, the District Court entered its order dismissing the plaintiffs second amended complaint with prejudice, and the plaintiffs filed their notice of appeal on October 24, 2013.

With respect to the appeal, the plaintiffs opening brief was filed on June 7, 2014, the Company s reply brief was filed on July 7, 2014, and the plaintiff s rebuttal brief was filed on August 20, 2014. It is expected that the Court of Appeals will schedule oral argument at some point within the next six to nine months, and would then issue its opinion at some point six to nine months thereafter.

The Company intends to continue to vigorously contest the plaintiff s allegations in this case.

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

On June 20, 2011, defendants filed a demurrer requesting dismissal of the derivative complaint. Following the filing by each side of additional motions, the parties have subsequently filed repeated notices to postpone the Court s hearing on the defendants demurrer, pending resolution of the consolidated federal securities shareholder class action complaint. On July 30, 2013, the Court signed a Minute Order agreeing to the parties

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stipulation to further extend the postponement of the derivative action hearing, at least to the date of any ruling by the Ninth Circuit Court of Appeals in connection with the pending appeal in the federal class action securities case, subject to brief status conferences every six months or so, with the next status update scheduled for March 25, 2015.

Because the outcome of these proceedings is uncertain, we cannot predict any range of loss or even if any loss is probable related to the actions described above.

ITEM 4. ***MINE SAFETY DISCLOSURES***
Not applicable.

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PART II

ITEM 5. *MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Our common stock is traded on the NASDAQ Global Select National Market under the symbol CVBF. The following table presents the high and low sales prices and dividend information for our common stock during each quarter for the past two years. The Company had approximately 1,534 shareholders of record as of February 17, 2015.

Quarter Ended	High	Low	Cash Dividends Declared
12/31/2014	$16.47	$13.35	$0.100
9/30/2014	$16.50	$14.35	$0.100
6/30/2014	$16.42	$13.77	$0.100
3/31/2014	$17.08	$14.23	$0.100
12/31/2013	$17.48	$13.28	$0.100
9/30/2013	$13.77	$11.65	$0.100
6/30/2013	$11.99	$10.29	$0.100
3/31/2013	$12.30	$10.42	$0.085

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

Issuer Purchases of Equity Securities

On July 16, 2008, our Board of Directors approved a program to repurchase up to 10,000,000 shares of our common stock (such number will not be adjusted for stock splits, stock dividends, and the like) in the open market or in privately negotiated transactions, at times and at prices considered appropriate by us, depending upon prevailing market conditions and other corporate and legal considerations. There is no expiration date for our current stock repurchase program. There were no issuer repurchases of the Company s common stock as part of its repurchase program in the fourth quarter of the year ended December 31, 2014. As of December 31, 2014, there were 7,420,678 shares remaining to be purchased.

Performance Graph

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

The following graph compares the yearly percentage change in CVB Financial Corp. s cumulative total shareholder return (stock price appreciation plus reinvested dividends) on common stock (i) the cumulative total return of the Nasdaq Composite Index; and (ii) a published index comprised by Morningstar (formerly Hemscott, Inc.) of banks and bank holding companies in the Pacific region (the industry group line depicted below). The graph assumes an initial investment of $100 on January 1, 2009, and reinvestment of dividends through December 31, 2014. Points on the graph represent the performance as of the last business day of each of the years indicated. The graph is not necessarily indicative of future price performance.

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COMPARISON OF CUMULATIVE TOTAL RETURN

(PERFORMANCE GRAPH)

ASSUMES $100 INVESTED ON JANUARY 1, 2009

ASSUMES DIVIDEND REINVESTED

FISCAL YEAR ENDING DECEMBER 31, 2014

Company/Market/Peer Group	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
CVB Financial Corp.	$ 100.00	$ 104.21	$ 124.40	$ 134.02	$ 226.48	$ 218.04
NASDAQ Composite	$ 100.00	$ 117.61	$ 118.70	$ 139.00	$ 196.83	$ 223.74
Peer Group Index	$ 100.00	$ 123.59	$ 108.53	$ 129.83	$ 202.22	$ 208.42

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ITEM 6. ***SELECTED FINANCIAL DATA***

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

	At or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands, except per share amounts)				
Interest income	$ 252,903	$ 232,773	$ 262,222	$ 269,720	$ 317,289
Interest expense	16,389	16,507	25,272	35,039	57,972
Net interest income	236,514	216,266	236,950	234,681	259,317
Provision for loan losses	(16,100)	(16,750)		7,068	61,200
Noninterest income	36,412	25,287	15,903	34,216	57,114
Noninterest expense	126,229	114,028	138,160	141,025	168,492
Earnings before income taxes	162,797	144,275	114,693	120,804	86,739
Income taxes	58,776	48,667	37,413	39,071	23,804
NET EARNINGS	$ 104,021	$ 95,608	$ 77,280	$ 81,733	$ 62,935
Basic earnings per common share	$ 0.98	$ 0.91	$ 0.74	$ 0.77	$ 0.59
Diluted earnings per common share	$ 0.98	$ 0.91	$ 0.74	$ 0.77	$ 0.59
Cash dividends declared per common share	$ 0.400	$ 0.385	$ 0.34	$ 0.34	$ 0.34
Cash dividends declared on common shares	$ 42,356	$ 40,469	$ 35,642	$ 35,805	$ 36,103
Dividend pay-out ratio (1)	40.72%	42.33%	46.12%	43.81%	57.37%
Weighted average common shares:					
Basic	105,239,421	104,729,184	104,418,905	105,142,650	105,879,779
Diluted	105,759,523	105,126,303	104,657,610	105,222,566	106,125,761
Common Stock Data:					
Common shares outstanding at year end	105,893,216	105,370,170	104,889,586	104,482,271	106,075,576
Book value per share	$ 8.29	$ 7.33	$ 7.28	$ 6.84	$ 6.07
Financial Position:					
Assets	$ 7,377,920	$ 6,664,967	$ 6,363,364	$ 6,482,915	$ 6,436,691
Investment securities available-for-sale	3,137,158	2,663,642	2,449,387	2,201,526	1,791,558
Net loans, excluding PCI loans (2)	3,630,875	3,310,681	3,159,872	3,125,763	3,268,469
Net PCI loans (3)	126,367	160,315	195,215	256,869	374,012
Deposits	5,604,658	4,890,631	4,773,987	4,604,548	4,518,828
Borrowings	809,106	911,457	698,178	958,032	1,095,578
Junior subordinated debentures	25,774	25,774	67,012	115,055	115,055
Stockholders equity	878,109	771,887	762,970	714,814	643,855
Equity-to-assets ratio (4)	11.90%	11.58%	11.99%	11.03%	10.00%
Financial Performance:					
Return on beginning equity	13.48%	12.53%	10.81%	12.69%	9.77%
Return on average equity (ROE)	12.50%	12.34%	10.31%	12.00%	9.40%
Return on average assets (ROA)	1.45%	1.48%	1.19%	1.26%	0.93%
Net interest margin (tax-equivalent) (5)	3.62%	3.71%	4.06%	4.04%	4.28%
Efficiency ratio (6)	46.25%	47.21%	54.64%	52.45%	53.25%
Credit Quality (excluding PCI loans):					
Allowance for loan losses	$ 59,825	$ 75,235	$ 92,441	$ 93,964	$ 105,259
Allowance/gross loans	1.62%	2.22%	2.84%	2.92%	3.12%
Total nonaccrual loans	$ 32,186	$ 39,954	$ 57,997	$ 62,672	$ 157,020
Nonaccrual loans/gross loans	0.87%	1.18%	1.78%	1.95%	4.65%
Allowance/nonaccrual loans	185.87%	188.30%	159.39%	149.93%	67.04%
Net (recoveries), charge-offs	$ (690)	$ 456	$ 1,523	$ 18,363	$ 64,865
Net (recoveries) charge-offs/average loans	-0.02%	0.01%	0.05%	0.57%	1.86%

Regulatory Capital Ratios:					
Company:					
Leverage ratio	10.86%	11.30%	11.50%	11.19%	10.58%
Tier 1 capital	16.99%	17.83%	18.23%	17.79%	16.61%
Total capital	18.24%	19.09%	19.49%	19.05%	18.00%
Bank:					
Leverage ratio	10.77%	11.20%	11.21%	10.92%	10.54%
Tier 1 capital	16.85%	17.67%	17.77%	17.36%	16.55%
Total capital	18.11%	18.93%	19.03%	18.63%	17.82%

(1) Dividends declared on common stock divided by net earnings.

(2) Excludes loans held-for-sale and PCI loans.

(3) Excludes loans held-for-sale. Purchase credit impaired (PCI) loans are those loans acquired from SJB and covered by a loss sharing agreement with the FDIC.

(4) Stockholders equity divided by total assets.

(5) Net interest income (TE) divided by total average earning assets.

(6) Noninterest expense divided by net interest income before provision for loan losses plus noninterest income. Please also refer to Noninterest Expense and Efficiency Ratio Reconciliation (non-GAAP) under Analysis of the Results of Operations of Item 7. of this Form 10-K.

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ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

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

CRITICAL ACCOUNTING POLICIES

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

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

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

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

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

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

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheets. Based on the Company s annual impairment test, there was zero recorded impairment as of December 31, 2014.

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

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

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

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

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At December 31, 2014, the Company has three stock-based employee compensation plans. The Company accounts for stock compensation using the modified prospective method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are measured at fair value as of the grant date with compensation costs recognized over the vesting period on a straight-lined basis. Also under this method, unvested stock awards as of January 1, 2006 are recognized over the remaining service period with no change in historical reported earnings.

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

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

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

OVERVIEW

For the year ended December 31, 2014, we reported net earnings of $104.0 million, compared with $95.6 million for 2013, an increase of $8.4 million, or 8.80%. Diluted earnings per share were $0.98 per share for the year ended December 31, 2014, compared to $0.91 per share for 2013. Net income for 2014 included a $16.1 million loan loss provision recapture. By comparison, net income for 2013 was positively impacted by a $16.8 million loan loss provision recapture and $4.1 million in insurance reimbursements for prior years legal costs.

At December 31, 2014, total assets of $7.38 billion increased $713.0 million, or 10.70%, from total assets of $6.66 billion at December 31, 2013. Earning assets totaled $7.02 billion at December 31, 2014, an increase of $695.4 million, or 11.00%, when compared with total earning assets of $6.32 billion at December 31, 2013. The increase in earning assets was primarily due to a $473.3 million increase in investment securities and a $267.2 million increase in total loans. This was partially offset by a $38.1 million decrease in interest earning deposits with other institutions and a $7.0 million decrease in FHLB stock.

Investment securities totaled $3.14 billion at December 31, 2014, up from $2.67 billion at December 31, 2013. As of December 31, 2014, we had a pre-tax unrealized net gain of $53.6 million on our overall investment securities portfolio, compared to a pre-tax unrealized net loss of $16.1 million at December 31, 2013. The increase in the net unrealized holding gains resulted primarily from fluctuations in market interest rates and the growth of the portfolio.

Total loans and leases, net of deferred fees and discount, of $3.82 billion at December 31, 2014, increased by $267.2 million, or 7.53%, from $3.55 billion at December 31, 2013. The $267.2 million increase in loans was principally due to increases of $248.5 million in commercial real estate loans, $15.8 million in SFR mortgage loans (net of a $16.9 million decrease in SFR pool loans), $13.6 million in consumer loans, and $7.4 million in construction loans. This growth was partially offset by decreases of $16.2 million in dairy & livestock and agribusiness loans and $11.3 million in municipal lease finance receivables. The increase in total loans year-over-year included approximately $240 million of loans acquired from ASB. Also contributing to our overall loan growth was a strengthened new loan pipeline and reduced loan runoff. The market for new loans continued to remain very competitive with pressure on our existing loans and new loan origination opportunities, particularly from the larger banks.

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Noninterest-bearing deposits were $2.87 billion at December 31, 2014, an increase of $303.4 million, or 11.84%, compared to $2.56 billion at December 31, 2013. At December 31, 2014, noninterest-bearing deposits were 51.14% of total deposits, compared to 52.41% at December 31, 2013. Our average cost of total deposits for 2014 was 9 basis points, compared to 10 basis points for 2013.

FHLB advances were $199.4 million at December 31, 2014, compared to $199.2 million at December 31, 2013.

At December 31, 2014, we had $46.0 million in short-term borrowings, compared to $69.0 million at December 31, 2013.

At December 31, 2014, we had $25.8 million of junior subordinated debentures, unchanged from December 31, 2013.

The allowance for loan losses totaled $59.8 million at December 31, 2014, compared to $75.2 million at December 31, 2013. The $16.1 million recapture of loan loss provision during 2014 was primarily the result of overall improvement in credit quality. This compares with a $16.8 million recapture of loan loss provision for 2013. The allowance for loan losses was 1.62% and 2.22% of total loans and leases outstanding, excluding PCI loans, at December 31, 2014 and December 31, 2013, respectively.

Our capital ratios remain well-above regulatory standards. As of December 31, 2014, our Tier 1 leverage capital ratio totaled 10.86%, our Tier 1 risk-based capital ratio totaled 16.99% and our total risk-based capital ratio totaled 18.24%.

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ANALYSIS OF THE RESULTS OF OPERATIONS

Financial Performance

	For the Year Ended December 31,			Variance			
				2014		2013	
	2014	2013	2012	$	%	$	%
	(Dollars in thousands, except per share amounts)						
Net interest income	$ 236,514	$ 216,266	$ 236,950	$ 20,248	9.36%	$ (20,684)	-8.73%
Recapture of (provision for) loan losses	16,100	16,750		(650)	-3.88%	16,750	100.00%
Noninterest income	36,412	25,287	15,903	11,125	43.99%	9,384	59.01%
Noninterest expense	(126,229)	(114,028)	(138,160)	(12,201)	10.70%	24,132	-17.47%
Income taxes	(58,776)	(48,667)	(37,413)	(10,109)	20.77%	(11,254)	-30.08%
Net earnings	$ 104,021	$ 95,608	$ 77,280	$ 8,413	8.80%	$ 18,328	23.72%
Earnings per common share:							
Basic	$ 0.98	$ 0.91	$ 0.74	$ 0.07	7.69%	$ 0.17	22.97%
Diluted	$ 0.98	$ 0.91	$ 0.74	$ 0.07	7.69%	$ 0.17	22.97%
Return on average assets	1.45%	1.48%	1.19%	-0.03%		0.29%	
Return on average shareholders equity	12.50%	12.34%	10.31%	0.16%		2.03%	
Efficiency ratio	46.25%	47.21%	54.64%	-0.96%		-7.43%	
Efficiency ratio excluding debt termination expense	46.25%	47.21%	46.58%	-0.96%		0.63%	
Non interest expense to average assets	1.77%	1.77%	2.13%	0.00%		-0.36%	

Noninterest Expense and Efficiency Ratio Reconciliation (Non-GAAP)

We use certain non-GAAP financial measures to provide supplemental information regarding our performance. Noninterest expense for the year ended December 31, 2012 included a debt termination expense of $20.4 million. We believe that presenting the efficiency ratio, and the ratio of noninterest expense to average assets, excluding the impact of debt termination expense and related net interest expense savings, provides additional clarity to the users of financial statements regarding core financial performance. The Company did not incur debt termination expense during the years ended December 31, 2014 and 2013, respectively.

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Net interest income	$ 236,514	$ 216,266	$ 236,950
Noninterest income	36,412	25,287	15,903
Noninterest expense	126,229	114,028	138,160
Less: debt termination expense			(20,379)
Adjusted noninterest expense	$ 126,229	$ 114,028	$ 117,781
Efficiency ratio	46.25%	47.21%	54.64%
Adjusted efficiency ratio	46.25%	47.21%	46.58%
Adjusted noninterest expense	$ 126,229	$ 114,028	$ 117,781
Average assets	$ 7,150,017	$ 6,440,221	$ 6,485,942
Adjusted noninterest expense to average assets	1.77%	1.77%	1.82%

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Income and Expense Related to Acquired SJB Assets

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

	For the Year Ended December 31, 2014	2013	2012
Interest income			
Interest income-accretion	$ 5,825	$ 12,856	$ 22,607
Noninterest income			
Decrease in FDIC loss share asset	(3,591)	(12,860)	(21,916)
Net gain on sale of OREO	579	372	996
Gain on sale of loans held-for-sale			815
Noninterest expense			
Legal and professional	(162)	(405)	(1,358)
OREO write-down	(65)	(415)	(586)
OREO expenses	(54)	(58)	(284)
Other expenses (appraisals, and etc.)	(132)	(196)	(225)
Net income (loss) before income tax (expense) benefit related to SJB assets	$ 2,400	$ (706)	$ 49

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

2014 Compared to 2013

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

At December 31, 2014, the remaining discount associated with the PCI loans approximated $7.1 million. Based on the Company s regular forecast of expected cash flows from these loans, approximately $4.6 million of the related discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which approximates 4 years and 0.3 years, respectively. The loss sharing agreement for commercial loans expired October 16, 2014. The FDIC loss sharing asset of $299,000 at December 31, 2014 reflects the amount for which we expect reimbursement from the FDIC. Refer to Note 6 Acquired SJB Assets and FDIC Loss Sharing Asset for total loans by type at December 31, 2014 and 2013. Refer to Note 3- Summary of Significant Accounting Policies for a more detailed discussion about the FDIC loss sharing asset.

2013 Compared to 2012

The discount accretion of $12.9 million in 2013, recognized as part of interest income from PCI loans, decreased $9.8 million, compared to $22.6 million in 2012. This decrease was reduced by the changes in the FDIC loss sharing asset, a net decrease of $12.9 million for 2013, compared to a net decrease of $21.9 million for 2012.

Net Interest Income

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). Net interest margin is the taxable-equivalent (TE) of net interest income as a

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

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

Interest-Earning Assets and Interest-Bearing Liabilities

	For the Year Ended December 31,								
	2014			2013			2012		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
INTEREST-EARNING ASSETS									
Investment securities (1)									
Taxable	$ 2,343,127	$ 47,465	2.04%	$ 1,854,641	$ 28,374	1.54%	$ 1,657,050	$ 32,025	1.96%
Tax-advantaged	578,594	20,913	4.95%	611,003	22,025	4.94%	640,309	22,718	4.89%
Investment in FHLB stock	27,347	2,130	7.68%	45,734	2,033	4.45%	65,792	671	1.02%
Federal funds sold and interest-earning deposits with other institutions	222,929	776	0.35%	157,372	710	0.45%	276,753	1,055	0.38%
Loans held-for-sale	90			28	1	3.57%	3,755	21	0.56%
Loans (2)	3,608,858	175,794	4.87%	3,412,472	166,774	4.89%	3,466,284	183,125	5.28%
Yield adjustment to interest income from discount accretion on PCI loans	(10,138)	5,825		(18,785)	12,856		(38,713)	22,607	
Total interest-earning assets	6,770,807	252,903	3.86%	6,062,465	232,773	3.98%	6,071,230	262,222	4.47%
Total noninterest-earning assets	379,210			377,756			414,712		
Total assets	$ 7,150,017			$ 6,440,221			$ 6,485,942		
INTEREST-BEARING LIABILITIES									
Savings deposits (3)	$ 1,886,743	3,692	0.20%	$ 1,652,313	3,543	0.21%	$ 1,715,151	4,123	0.24%
Time deposits	713,813	1,285	0.18%	698,905	1,344	0.19%	767,533	1,788	0.23%
Total interest-bearing deposits	2,600,556	4,977	0.19%	2,351,218	4,887	0.21%	2,482,684	5,911	0.24%
FHLB advances and other borrowings	845,686	11,412	1.33%	786,520	11,620	1.48%	951,065	19,361	2.01%
Interest-bearing liabilities	3,446,242	16,389	0.47%	3,137,738	16,507	0.53%	3,433,749	25,272	0.73%
Noninterest-bearing deposits	2,802,490			2,452,689			2,220,714		
Other liabilities	69,258			75,018			81,950		
Stockholders equity	832,027			774,776			749,529		
Total liabilities and stockholders equity	$ 7,150,017			$ 6,440,221			$ 6,485,942		
Net interest income		$ 236,514			$ 216,266			$ 236,950	
Net interest income excluding discount on PCI loans		$ 230,689			$ 203,410			$ 214,343	
Net interest spread tax equivalent			3.39%			3.45%			3.74%
Net interest spread tax equivalent excluding PCI discount			3.29%			3.23%			3.33%
Net interest margin			3.50%			3.58%			3.92%
Net interest margin tax equivalent			3.62%			3.71%			4.06%
Net interest margin tax equivalent excluding PCI discount			3.52%			3.49%			3.66%
Net interest margin excluding loan fees			3.45%			3.52%			3.87%
Net interest margin excluding loan fees tax equivalent			3.57%			3.66%			4.01%

(1) Non tax-equivalent (TE) rate was 2.35%, 2.06%, and 2.40% for the years ended December 31, 2014, 2013, and 2012, respectively.
(2) Includes loan fees of: $3,078, $3,078, and $2,761 for the years ended December 31, 2014, 2013, and 2012, respectively.
Prepayment penalty fees of $2,983, $3,222, and $3,701 are included in interest income for the years ended December 31, 2014, 2013, and 2012, respectively.
(3) Includes interest-bearing demand and money market accounts.

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

We use certain non-GAAP financial measures to provide supplemental information regarding our performance. The 2014, 2013 and 2012 net interest income and net interest margin include a yield adjustment of $5.8 million, $12.9 million, and $22.6 million, respectively. These yield adjustments relate to discount accretion on PCI loans, and are reflected in the Company s net interest margin. We believe that presenting net interest income and the net interest margin excluding these yield adjustments provides additional clarity to the users of financial statements regarding core net interest income and net interest margin.

	For the Year Ended December 31,								
	2014			2013			2012		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield	Average Balance	Interest	Yield
	(Dollars in thousands)								
Total interest-earning assets (TE)	$ 6,770,807	$ 260,573	3.86%	$ 6,062,465	$ 240,898	3.98%	$ 6,071,230	$ 270,764	4.47%
Discount on acquired PCI loans	10,138	(5,825)		18,785	(12,856)		38,713	(22,607)	
Total interest-earning assets, excluding PCI loan discount and yield adjustment	$ 6,780,945	$ 254,748	3.77%	$ 6,081,250	$ 228,042	3.76%	$ 6,109,943	$ 248,157	4.06%
Net interest income and net interest margin (TE)		$ 244,184	3.62%		$ 224,391	3.71%		$ 245,492	4.06%
Yield adjustment to interest income from discount accretion on acquired PCI loans		(5,825)			(12,856)			(22,607)	
Net interest income and net interest margin (TE), excluding yield adjustment		$ 238,359	3.52%		$ 211,535	3.49%		$ 222,885	3.66%

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

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Rate and Volume Analysis for Changes in Interest Income, Interest Expense and Net Interest Income

	Comparision of Year Ended December 31,							
	2014 Compared to 2013 Increase (Decrease) Due to				2013 Compared to 2012 Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
	(Dollars in thousands)							
Interest income:								
Taxable investment securities	$ 7,513	$ 9,164	$ 2,414	$ 19,091	$ 3,663	$ (6,535)	$ (779)	$ (3,651)
Tax-advantaged securities	(1,119)	8	(1)	(1,112)	(897)	214	(10)	(693)
Investment in FHLB stock	(1,165)	2,111	(849)	97	(205)	2,254	(687)	1,362
Fed funds sold and interest-earning deposits with other institutions	296	(162)	(68)	66	(458)	199	(86)	(345)
Loans HFS	2	(1)	(2)	(1)	(21)	113	(112)	(20)
Loans	9,601	(549)	(32)	9,020	(2,860)	(13,704)	213	(16,351)
Yield adjustment from discount accretion on PCI loans	(5,917)	(2,063)	949	(7,031)	(11,637)	3,886	(2,000)	(9,751)
Total interest income	9,211	8,508	2,411	20,130	(12,415)	(13,573)	(3,461)	(29,449)
Interest expense:								
Savings deposits	503	(310)	(44)	149	(153)	(444)	17	(580)
Time deposits	29	(86)	(2)	(59)	(167)	(305)	28	(444)
FHLB advances and other borrowings	532	(688)	(52)	(208)	(3,415)	(5,232)	906	(7,741)
Total interest expense	1,064	(1,084)	(98)	(118)	(3,735)	(5,981)	951	(8,765)
Net interest income	$ 8,147	$ 9,592	$ 2,509	$ 20,248	$ (8,680)	$ (7,592)	$ (4,412)	$ (20,684)

2014 Compared to 2013

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

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

The average balance of total loans increased $196.4 million to $3.60 billion for 2014, compared to $3.41 billion for 2013. The average yield on loans (excluding discount on PCI loans) was 4.87% for 2014, compared to 4.89% for 2013. We earned $3.0 million in loan prepayment penalty fees for 2014, compared with $3.2 million for 2013.

Total average earning assets of $6.77 billion increased $708.3 million, or 11.68%, from $6.06 billion for 2013. This increase was principally due to a $456.1 million increase in average investment securities to $2.92 billion for 2014, compared to $2.47 billion for 2013. Total average loans, net of deferred fees and discounts, of $3.60 billion increased $205.0 million, compared to $3.39 billion for 2013. Average overnight funds sold to the Federal Reserve and interest-earning deposits with other institutions also increased $65.6 million. These increases were partially offset by an $18.4 million decrease in average investment in FHLB stock.

In general, we stop accruing interest on a loan after its principal or interest becomes 90 days or more past due. When a loan is placed on nonaccrual, all interest previously accrued but not collected is charged against

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earnings. There was no interest income that was accrued and not reversed on nonaccrual loans at December 31, 2014 and 2013. As of December 31, 2014 and 2013, we had $32.2 million and $40.0 million of nonaccrual loans (excluding PCI loans), respectively. Had these nonaccrual loans for which interest was no longer accruing complied with the original terms and conditions, interest income would have been approximately $2.0 million and $3.0 million greater for 2014 and 2013, respectively.

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

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

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

2013 Compared to 2012

Net interest income, before the provision for loan losses of $216.3 million for 2013 decreased $20.7 million, or 8.73%, compared to $237.0 million for 2012. Interest income and fees and loans for 2013 totaled $179.6 million, which included $12.9 million of discount accretion from accelerated principal reductions, payoffs and improved credit loss experienced on PCI loans acquired from SJB. This represented a $26.1 million decrease when compared to interest income and fees on loans of $205.8 million for 2012, which included $22.6 million of discount accretion from accelerated principal reductions, payoffs and improved credit loss experienced on acquired loans.

Excluding the impact of the yield adjustment on PCI loans, our tax equivalent (TE) net interest margin was 3.49% for 2013, compared to 3.66% for 2012. Total average earning asset yields (excluding discount on PCI loans) were 3.76% for 2013, compared to 4.06% for 2012. Total cost of funds of 0.30% decreased from 0.44% for 2012.

The average balance of total loans decreased $57.5 million to $3.41 billion for 2013, compared to $3.47 billion for 2012. The average yield on loans (excluding discount on PCI loans) was 4.89% for 2013, compared to 5.28% for 2012. Lower rates on mortgages continued to result in re-financings during 2013 and we continued to see competitive pressure on rates in all classes of loans. We earned $3.2 million in loan prepayment penalty fees for 2013, compared with $3.7 million for 2012.

Total average earning assets of $6.06 billion decreased $8.8 million, or 0.14%, from $6.07 billion for 2012. This decrease was principally due to a $37.6 million decrease in total average loans, net of discount and a $124.8 million decrease in interest-earning cash to $87.4 million. This decrease was partially offset by a $168.3 million increase in investment securities to $2.47 billion for 2013, compared to $2.30 billion for 2012.

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In general, we stop accruing interest on a loan after its principal or interest becomes 90 days or more past due. When a loan is placed on non-accrual, all interest previously accrued but not collected is charged against earnings. There was no interest income that was accrued and not reversed on non-accrual loans at December 31, 2013 and 2012. As of December 31, 2013 and 2012, we had $40.0 million and $58.0 million of nonaccrual loans (excluding PCI loans), respectively. Had these nonaccrual loans for which interest was no longer accruing complied with the original terms and conditions, interest income would have been approximately $3.0 million and $3.9 million greater for 2013 and 2012, respectively.

Fees collected on loans are an integral part of the loan pricing decision. Net loan fees and the direct costs associated with the origination of loans are deferred and deducted from total loans on our balance sheet. Net deferred loan fees are recognized in interest income over the term of the loan using the effective-yield method. We recognized loan fee income of $3.1 million for 2013, compared to $2.8 million for 2012.

Interest income on investments of $50.4 million for 2013, decreased $4.3 million, or 7.94%, from $54.7 million for 2012. Total yield (TE) on investments was 2.39% for 2013, compared to 2.78% for 2012. During 2013, we purchased $860.9 million in MBS with an average yield of 2.15% and an average duration of approximately four years. We also purchased $19.8 million in municipal securities with an average tax-equivalent yield of 3.64% during 2013. We elected to utilize short-term borrowings to facilitate a portion of these purchases. However, we regarded these borrowings as temporary as they were repaid through cash flow from our investment portfolio and/or future deposit growth.

Interest expense of $16.5 million for 2013, decreased $8.8 million, or 34.68%, compared to $25.3 million for 2012. The average rate paid on interest-bearing liabilities decreased 20 basis points, to 0.53% for 2013, from 0.73% in 2012 as a result of the low interest rate environment experienced for 2013, as well as the mix of interest-bearing liabilities.

Contributing to the decline in interest expense was lower rates paid on deposits as reflected by the decrease in our average cost of interest-bearing deposits (0.21% for 2013, compared to 0.24% for 2012). Average noninterest-bearing deposits grew to $2.45 billion, or 51.06% of total average deposits for 2013, compared to $2.22 billion, or 47.22% of total average deposits for 2012. The decrease in rates paid on total deposits (0.10% for 2013, compared to 0.13% for 2012) also contributed to our lower cost of funds.

FHLB advances and other borrowings typically have higher interest costs than interest-bearing deposits. The $7.7 million decrease in interest from other borrowings during 2013 was due to the redemption of $250.0 million of fixed rate loans from the FHLB during the third quarter of 2012, and $61.9 million redemption of junior subordinated debentures from June 30, 2012 through June 30, 2013. The remaining FHLB advance carries a coupon rate of 4.52% and matures in November 2016. We also repaid $100.0 million of FHLB advances, with a coupon rate of 2.89%, at the end of December, 2011. On January 7, 2012, we redeemed all outstanding debentures and trust preferred securities issued by First Coastal Capital Trust II for a total consideration of approximately $6.8 million. During 2012, we redeemed $41.2 million of CVB Statutory Trust I junior subordinated debentures bearing interest at 2.85% above the 90-day LIBOR. During 2013, we redeemed $41.2 million of the outstanding capital and common securities issued by the Company s trust subsidiary, CVB Statutory Trust II. At December 31, 2013, we had $69.0 million in short-term borrowings. These borrowings were used to facilitate a portion of our investment purchases made in the fourth quarter of 2013. We had $26.0 million in short-term borrowings at December 31, 2012.

Provision for Loan losses

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

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The allowance for loan losses was reduced to $59.8 million at December 31, 2014, primarily as a result of improved credit quality, compared to $75.2 million at December 31, 2013. We recorded a $16.1 million loan loss provision recapture for 2014, respectively, compared to $16.8 million loan loss provision recapture for 2013 and a zero provision for loan losses for 2012. We believe the allowance is appropriate at December 31, 2014. We periodically assess the quality of our portfolio to determine whether additional provisions for loan losses are necessary. The ratio of the allowance for loan losses to total loans and leases outstanding, excluding PCI loans, as of December 31, 2014, 2013 and 2012 was 1.62%, 2.22% and 2.84%, respectively. Refer to the discussion of Allowance for Loan Losses in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein for discussion concerning observed changes in the credit quality of various components of our loan portfolio as well as changes and refinements to our methodology.

No assurance can be given that economic conditions which adversely affect the Company s service areas or other circumstances will not be reflected in increased provisions for loan losses in the future, as the nature of this process requires considerable judgment. Net recoveries totaled $690,000 for 2014, compared to net charge-offs of $456,000 for 2013 and $1.5 million for 2012. See Allowance for Loan Losses under Analysis of Financial Condition herein.

PCI loans acquired in the FDIC-assisted transaction were initially recorded at their fair value and were covered by a loss sharing agreement with the FDIC, which expired in October 2014 for commercial loans. Due to the timing of the acquisition and the October 16, 2009 fair value estimate, there was no provision for loan losses on the PCI loans in 2009. During the year ended December 31, 2014 there was $40,000 in net charge-offs, compared to zero in net recoveries for 2013 and $657,000 in net recoveries for 2012, for loans in excess of the amount originally expected in the fair value of the loans at acquisition. An offsetting adjustment was recorded to the FDIC loss sharing asset based on the appropriate loss sharing percentage.

Noninterest Income

Noninterest income includes income derived from special services offered, such as CitizensTrust, BankCard services, international banking, and other business services. Also included in noninterest income are service charges and fees, primarily from deposit accounts, gains (net of losses) from the disposition of investment securities, loans, other real estate owned, fixed assets, and other revenues not included as interest on earning assets.

The following table sets forth the various components of noninterest income for the periods indicated.

	For the Year Ended December 31,			Variance			
				2014		2013	
	2014	2013	2012	$	%	$	%
	(Dollars in thousands)						
Noninterest income:							
Service charges on deposit accounts	$ 15,778	$ 15,923	$ 16,106	$ (145)	-0.91%	$ (183)	-1.14%
Trust and investment services	8,118	8,071	8,169	47	0.58%	(98)	-1.20%
Bankcard services	3,386	3,481	3,650	(95)	-2.73%	(169)	-4.63%
BOLI income	2,428	2,511	2,973	(83)	-3.31%	(462)	-15.54%
Gain on sale of investment securities, net		2,094		(2,094)	-100.00%	2,094	
Decrease in FDIC loss sharing asset, net	(3,591)	(12,860)	(21,916)	9,269	72.08%	9,056	41.32%
Gain on OREO, net	1,020	3,131	1,544	(2,111)	-67.42%	1,587	102.78%
Gain on loans held-for-sale	6,001		815	6,001		(815)	-100.00%
Other	3,272	2,936	4,562	336	11.44%	(1,626)	-35.64%
Total noninterest income	$ 36,412	$ 25,287	$ 15,903	$ 11,125	43.99%	$ 9,384	59.01%

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2014 Compared to 2013

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

CitizensTrust consists of Wealth Management and Investment Services income. The Wealth Management group provides a variety of services, which include asset management, charitable services, estate planning, private and corporate trustee services, and probate services. Investment Services provides business and succession planning, financial planning, personal investing and self-directed brokerage, 401(k) plans and retirement planning, insurance and other non-insured investment products. At December 31, 2014, CitizensTrust had approximately $2.41 billion in assets under management and administration, including $1.87 billion in assets under management. CitizensTrust generated fees of $8.1 million for 2014 and 2013.

The Bank invests in Bank-Owned Life Insurance (BOLI). BOLI involves the purchasing of life insurance by the Bank on a selected group of employees. The Bank is the owner and beneficiary of these policies. BOLI is recorded as an asset at its cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties. BOLI income of $2.4 million for 2014 decreased $83,000, or 3.31% from $2.5 million for 2013.

Other noninterest income of $3.3 million for 2014 increased $336,000 or 11.44%, compared to $2.9 million for 2013. This increase included $133,000 in swap fee income for 2014.

2013 Compared to 2012

Noninterest income of $25.3 million for 2013 increased $9.4 million, or 59.01%, over noninterest income of $15.9 million for 2012. Noninterest income for 2013 increased primarily due to a $12.9 million net decrease in the FDIC loss sharing asset during 2013, compared to a $21.9 million net decrease in 2012. Also contributing to the year-over-year increase was a $2.1 million net pre-tax gain on the sale of investment securities during 2013 and a $1.6 million increase in net gain on sales of OREO properties; this included a $2.5 million net pre-tax gain on the sale of one OREO property. During 2012, we recorded $815,000 in net gain on the sale of PCI loans held-for-sale. These increases were partially offset by decreases in deposit service charges and bankcard services totaling $352,000. The year-over-year decrease in these services charges were primarily due to competitive pressures.

CitizensTrust consists of Wealth Management and Investment Services income. The Wealth Management group provides a variety of services, which include asset management, financial planning, estate planning, retirement planning, private and corporate trustee services, and probate services. Investment Services provides self-directed brokerage, 401(k) plans, mutual funds, insurance and other non-insured investment products. At December 31 2013, CitizensTrust had approximately $2.33 billion in assets under management and administration, including $1.74 billion in assets under management. CitizensTrust generated fees of $8.1 million in 2013, compared to $8.2 million in 2012.

The Bank invests in Bank-Owned Life Insurance (BOLI). BOLI involves the purchasing of life insurance by the Bank on a selected group of employees. The Bank is the owner and beneficiary of these policies. BOLI is recorded as an asset at its cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties. BOLI income of $2.5 million for 2013 decreased $462,000, or 15.54%, from $3.0 million for 2012.

Other noninterest income of $2.9 million for 2013 decreased $1.6 million, or 35.64%, compared to $4.5 million for 2012. This decrease was principally due to a $1.3 million decrease in swap fee income.

Noninterest Expense

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

	For the Year Ended December 31,			Variance			
				2014		2013	
	2014	2013	2012	$	%	$	%
		(Dollars					
Noninterest expense:							
Salaries and employee benefits	$ 77,118	$ 71,015	$ 68,496	$ 6,103	8.59%	$ 2,519	3.68%
Occupancy	11,345	10,677	10,822	668	6.26%	(145)	-1.34%
Equipment	3,919	3,827	4,651	92	2.40%	(824)	-17.72%
Professional services	6,018	5,709	7,170	309	5.41%	(1,461)	-20.38%
Software licenses and maintenance	4,464	4,671	4,279	(207)	-4.43%	392	9.16%
Stationary and supplies	1,530	1,565	1,479	(35)	-2.24%	86	5.81%
Telecommunications expense	1,565	1,227	1,370	338	27.55%	(143)	-10.44%
Promotion	5,195	4,681	4,869	514	10.98%	(188)	-3.86%
Amortization of intangible assets	1,137	1,127	2,159	10	0.89%	(1,032)	-47.80%
Debt termination expense			20,379			(20,379)	-100.00%
Regulatory assessments	3,996	3,541	3,596	455	12.85%	(55)	-1.53%
Loan expense	1,260	1,533	2,084	(273)	-17.81%	(551)	-26.44%
OREO expense	307	856	2,146	(549)	-64.14%	(1,290)	-60.11%
Provision for unfunded loan commitments	(1,250)	500	(1,000)	(1,750)	-350.00%	1,500	150.00%
Insurance reimbursements	(372)	(4,155)	(921)	3,783	91.05%	(3,234)	-351.14%
Acquisition related expense	1,973			1,973	0.00%		
Other	8,024	7,254	6,581	770	10.62%	673	10.23%
Total noninterest expense	$ 126,229	$ 114,028	$ 138,160	$ 12,201	10.70%	$ (24,132)	-17.47%
Noninterest expense to average assets, excluding debt termination expense	1.77%	1.77%	1.82%				
Efficiency ratio excluding debt termination expense (1)	46.25%	47.21%	46.58%				

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

Our ability to control noninterest expenses in relation to asset growth can be measured in terms of total noninterest expenses as a percentage of average assets. Excluding the impact of the debt termination expense in 2012, noninterest expense measured as a percentage of average assets was 1.77% for 2014, compared to 1.77% for 2013 and 1.82% for 2012.

Our ability to control noninterest expenses in relation to the level of total revenue (net interest income before provision for loan losses plus noninterest income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. For 2014, the efficiency ratio was 46.25%, compared to 47.21% for 2013 and 54.64% for 2012. The $20.4 million in debt termination expense incurred in 2012 was the main reason for the higher efficiency ratio for that year. Excluding the impact of the debt termination expense, the efficiency ratio was 46.58% for 2012.

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2014 Compared to 2013

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

2013 Compared to 2012

Excluding the $20.4 million debt termination expense for the year ended December 31, 2012, total noninterest expense decreased $3.8 million year-over-year, primarily due to an increase of $3.2 million in insurance reimbursements for legal costs. Also contributing to the overall decrease in noninterest expense for 2013 were reductions of $1.4 million in legal expenses, $1.3 million in OREO related expenses, $1.0 million in occupancy and equipment expenses and $1.0 million in amortization of intangible assets. These expenses were partially offset by increases of $2.5 million in salaries and related expenses and a $500,000 additional provision for unfunded loan commitments for the year ended December 31, 2013. A $1.0 million recapture of the provision for unfunded loan commitments was recorded for 2012.

Overall salaries and related expenses increased $2.5 million compared to 2012, principally due to increases in employee benefits and payroll taxes. At December 31, 2013, we employed 784 associates (585 full-time and 199 part-time), compared to 809 associates (589 full-time and 221 part-time) at December 31, 2012. Salaries and related expenses as a percent of average assets was 1.10% for 2013 and 1.06% for 2012.

The $1.5 million decrease in professional services expense was primarily due to a decrease of $1.4 million in legal expenses associated with credit and collection issues, the federal securities class action litigation, and other litigation issues in which the Company is involved. See Item 3 Legal Proceedings.

Income Taxes

The Company s effective tax rate for 2014 was 36.10%, compared to 2013 was 33.73% and 32.62% for 2012. Our estimated annual effective tax rate varies depending upon tax-advantaged income as well as available tax credits. We also benefited from $1.1 million of enterprise zone tax credits in 2013. Due to recent California legislation, these tax credits will be limited in the future.

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

RESULTS BY BUSINESS SEGMENTS

We have two reportable business segments: which are (i) Business Financial and Commercial Banking Centers (Centers) and (ii) Treasury. The results of these two segments are included in the reconciliation between business segment totals and our consolidated total. Our business segments do not include the results of administration units that do not meet the definition of an operating segment. There are no provisions for loan losses or taxes in the segments as these are accounted for at the corporate level.

Key measures we use to evaluate the segments performance are included in the following table for years ended December 31, 2014, 2013, and 2012. These tables also provide additional significant segment measures useful to understanding the performance of this segment.

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Business Financial and Commercial Banking Centers

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Key Measures:			
Statement of Operations			
Interest income (1)	$ 173,655	$ 166,123	$ 173,490
Interest expense (1)	11,617	9,331	10,366
Net interest income	162,038	156,792	163,124
Noninterest income	20,513	20,733	22,807
Noninterest expense	47,871	45,268	44,780
Segment pre-tax profit	$ 134,680	$ 132,257	$ 141,151
Balance Sheet			
Average loans	$ 2,925,199	$ 2,614,172	$ 2,573,453
Average interest-bearing deposits and customer repurchases	$ 2,964,404	$ 2,649,002	$ 2,739,389
Yield on loans (2)	4.87%	5.33%	5.74%
Rate paid on interest-bearing deposits and customer repurchases	0.22%	0.23%	0.26%

(1) Interest income and interest expense include credit for funds provided and charges for funds used, respectively. These are eliminated in the consolidated presentation.
(2) Yield on loans excludes PCI discount accretion as this is accounted for at the Corporate level.

For the year ended December 31, 2014, the Centers segment pre-tax profits increased by $2.4 million, or 1.83%, compared to 2013. The $7.5 million increase in interest income for 2014 was principally due to a $311.0 million increase in average loans, partially offset by a 46 basis point drop in the loan yield to 4.87% in 2014, compared to 5.33% in 2013. The market for new loans continued to remain very competitive. This increase in interest income was offset by an increase of $2.3 million in interest expense and a $2.6 million increase in noninterest expense for 2014, compared to 2013.

For the year ended December 31, 2013, the Centers segment pre-tax profits decreased by $8.9 million, or 6.30%, compared to 2012. The $7.4 million decrease in interest income was principally due to a 41 basis point drop in the loan yield to 5.33% in 2013, compared to $5.74% in 2012. The market for new loans continued to remain very competitive but the recent rise in long term interest rates has started to moderate refinance pressure on our existing loans, particularly from the larger banks. The drop in interest income was partially offset by a decrease of $1.0 million in interest expense. Noninterest income also decreased $2.1 million, or 9.09% for 2013, compared to 2012.

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Treasury

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Key Measures:			
Statement of Operations			
Interest income (1)	$ 71,369	$ 53,234	$ 56,559
Interest expense (1)	64,475	54,969	56,666
Net interest income	6,894	(1,735)	(107)
Noninterest income		2,094	
Noninterest expense	784	714	729
Debt termination expense			20,379
Segment pre-tax (loss) profit	$ 6,110	$ (355)	$ (21,215)
Balance Sheet			
Average investments	$ 2,921,721	$ 2,465,644	$ 2,297,359
Average interest-bearing deposits	$ 258,535	$ 240,001	$ 240,002
Average borrowings	$ 200,765	$ 211,632	$ 363,152
Yield on investments -TE	2.61%	2.39%	2.78%
Non-tax equivalent yield	2.35%	2.06%	2.40%
Average cost of borrowings	4.70%	4.47%	4.09%

(1) Interest income and interest expense include credit for funds provided and charges for funds used, respectively. These are eliminated in the consolidated presentation.

For the year ended December 31, 2014, the Company s Treasury department reported a pre-tax profit of $6.1 million, compared to a pre-tax loss of $355,000. This increase was primarily due to an $18.1 million increase in interest income due to a $456.1 million increase in average investments and a 23 basis point increase in yield on investments (TE). The increase in interest income was partially offset by a $9.5 million increase in interest expense.

For the year ended December 31, 2013, the Company s Treasury department reported a pre-tax loss of $355,000, compared to a pre-tax loss of $21.2 million for 2012. Excluding the $20.4 million debt termination expense for 2012, segment pre-tax loss decreased by $481,000. The improvement was primarily due to a $2.1 million net gain on the sale of investment securities in 2013. Interest income decreased $3.3 million due to a 39 basis point drop in yield on investments (TE) offset by a $168.3 million increase in average investment securities for 2013 compared to 2012. The decrease in interest income was offset by a $1.7 million decrease in interest expense.

Other

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Key Measures:			
Statement of Operations			
Interest income (1)	$ 85,837	$ 82,157	$ 89,442
Interest expense (1)	18,255	20,949	15,509
Net interest income	67,582	61,208	73,933

(Recapture of) provision for loan losses	(16,100)	(16,750)	
Noninterest income	15,899	2,460	(6,904)
Noninterest expense	77,574	68,046	72,272
Segment pre-tax profit (loss)	$ 22,007	$ 12,372	$ (5,243)

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(1) Interest income and interest expense include credit for funds provided and charges for funds used, respectively. These are eliminated in the consolidated presentation.

The Company s administration and other operating departments reported pre-tax income of $22.0 million for the year ended December 31, 2014, an increase of $9.6 million. Noninterest income increased $13.4 million primarily due to a net decrease in the FDIC loss sharing asset of $3.6 million for 2014, compared to net decrease of $12.9 million for 2013. Noninterest expense increased $9.5 million primarily due to $4.1 million in insurance reimbursements for previous years legal costs recognized in 2013 and $2.0 million for non-recurring ASB acquisition related costs in 2014.

The Company s administration and other operating departments reported pre-tax income of $12.4 million for the year ended December 31, 2013, an increase of $17.6 million or 335.97%, from pre-tax loss of $5.2 million for 2012. The increase in pre-tax income was principally due to a $16.8 million loan loss provision recapture and $4.1 million in insurance reimbursements for legal costs. Interest income decreased $7.3 million primarily due to a $9.8 million decrease in discount accretion on PCI loans. Noninterest income increased $9.4 million primarily due to a net decrease in the FDIC loss sharing asset of $12.9 million for 2013, compared to net decrease of $21.9 million for 2012.

ANALYSIS OF FINANCIAL CONDITION

Total assets of $7.38 billion at December 31, 2014 increased $713.0 million, or 10.70%, from total assets of $6.66 billion at December 31, 2013. Earning assets totaled $7.02 billion at December 31, 2014, an increase of $695.4 million, or 11.00%, when compared with earning assets of $6.32 billion at December 31, 2013. The increase in earning assets was primarily due to a $473.3 million increase in investment securities and a $267.2 million increase in total loans. This was partially offset by a $38.1 million decrease in interest-earning deposits with other institutions and a $7.0 million decrease in FHLB stock. Total liabilities were $6.50 billion at December 31, 2014, an increase of $606.7 million, or 10.30%, from total liabilities of $5.89 billion at December 31, 2013. Total equity increased $106.2 million, or 13.76%, to $878.1 million at December 31, 2014, compared to total equity of $771.9 million at December 31, 2013.

Investment Securities

The Company maintains a portfolio of investment securities to provide interest income and to serve as a source of liquidity for its ongoing operations. At December 31, 2014, we reported total investment securities of $3.14 billion. This represented an increase of $473.3 million, or 17.78%, from total investment securities of $2.67 billion at December 31, 2013. As of December 31, 2014, the Company had a pre-tax net unrealized gain on total investment securities of $53.6 million, compared to a pre-tax net unrealized holding loss of $16.1 million at December 31, 2013. The changes in the net unrealized holding gain resulted primarily from fluctuations in market interest rates and growth in the portfolio. For 2014, total repayments/maturities and proceeds from sales of investment securities totaled $425.4 million. The Company purchased additional investment securities totaling $805.5 million and $920.7 million for 2014 and 2013, respectively. The proceeds from sales of investment securities, which included the 13 investment securities that were sold for a net gain on sale of $2.1 million in the first quarter of 2013, were used to purchase additional investment securities.

Composition of the Fair Value of Investment Securities Available-for-Sale

	December 31,					
	2014		2013		2012	
	Fair Value	Percent	Fair Value	Percent	Fair Value	Percent
Government agency	$ 330,843	10.55%	$ 326,525	12.26%	$ 359,300	14.67%
Residential mortgage-backed securities	1,917,496	61.12%	1,379,943	51.81%	887,598	36.24%
CMO s / REMIC s residential	304,091	9.69%	366,175	13.75%	571,960	23.35%
Municipal bonds	579,641	18.48%	586,091	22.00%	625,429	25.53%
Other securities	5,087	0.16%	4,908	0.18%	5,100	0.21%
TOTAL	$ 3,137,158	100.00%	$ 2,663,642	100.00%	$ 2,449,387	100.00%

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The maturity distribution of the available-for-sale portfolio at December 31, 2014 consists of the following:

	December 31, 2014					
	One Year or Less	After One Year Through Five Years	After Five Year Through Ten Years	After Ten Years	Total	Percent to Total
			(Dollars in thousands)			
Maturity distribution:						
Government agency	$ 15,524	$ 22,344	$ 292,975	$	$ 330,843	10.55%
Mortgage-backed securities	21,388	1,617,247	278,761	100	1,917,496	61.12%
CMO/REMICs	269	161,127	49,758	92,937	304,091	9.69%
Municipal bonds (1)	122,208	307,159	132,665	17,609	579,641	18.48%
Other securities				5,087	5,087	0.16%
Tota1	$ 159,389	$ 2,107,877	$ 754,159	$ 115,733	$ 3,137,158	100.00%
Weighted average yield:						
Government agency	0.17%	1.42%	1.84%		1.74%	
Mortgage-backed securities	3.62%	2.34%	2.26%	5.30%	2.34%	
CMO/REMICs	4.43%	1.64%	2.19%	2.13%	1.88%	
Municipal bonds (1)	4.02%	3.83%	3.19%	3.24%	3.70%	
Other securities				5.95%	5.95%	
Tota1	3.58	2.49	2.25%	2.47%	2.48%	

(1) The weighted average yield for the portfolio is not tax-equivalent. The tax-equivalent yield is 5.70%.

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

The weighted-average yield (TE) on the investment portfolio at December 31, 2014 was 2.48% with a weighted-average life of 3.9 years. This compares to a weighted-average yield of 2.35% at December 31, 2013 with a weighted-average life of 4.0 years. The weighted average life is the average number of years that each dollar of unpaid principal due remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal pay-downs.

Approximately 81% of the securities in the investment portfolio, at December 31, 2014, are issued by the U.S. government or U.S. government-sponsored agencies and enterprises, which have the implied guarantee of payment of principal and interest. As of December 31, 2014, approximately $223.2 million in U.S. government agency bonds are callable.

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As of December 31, 2014 and 2013, the Company held investment securities in excess of ten-percent of shareholders equity from the following issuers:

	December 31, 2014		December 31, 2013	
	Book Value	Market Value	Book Value	Market Value
	(Dollars in thousands)			
Major issuer:				
Federal Home Loan Mortgage Corp.	$ 725,258	$ 741,021	$ 726,762	$ 729,766
Federal National Mortgage Association	1,509,745	1,530,465	1,063,123	1,047,333
Small Business Administration	175,584	170,947	189,899	175,467

The following table presents municipal securities by the top holdings by state:

	December 31, 2014			
	Amortized Cost	Percent of Total	Fair Value	Percent of Total
	(Dollars in thousands)			
State:				
Michigan	$ 72,331	13.0%	$ 74,498	12.9%
New Jersey	59,986	10.7%	62,171	10.7%
Minnesota	53,902	9.7%	56,004	9.7%
Texas	47,858	8.6%	50,085	8.6%
Illinois	44,016	7.9%	45,889	7.9%
Missouri	34,056	6.1%	34,721	6.0%
All other states	245,674	44.0%	256,273	44.2%
Total	$ 557,823	100.0%	$ 579,641	100.0%

	December 31, 2013			
	Amortized Cost	Percent of Total	Fair Value	Percent of Total
	(Dollars in thousands)			
State:				
New Jersey	$ 80,646	14.1%	$ 83,175	14.1%
Michigan	72,855	12.8%	74,301	12.7%
Illinois	49,885	8.7%	51,754	8.8%
Texas	47,896	8.4%	49,233	8.4%
Minnesota	41,999	7.4%	42,021	7.2%
California	24,760	4.3%	25,122	4.3%
All other states	253,104	44.3%	260,485	44.5%
Total	$ 571,145	100.0%	$ 586,091	100.0%

Municipal securities held by the Company are issued by various states and their various local municipalities.

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The following tables provide the composition of investment securities that have been in a continuous unrealized loss position, as well as the unrealized losses associated with those investments:

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

	December 31, 2013					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(Dollars in thousands)					
Available-for-sale:						
Government agency	$ 267,936	$ 20,514	$ 38,563	$ 3,361	$ 306,499	$ 23,875
Residential mortgage-backed securities	851,621	23,313	22,999	1,475	874,620	24,788
CMOs / REMICs residential	104,322	1,780	17,747	194	122,069	1,974
Municipal bonds	47,116	3,359	10,338	534	57,454	3,893
Other securities	4,908	92			4,908	92
Total	$ 1,275,903	$ 49,058	$ 89,647	$ 5,564	$ 1,365,550	$ 54,622

The tables above show the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired except for one bond held-to-maturity described below. A summary of our analysis of these securities and the unrealized losses is described more fully in Note 4 Investment Securities in the notes to the consolidated financial statements. Economic trends may adversely affect the value of the portfolio of investment securities that we hold.

For the year ended December 31, 2011, the Company recorded net other-than-temporary impairment losses on the held-to-maturity investment security in the amounts of $656,000. The Company did not record any charges for other-than-temporary impairment losses during the year ended December 31, 2014 and 2013.

Loans

At December 31, 2014, we reported total loans and lease finance receivables, net of deferred loan fees and discount, $3.82 billion. This represented an increase of $270.8 million, or 7.64%, from total loans, net of deferred loan fees and discount, of $3.55 billion at December 31, 2013. The $270.8 million increase in loans was

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principally due to increases of $248.5 million in commercial real estate loans, $15.8 million in SFR mortgage loans, $7.4 million in construction loans, and $6.7 million in commercial and industrial loans. This growth was partially offset by decreases of $16.2 million in dairy & livestock and agribusiness loans and $11.3 million in municipal lease finance receivables.

Total loans, net of deferred loan fees, comprise 54.38% of our total earning assets as of December 31, 2014. The following table presents our loan portfolio, excluding PCI and held-for-sale loans, by type for the periods indicated:

Distribution of Loan Portfolio by Type

	As of December 31,				
	2014	2013	2012	2011	2010
			(Dollars in thousands)		
Commercial and industrial	$ 390,011	$ 376,800	$ 391,664	$ 332,259	$ 291,492
SBA	134,265	135,992	155,758	162,040	168,907
Real estate:					
Commercial real estate	2,487,803	2,207,515	1,990,107	76,146	138,980
Construction	55,173	47,109	59,721	1,948,292	1,980,256
SFR mortgage	205,124	189,233	159,288	176,442	218,467
Dairy & livestock and agribusiness	279,173	294,292	336,660	347,677	377,829
Municipal lease finance receivables	77,834	89,106	105,767	113,460	128,552
Consumer and other loans	69,884	55,103	60,273	68,806	74,729
Gross loans	3,699,267	3,395,150	3,259,238	3,225,122	3,379,212
Less:					
Allowance for loan losses	(59,825)	(75,235)	(92,441)	(93,964)	(105,259)
Deferred loan fees, net	(8,567)	(9,234)	(6,925)	(5,395)	(5,484)
Loans, net	3,630,875	3,310,681	3,159,872	3,125,763	3,268,469
PCI Loans	133,496	173,104	220,559	307,649	488,775
Discount on PCI loans	(7,129)	(12,789)	(25,344)	(50,780)	(114,763)
PCI loans, net	126,367	160,315	195,215	256,869	374,012
Total loans and lease finance receivables	$ 3,757,242	$ 3,470,996	$ 3,355,087	$ 3,382,632	$ 3,642,481

PCI Loans from the SJB Acquisition

These PCI loans were acquired from SJB on October 16, 2009 and were subject to a loss sharing agreement with the FDIC. Under the terms of such loss sharing agreement, the FDIC absorbs 80% of losses and shares in 80% of loss recoveries up to $144.0 million with respect to covered assets, after a first loss amount of $26.7 million. Under the terms of such loss sharing agreement, the FDIC reimburses the Bank for 95% of losses and share in 95% of loss recoveries in excess of $144.0 million with respect to covered assets. The loss sharing agreement covered 5 years for commercial loans and covers 10 years for single-family residential loans from the October 16, 2009 acquisition date and the loss recovery provisions are in effect for 8 and 10 years, respectively, for commercial and single-family residential loans from the acquisition date.

The PCI loan portfolio included unfunded commitments for commercial lines or credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is included under the shared-loss agreement. As such, any additional advances up to the total commitment outstanding at the time of acquisition were covered under the loss share agreement.

The following table presents PCI loans by type for the periods indicated:

Distribution of Loan Portfolio by Type *(PCI)*

	As of December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(Dollars in thousands)				
Commercial and industrial	$ 14,605	$ 19,047	$ 24,680	$ 25,378	$ 34,791
SBA	1,110	1,414	1,469	4,273	4,796
Real estate:					
Commercial real estate	109,350	141,141	179,428	223,107	292,014
Construction		644	1,579	18,685	84,498
SFR mortgage	205	313	1,415	3,289	5,858
Dairy & livestock and agribusiness	4,890	6,000	5,651	24,395	55,618
Municipal lease finance receivables				169	576
Consumer and other loans	3,336	4,545	6,337	8,353	10,624
Gross PCI loans	133,496	173,104	220,559	307,649	488,775
Less: Purchase accounting discount	(7,129)	(12,789)	(25,344)	(50,780)	(114,763)
Gross PCI loans, net of discount	126,367	160,315	195,215	256,869	374,012
Less: Allowance for PCI loans					
Net PCI loans	$ 126,367	$ 160,315	$ 195,215	$ 256,869	$ 374,012

The excess of cash flows expected to be collected over the initial fair value of acquired loans is referred to as the accretable yield and is accreted into interest income over the estimated life of the acquired loans using the effective yield method. The accretable yield will change due to:

estimate of the remaining life of acquired loans which may change the amount of future interest income;

estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference); and

indices for acquired loans with variable rates of interest.

Commercial and industrial loans are loans to commercial entities to finance capital purchases or improvements, or to provide cash flow for operations. Small Business Administration (SBA) loans are loans to commercial entities and/or their principals to finance capital purchases or improvements, to provide cash flow for operations for both short and long term working capital needs to finance sales growth or expansion, and commercial real estate loans to acquire or refinance the entities commercial real estate. Real estate loans are loans secured by conforming trust deeds on real property, including property under construction, land development, commercial property and single-family and multi-family residences. Consumer loans include auto and equipment leases, installment loans to consumers as well as home equity loans and other loans secured by junior liens on real property. Municipal lease finance receivables are leases to municipalities. Dairy & livestock and agribusiness loans are loans to finance the operating needs of wholesale dairy farm operations, cattle feeders, livestock raisers, and farmers.

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Our loan portfolio is from a variety of areas throughout our marketplace. The following is the breakdown of our total held-for-investment commercial real estate loans, excluding PCI loans, by region as of December 31, 2014.

	December 31, 2014			
	Total Loans		Commercial Real Estate Loans	
	(Dollars in thousands)			
Los Angeles County	$ 1,473,216	39.8%	$ 1,043,761	42.0%
Central Valley	701,533	19.0%	438,154	17.6%
Inland Empire	675,128	18.2%	554,511	22.3%
Orange County	543,689	14.7%	276,118	11.1%
Other areas (1)	305,701	8.3%	175,259	7.0%
	$ 3,699,267	100.0%	$ 2,487,803	100.0%

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

The following is the breakdown of total PCI held-for-investment commercial real estate loans by region as of December 31, 2014.

	December 31, 2014			
	Total PCI Loans		PCI - Commercial Real Estate Loans	
	(Dollars in thousands)			
Los Angeles County	$ 8,010	6.0%	$ 6,301	5.8%
Central Valley	120,321	90.1%	98,830	90.3%
Inland Empire				
Other areas (1)	5,165	3.9%	4,219	3.9%
	$ 133,496	100.0%	$ 109,350	100.0%

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

Our SBA loans are comprised of SBA 504 loans and SBA 7(a) loans. As of December 31, 2014, the Company had $19.9 million of SBA 7(a) loans. The SBA 7(a) loans include revolving lines of credit (SBA Express), term loans to finance long term working capital requirements, capital expenditures, and/or for the purchase or refinance of commercial real estate. SBA 7(a) loans are guaranteed by the SBA at various percentages typically ranging from 50% to 75% of the loan, depending on the type of loan and when it was granted. SBA 7(a) loans are typically granted with a variable interest rate adjusting quarterly along with the monthly payment. The SBA 7(a) term loans can provide financing for up to 100% of the project costs associated with the installation of equipment and/or commercial real estate which can exceed the value of the collateral related to the transaction. These loans also provide extended terms not provided by the Bank s standard equipment and CRE loan programs.

As of December 31, 2014, the Company had $115.5 million of SBA 504 loans. SBA 504 loans include term loans to finance capital expenditures and for the purchase of commercial real estate. Initially the Bank provides two separate loans to the Borrower representing a first and second lien on the collateral. The loan with the first lien is typically at a 50% advance to the acquisition costs and the second lien loan provides the financing for 40% of the acquisition costs with the Borrower s down payment of 10%. When the loans are funded the Bank retains the first lien loan for its term and sells the second lien loan to the SBA subordinated debenture program. A majority of the Bank s 504 loans, over 99%, are granted for the purpose of commercial real estate acquisition.

Our real estate loans are comprised of industrial, office, retail, single-family residences, multi-family residences, and farmland. We strive to have an original loan-to-value ratio less than 75%. The table below breaks

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

	December 31, 2014			
	Loan Balance	Percent	Percent Owner-Occupied (1)	Average Loan Balance
	(Dollars in thousands)			
SFR mortgage:				
SFR mortgage Direct	$ 139,216	5.2%	100.0%	$ 566
SFR mortgage Mortgage pools	65,908	2.4%	100.0%	219
Total SFR mortgage	205,124	7.6%		
Commercial real estate:				
Multi-family	211,719	7.9%	0.0%	1,366
Industrial	685,066	25.4%	35.4%	1,007
Office	450,157	16.7%	27.8%	1,157
Retail	447,428	16.6%	9.0%	1,564
Medical	176,774	6.6%	35.3%	1,768
Secured by farmland	165,618	6.2%	100.0%	2,123
Other	351,041	13.0%	44.1%	1,249
Total commercial real estate	2,487,803	92.4%		
Total SFR mortgage and commercial real estate loans	$ 2,692,927	100.0%	37.0%	1,261

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

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

	December 31, 2014			
	Loan Balance	Percent	Percent Owner-Occupied (1)	Average Loan Balance
	(Dollars in thousands)			
SFR mortgage				
SFR mortgage Direct	$ 205	0.2%	100.0%	$ 103
SFR mortgage Mortgage pools				
Total SFR mortgage	205	0.2%		
Commercial real estate:				
Multi-family	2,653	2.4%		1,327
Industrial	26,292	24.0%	49.9%	657
Office	12,640	11.5%	35.5%	575
Retail	13,429	12.3%	35.3%	671
Medical	12,260	11.2%	89.6%	1,115
Secured by farmland	4,595	4.2%	100.0%	383
Other (2)	37,481	34.2%	56.0%	833

Total commercial real estate	109,350	99.8%		
Total SFR mortgage and commercial real estate loans	$ 109,555	100.0%	54.0%	764

(1) Represents percentage of reported owner-occupied at origination in each real estate loan category.
(2) Includes loans associated with hospitality, churches, gas stations, and hospitals, which represents approximately 73% of other loans.

The SFR mortgage Direct loans in the table above include SFR mortgage loans which are currently generated through an internal program in our Centers. This program is focused on owner-occupied SFR s with defined loan-to-value, debt-to-income and other credit criteria, such as FICO credit scores, that we believe are appropriate for loans which are primarily intended for retention in our Bank s loan portfolio. The program was changed to enable our Bank to underwrite and process SFR mortgage loans generated through our Centers, as opposed to our past practice of contracting with an outside party for certain underwriting and related loan origination services. This program involving Bank-generated referrals, credit guidelines and underwriting was initiated during the quarter ended December 31, 2012. We originated loan volume in the aggregate principal amount of $51.8 million under this program during 2014.

In addition, we previously purchased pools of owner-occupied single-family loans from real estate lenders, SFR mortgage Mortgage Pools, totaling $65.9 million at December 31, 2014. These loans were purchased with average FICO scores predominantly ranging from 700 to over 800 and overall original loan-to-value ratios of 60% to 80%. These pools were purchased to diversify our loan portfolio. Due to market conditions, we have not purchased any mortgage pools since August 2007.

Construction Loans

As of December 31, 2014, the Company had $55.2 million in construction loans. This represents 1.40% of total gross loans held-for-investment. Although our construction loans are located throughout our market footprint, the majority of construction loans consist of commercial land development and construction projects in Los Angeles, Orange County, and the Inland empire region of Southern California. At December 31, 2014, construction loans consisted of $22.8 million in SFR and multi-family construction loans and $32.4 million in commercial construction loans. Construction was completed on two loans totaling $18.7 million which were therefore reflected as commercial real estate loans as of December 31, 2014.

The table below provides the maturity distribution for held-for-investment total gross loans, including PCI loans, as of December 31, 2014. The loan amounts are based on contractual maturities although the borrowers have the ability to prepay the loans. Amounts are also classified according to re-pricing opportunities or rate sensitivity.

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Loan Maturities and Interest Rate Category at December 31, 2014

	Within One Year	After One But Within Five Years	After Five Years	Total
		(Dollars in thousands)		
Types of Loans:				
Commercial and industrial	$ 182,600	$ 153,119	$ 68,897	$ 404,616
SBA	6,662	20,868	107,845	135,375
Real estate:				
Commercial real estate	164,856	707,879	1,724,418	2,597,153
Construction	32,942	22,231		55,173
SFR mortgage	401	8,713	196,215	205,329
Dairy & livestock and agribusiness	209,203	74,860		284,063
Municipal lease finance receivables	828	3,242	73,764	77,834
Consumer and other loans	7,522	27,257	38,441	73,220
Total gross loans	$ 605,014	$ 1,018,169	$ 2,209,580	$ 3,832,763
Amount of Loans based upon:				
Fixed rates	$ 133,233	$ 571,441	$ 1,175,385	$ 1,880,059
Floating or adjustable rates	471,781	446,728	1,034,195	1,952,704
Total gross loans	$ 605,014	$ 1,018,169	$ 2,209,580	$ 3,832,763

As a normal practice in extending credit for commercial and industrial purposes, we may accept trust deeds on real property as collateral. In some cases, when the primary source of repayment for the loan is anticipated to come from the cash flow from normal operations of the borrower, and real property has been taken as collateral, the real property is considered a secondary source of repayment for the loan. Since we lend primarily in Southern and Central California, our real estate loan collateral is concentrated in this region. At December 31, 2014, substantially all of our loans secured by real estate were collateralized by properties located in California. This concentration is considered when determining the adequacy of our allowance for loan losses.

Nonperforming Assets

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

			December 31,		
	2014	2013	2012	2011	2010
			(Dollars in thousands)		
Nonaccrual loans	$ 11,901	$ 14,835	$ 26,688	$ 38,828	$ 84,050
Troubled debt restructured loans (nonperforming)	20,285	25,119	31,309	23,844	72,970
OREO	5,637	6,475	14,832	13,820	5,290
Total nonperforming assets	$ 37,823	$ 46,429	$ 72,829	$ 76,492	$ 162,310
Troubled debt restructured performing loans	$ 53,589	$ 66,955	$ 50,392	$ 38,554	$ 13,274
Percentage of nonperforming assets to total loans outstanding, net of deferred fees, and OREO	0.99%	1.37%	2.23%	2.37%	4.80%
Percentage of nonperforming assets to total assets	0.51%	0.70%	1.14%	1.18%	2.52%

We had loans, excluding PCI loans, with a gross balance of $85.8 million classified as impaired as of December 31, 2014. This balance included nonperforming loans of $32.2 million. Impaired loans which were restructured in a troubled

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debt restructuring represented $73.9 million, of which $20.3 million were nonperforming and $53.6 million were performing, as of December 31, 2014. Of the $20.3 million in nonperforming TDRs, $4.7 million are not paying in accordance with the modified terms at December 31, 2014 and the remaining $15.6 million have either not demonstrated repayment performance for a sustained period and/or we have not received all necessary documents to determine the borrower s ability to meet all future principal and interest payments under the modified terms. As of December 31, 2013, the balance of impaired loans were $106.9 million. Impaired loans measured 2.26% of total loans as of December 31, 2014, compared to 3.01% as of December 31, 2013.

Of the total impaired loans as of December 31, 2014, $52.8 million were considered collateral dependent and measured using the fair value of the collateral based on current appraisals (obtained within 1 year). The amount of impaired loans measured using the present value of expected future cash flows discounted at the loans effective rate were $33.0 million.

At December 31, 2014 and December 31, 2013, TDRs of $53.6 million and $67.0 million, respectively, were classified as accruing restructured loans, respectively. At December 31, 2014, performing TDRs were comprised of 11 commercial real estate loans of $24.7 million, one construction loan of $7.7 million, eight dairy & livestock loans of $15.7 million, 11 SFR mortgage loans of $3.7 million, three commercial and industrial loans of $711,000, and one SBA loan of $699,000. The performing restructurings were granted in response to borrower financial difficulty, and generally provide for a modification of loan repayment terms. The performing restructured loans represent the only impaired loans accruing interest at each respective date. A performing restructured loan is reasonably assured of repayment and is performing according to the modified terms

At December 31, 2014 and December 31, 2013, there was $726,000 and $2.7 million of related allowance on TDRs, respectively. Impairment amounts identified are typically charged off against the allowance at the time a probable loss is determined. Total charge-offs on TDRs for 2014 and 2013 were $1.1 million and $92,000, respectively.

We have not restructured loans into multiple loans in what is typically referred to as an A/B note structure, where normally the A note meets current underwriting standards and the B note is typically immediately charged-off upon restructuring.

At December 31, 2014, we had $5.6 million in total OREO properties, compared to $7.0 million at December 31, 2013. As of December 31, 2014, we had four OREO properties, compared with four OREO properties at December 31, 2013. During 2014, we acquired three OREO properties from ASB and added eight properties. We sold 11 properties with a carrying value of $4.9 million, realizing a net gain on sale of $957,000.

Nonperforming Assets and Delinquencies

The table below provides trends in our nonperforming assets and delinquencies, excluding PCI loans, during 2014.

Nonperforming Assets & Delinquency Trends

	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
			(Dollars in thousands)		
Nonperforming Loans					
Commercial and industrial	$ 2,308	$ 3,423	$ 4,831	$ 3,171	$ 2,175
SBA	2,481	3,243	2,138	1,650	1,686
Real estate:					
Commercial real estate [1]	23,318	14,795	14,866	11,852	12,410
Construction [1]		9,666	9,767	9,867	9,966
SFR mortgage	3,240	3,999	6,765	7,868	7,577
Dairy & livestock and agribusiness	103	1,463	5,133	5,397	5,739
Consumer and other loans	736	461	470	397	401
Total	$ 32,186	$ 37,050	$ 43,970	$ 40,202	$ 39,954
% of Total gross loans	0.84%	1.04%	1.26%	1.23%	1.18%
Past Due 30-89 Days					
Commercial and industrial	$ 978	$ 673	$ 516	$	$ 993
SBA	75		689		
Real estate:					
Commercial real estate	122		732	520	523
Construction					
SFR mortgage	425		161	432	1,708
Dairy & livestock and agribusiness					
Consumer and other loans	81	15	168	8	75
Total	$ 1,681	$ 688	$ 2,266	$ 960	$ 3,299
% of Total gross loans	0.04%	0.02%	0.07%	0.03%	0.10%
OREO					
Commercial and industrial	$ 736	$ 1,254	$ 1,638	$	$
SBA					
Real estate:					
Commercial real estate		70			
Construction	4,901	4,901	4,901	6,475	6,475
SFR mortgage					
Consumer and other loans					
Total	$ 5,637	$ 6,225	$ 6,539	$ 6,475	$ 6,475
Total nonperforming, past due, and OREO	$ 39,504	$ 43,963	$ 52,775	$ 47,637	$ 49,728
% of Total gross loans	1.03%	1.23%	1.52%	1.46%	1.47%

[1] Construction was completed on one $9.6 million nonperforming construction loan which was therefore reflected as a nonperforming commercial real estate loan as of December 31, 2014.

We had $32.2 million in nonperforming loans, defined as nonaccrual loans and nonperforming TDRs, at December 31, 2014, or 0.84% of total loans. This compares to $40.0 million in nonperforming loans at

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December 31, 2013. Six customer relationships make up $16.2 million, or 50.51%, of our nonperforming loans at December 31, 2014. Four of these customer relationships are commercial real estate developers (owner/non-owner occupied). The primary collateral for these loans is commercial real estate properties. The other two customer relationships are in the dairy & livestock industry; and the collateral is primarily the dairy farm property and the dairy livestock. These six customer relationships have had total charge-offs of $117,000 and have no related allowance at December 31, 2014.

Changes in economic and business conditions has had an impact on our market area and on our loan portfolio. We continually monitor these conditions in determining our estimates of needed reserves. However, we cannot predict the extent to which the deterioration in general economic conditions, real estate values, increases in general rates of interest, and changes in the financial conditions or business of a borrower may adversely affect a borrower s ability to pay. See Risk Management Credit Risk herein.

Acquired SJB Assets

Loans acquired through the SJB acquisition are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). PCI loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonperforming loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of December 31, 2014, there were no PCI loans considered as nonperforming as described above. There were no SJB properties as of December 31, 2014, compared with two properties totaling $504,000 as of December 31, 2013.

Allowance for Loan Losses

The allowance for loan losses is established as management s estimate of probable losses inherent in the loan and lease receivables portfolio. The allowance is increased by the provision for losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The determination of the balance in the allowance for loan losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management s judgment, is appropriate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past loan loss experience, and such other factors that would deserve current recognition in estimating inherent credit losses.

We maintain an allowance for inherent loan losses that is increased by a provision for loan losses charged against operating results. The allowance for loan losses is also increased by recoveries on loans previously charged off and reduced by actual loan losses charged to the allowance. The allowance for loan losses was $59.8 million as of December 31, 2014. This represents a decrease of $15.4 million, or 20.48%, compared to the allowance for loan losses of $75.2 million as of December 31, 2013. We recorded a $16.1 million loan loss provision recapture for the year ended December 31, 2014, compared to $16.8 million loan loss provision recapture for the same period in 2013.

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The table below presents a summary of net charge-offs and recoveries by type, and the resulting allowance for loan losses and provision (or recapture of provision) for loan losses for each of the years indicated. The table below provides information on loans, excluding PCI loans, for all periods presented as there was no allowance on PCI loans.

Summary of Loan loss Experience

	As of and For Year Ended December 31,				
	2014	2013	2012	2011	2010
			(Dollars in thousands)		
Allowance for loan losses at beginning of period	$ 75,235	$ 92,441	$ 93,964	$ 105,259	$ 108,924
Charge-offs:					
Commercial and industrial (3)	888	2,491	1,158	1,459	5,651
SBA (3)	50		101	637	639
Commercial real estate (3)	353		1,873	4,650	39,477
Construction				7,976	15,648
SFR mortgage		252	642	1,104	1,879
Dairy & livestock and agribusiness	1,061		1,150	3,291	1,205
Consumer and other loans	17	108	283	511	640
Total charge-offs	2,369	2,851	5,207	19,628	65,139
Recoveries:					
Commercial and industrial	873	544	876	243	227
SBA	114	215	404	59	15
Commercial real estate	140	402	514	606	35
Construction	885	703	1,139	757	291
SFR mortgage	401	367	(108)	142	
Dairy & livestock and agribusiness	492	109	166	151	
Consumer and other loans	154	55	36	200	76
Total recoveries	3,059	2,395	3,027	2,158	644
Net (recoveries) charge-offs	(690)	456	2,180	17,470	64,495
Other reallocation (2)			657	(893)	(370)
(Recapture of) provision for loan losses	(16,100)	(16,750)		7,068	61,200
Allowance for loan losses at end of period	$ 59,825	$ 75,235	$ 92,441	$ 93,964	$ 105,259
Summary of reserve for unfunded loan commitments:					
Reserve for unfunded loan commitments at beginning of period	$ 9,088	$ 8,588	$ 9,588	$ 10,506	$ 7,906
Provision for unfunded loan commitments	(1,250)	500	(1,000)	(918)	2,600
Reserve for unfunded loan commitments at end of period	$ 7,838	$ 9,088	$ 8,588	$ 9,588	$ 10,506
Reserve for unfunded loan commitments to total unfunded loan commitments	1.08%	1.45%	1.55%	1.47%	1.64%
Amount of total loans at end of period (1)	$ 3,690,700	$ 3,385,916	$ 3,252,313	$ 3,219,727	$ 3,373,728
Average total loans outstanding (1)	$ 3,458,920	$ 3,223,713	$ 3,199,629	$ 3,222,450	$ 3,485,836
Net (recoveries) charge-offs to average total loans	-0.02%	0.01%	0.07%	0.54%	1.85%
Net (recoveries) charge-offs to total loans at end of period	-0.02%	0.01%	0.07%	0.54%	1.91%
Allowance for loan losses to average total loans	1.73%	2.33%	2.89%	2.92%	3.02%

Allowance for loan losses to total loans at end of period	1.62%	2.22%	2.84%	2.92%	3.12%
Net (recoveries) charge-offs to allowance for loan losses	-1.15%	0.61%	2.36%	18.59%	61.27%
Net recoveries (charge-offs) to (recapture of) provision for loan losses	4.29%	-2.72%		247.17%	105.38%

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

Specific allowance: For impaired loans, we incorporate specific allowances based on loans individually evaluated utilizing one of three valuation methods, as prescribed under ASC 310-10. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the ALLL or, alternatively, a specific allocation will be established and included in the overall ALLL balance. The specific allocation represents $1.5 million (2.59%), $3.2 million (4.22%) and $2.3 million (2.52%) of the total allowance as of December 31, 2014, December 31, 2013 and December 31, 2012, respectively.

General allowance: The loan portfolio collectively evaluated for impairment under ASC 450-20 is divided into classes of loan receivables between classified loans (including substandard and special mention loans) and unclassified loans, and then further disaggregated into loan segments by loan type with similar risk characteristics. The non-classified loans are divided into 37 segments, including 25 specific segments within the commercial real estate and construction loan portfolios split between owner and non-owner properties and based on property type (i.e. industrial, office, retail, etc.). The allowance is provided for each segment based upon that segment s average historical loss experience over a rolling 20-quarter period, adjusted for current conditions based on our analysis of specific environmental or qualitative loss factors, as prescribed in the 2006 Interagency Policy Statement on ALLL, affecting the collectability of our loan portfolio that may cause actual loss rates to differ from historical loss experience.

In addition, recognizing the inherent imprecision in the estimation of these loss factors, we also incorporate an *unallocated reserve* that reflects management s best estimate of probable losses not otherwise captured by our qualitative loss factors or otherwise accounted for in our ALLL methodology. Management believes that appropriate drawdowns from usage of the unallocated reserve may include, but are not limited to, (i) consideration of conditions or factors that may not be easily allocated to a specific loan segment, (ii) addressing elevated risks from unique or unusual conditions of volatility and uncertainty affecting the collectability of our loan portfolio, (iii) supporting allocations resulting from refinements to our factors, and (iv) prudent releases of general reserves, if warranted and appropriate when current conditions show demonstrable improvement in credit quality for a sustained period.

Moreover, as conditions change, we may modify or refine our methodology to better reflect risk characteristics that currently impact underlying credit components and the collectability of the loan portfolio. Examples of such modifications or refinements impacting our ALLL in recent quarters include (i) addition of a qualitative factor on changes in the value of underlying collateral for collateral-dependent loans , based on continuing weakness in the values of commercial real estate in our primary lending markets, (ii) increasing the number of segments within the classified and criticized pools primarily to disaggregate our real estate portfolio between owner-occupied and non-owner occupied commercial real estate loans, as well as between residential and non-residential construction loans, and (iii) creating a specific allocated pool for our dairy and livestock loan segment to address perceived weaknesses in this segment due to phenomena such as highly volatile milk and feed prices, reduced levels of cow milk production, shorter cyclical periods between industry highs and lows, unstable values for herd liquidations, lack of adequate farm land to raise forage crops in certain geographical locations, and depleted resources available to certain dairy operators due to periodic industry stress factors.

During the fourth quarter of 2014, the Bank made minor adjustments to three of the nine qualitative factors, (i) changes in international, national, regional, and local economic and business conditions, (ii) changes in volume and severity of past due loans, and volume of nonaccrual and classified loans, and (iii) changes in value of underlying collateral for collateral-dependent loans. These changes reflected such factors as improvement during the third quarter in the unemployment rates of both the U.S. and California, and stronger than expected growth in the GDP rate. In addition, in the Bank s service market, continued strengthening of the real estate sector was evident from improvement in vacancy rates, leasing rates, and net absorption rates. The Bank s loan portfolio and related credit metrics reflected such improvement, albeit moderating, with continued low levels of loan delinquency, and declining nonaccrual and classified loans.

The various factors affecting the allowance component balances between allocated and unallocated funds essentially offset one another in the current period ended December 31, 2014, when compared to the prior quarter-end, resulting in no provision or recapture this period. These factors include (i) a reduction by one or two basis points in three of our Qualitative Factors (as described above), plus (ii) a reduction in loss rates of certain loan segments over the look-back period as a result of higher loss rates in the fourth quarter of 2009 (net losses of $3.9 million incurred in that quarter) rolling out of the twenty-quarter look-back period and lower loss rates in the current fourth quarter of 2014 (net recoveries of $243,000 for the current quarter) rolling into the calculated look-back figures, and (iii) sizeable reductions of criticized loans (Special Mention) totaling approximately $61.6 million, but relatively static levels of classified loans; offset by (iv) significant loan growth, excluding PCI loans, in the period of $116.8 million requiring additional allocations of the reserve.

In addition, during the fourth quarter of 2014 and as presented in this report, the Bank segmented the SBA portfolio from inclusion in the Commercial and Industrial loans. This change was implemented so that the SBA portfolio could be further divided into SBA 7(a) and 504 loans so that the 504 loans secured by commercial real estate could be analyzed separately and along with the Bank s owner-occupied commercial real estate segment. This change enhances the Bank s methodology making it possible to analyze and attribute risk factors to SBA loan segments that bear similar risk characteristics.

During the third quarter of 2014, the Bank made no adjustments to its qualitative factors reflecting the slowing pace of improvement in the general economy and conditions affecting borrowers within the Bank s service area. However, as a result of continued, albeit moderating, improvement in the Bank s underlying credit quality and credit metrics of the loan portfolio, the Bank realized a decline in the reserve requirement. The Bank reduced the reserve to reflect our judgment regarding the continuing effect on our loan portfolio of certain improved credit conditions including, but not limited to, (i) the continued improvement in the portfolio s credit quality and underlying credit metrics, (ii) the continued reduction in classified loans, and (iii) the continued low level of delinquent and past due loans. As a result of the factors described above, including, among other things, the general improvement in loan risk ratings and the quarter-over-quarter decline of $9.6 million in classified loans, the consistent application of the ALLL methodology resulted in a reduction of the ALLL by $1.0 million.

During the second quarter of 2014, the Bank adjusted its qualitative factor for changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans. The Bank reduced this factor to reflect our judgment regarding the effect on our loan portfolio of certain improved credit conditions including, but not limited to, (i) the continued improvement in the portfolio s credit quality and underlying credit metrics, (ii) the continued reduction in classified loans, and (iii) the continued low level of delinquent and past due loans. As a result of the factors described above, including, among other things, the general improvement in loan risk ratings and the quarter-over-quarter decline in classified loans of $62.2 million, the reserve was reduced by approximately $7.7 million. The reduction combined with net loan charge-offs of $151,000 during the second quarter, resulted in a loan loss provision recapture of $7.6 million for the quarter ended June 30, 2014.

During the first quarter of 2014, the Bank adjusted several qualitative factors including (i) changes in international, national, regional and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments, (ii) changes in the nature and volume of the portfolio and in the terms of loans, (iii) changes in the experience, ability, and depth of lending management and other relevant staff, and (iv) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution s existing portfolio. The changes to the qualitative factors noted above reflect our judgment regarding the effect on our loan portfolio of certain conditions including, but not limited to, (i) conditions in the local and national economy as well as the risk to our local economy from climate/weather issues including regional drought conditions, (ii) potential impact on municipal borrowers due to the drought and overhanging risk of unfunded pension liabilities, (iii) increasing pressure to change the nature and terms offered on Bank loans in response to loan terms being offered by our competitors, especially in construction, commercial, commercial real estate and residential real estate loans,

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(iv) increased competition for loans and (v) the challenges in pursuing collection efforts through the legal system. As a result of the factors described above, the quarterly decline in outstanding loan totals from December 31, 2013, and a quarterly decline in classified loans of $26.6 million, the ALLL was reduced by approximately $6.5 million for the first quarter of 2014. The reduction combined with net recoveries of $990,000 during the first quarter of 2014, resulted in a loan loss provision recapture of $7.5 million for the quarter ended March 31, 2014.

While we believe that the allowance at December 31, 2014, was appropriate to absorb losses from any known or inherent risks in the portfolio, no assurance can be given that economic conditions, interest rate fluctuations, conditions of our borrowers, or natural disasters, which adversely affect our service areas or other circumstances or conditions, including those defined above, will not be reflected in increased provisions for loan losses in the future.

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

Allocation of Allowance for Loan losses

	December 31,									
	2014		2013		2012		2011		2010	
	Allowance for Loan Losses	% of Loans to Total Loans in Each Category	Allowance for Loan Losses	% of Loans to Total Loans in Each Category	Allowance for Loan Losses	% of Loans to Total Loans in Each Category	Allowance for Loan Losses	% of Loans to Total Loans in Each Category	Allowance for Loan Losses	% of Loans to Total Loans in Each Category
	(Dollars in thousands)									
Commercial and industrial	$ 7,074	10.5%	$ 8,502	11.1%	$ 8,901	12.0%	$ 8,030	10.3%	$ 8,779	8.6%
SBA	2,557	3.6%	2,332	4.0%	2,751	4.8%	2,624	5.0%	2,693	5.0%
Real estate:										
Commercial real estate	33,373	67.3%	39,402	65.0%	47,457	61.1%	47,841	60.4%	40,234	58.6%
Construction	988	1.5%	1,305	1.4%	2,291	1.8%	4,947	2.4%	10,188	4.1%
SFR mortgage	2,344	5.5%	2,718	5.6%	3,448	4.9%	4,032	5.4%	3,295	6.4%
Dairy & livestock and agribusiness	5,479	7.5%	11,728	8.7%	18,696	10.3%	17,278	10.8%	36,061	11.2%
Muni lease finance receivables	1,412	2.1%	2,335	2.6%	1,588	3.2%	2,403	3.5%	2,172	3.8%
Consumer and other loans	1,262	2.0%	960	1.6%	1,170	1.9%	1,590	2.2%	1,034	2.3%
Unallocated	5,336		5,953		6,139		5,219		803	
Total	$ 59,825	100.0%	$ 75,235	100.0%	$ 92,441	100.0%	$ 93,964	100.0%	$ 105,259	100.0%

Deposits

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

Total deposits were $5.60 billion at December 31, 2014. This represented an increase of $714.0 million, or 14.60%, over total deposits of $4.89 billion at December 31, 2013. This increase was due to organic growth primarily from our Centers and the acquisition of ASB. The average balance of deposits by category and the

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average effective interest rates paid on deposits is summarized for the years ended December 31, 2014, 2013 and 2012 in the table below.

	For the Year Ended December 31,					
	2014		2013		2012	
			Average			
	Balance	Rate	Balance	Rate	Balance	Rate
			(Dollars in thousands)			
Noninterest-bearing deposits						
Demand deposits	$ 2,802,490		$ 2,452,689		$ 2,220,714	
Interest-bearing deposits						
Investment Checking	340,042	0.06%	308,935	0.05%	315,082	0.05%
Money Market	1,272,175	0.25%	1,080,080	0.28%	1,131,268	0.32%
Savings	274,526	0.10%	263,298	0.11%	268,801	0.14%
Time deposits	713,813	0.18%	698,905	0.19%	767,533	0.23%
Total deposits	$ 5,403,046		$ 4,803,907		$ 4,703,398	

The amount of noninterest-bearing demand deposits in relation to total deposits is an integral element in achieving a low cost of funds. Average demand deposits totaled $2.80 billion for 2014, representing an increase of $349.8 million, or 14.26%, from average demand deposits of $2.45 billion for 2013. Average noninterest-bearing demand deposits represented 51.87% of total average deposits for 2014, compared to 51.06% of total average deposits for 2013.

Average savings deposits, which include savings, interest-bearing demand, and money market accounts, were $1.89 billion for 2014, representing an increase of $234.4 million, or 14.19%, from average savings deposits of $1.65 billion for 2013.

Average time deposits totaled $713.8 million for 2014, representing an increase of $14.9 million, or 2.13%, from total average time deposits of $698.9 million for 2013.

The following table provides the remaining maturities of large denomination ($100,000 or more) time deposits, including public funds, at December 31, 2014.

Maturity Distribution of Large Denomination Time Deposits

	2014 (Dollars in thousands)
3 months or less	$ 517,376
Over 3 months through 6 months	82,558
Over 6 months through 12 months	82,714
Over 12 months	19,710
Total	$ 702,358

Other Borrowed Funds

In order to enhance the Bank s spread between its cost of funds and interest-earning assets, we first seek noninterest-bearing deposits (the lowest cost of funds to the Company). Next, we pursue growth in interest-bearing deposits, and finally, we supplement the growth in deposits with borrowed funds (borrowings and customer repurchase agreements). Average borrowed funds, as a percent of total funding (total deposits plus borrowed funds), was 13.18% for 2014, compared to 13.59% for 2013.

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The following table summarizes information about our term FHLB advances and repurchase agreements outstanding as of the dates indicated:

	Repurchase Agreements	FHLB Advances *(Dollars in thousands)*	Other Borrowings
At December 31, 2014			
Amount outstanding	$ 563,627	$ 199,479	$ 46,000
Weighted-average interest rate	0.29%	4.52%	0.10%
For the year ended December 31, 2014			
Highest amount at month-end	$ 726,063	$ 199,479	$ 46,000
Daily-average amount outstanding	$ 619,147	$ 199,351	$ 1,414
Weighted-average interest rate	0.25%	4.52%	0.12%
At December 31, 2013			
Amount outstanding	643,251	199,206	69,000
Weighted-average interest rate	0.29%	4.52%	0.06%
For the year ended December 31, 2013			
Highest amount at month-end	643,251	199,206	69,000
Daily-average amount outstanding	543,656	199,079	12,554
Weighted-average interest rate	0.28%	4.52%	0.16%
At December 31, 2012			
Amount outstanding	$ 473,244	$ 198,934	$ 26,000
Weighted-average interest rate	0.28%	4.52%	0.12%
For the year ended December 31, 2012			
Highest amount at month-end	$ 537,109	$ 448,821	$ 26,000
Daily-average amount outstanding	$ 496,978	$ 362,741	$ 411
Weighted-average interest rate	0.31%	4.17%	0.15%

At December 31, 2014, our borrowings included $199.5 million in term FHLB advances, $563.6 million of repurchase agreements, and $46.0 million of other borrowings. At December 31, 2013, our borrowings included $199.2 million in term FHLB advances, $643.3 million in repurchase agreements and other borrowings of $69.0 million.

At December 31, 2014, borrowed funds totaled $809.1 million. This represented a decrease of $102.4 million, or 11.23%, from total borrowed funds of $911.5 million at December 31, 2013. During 2012, we redeemed $250.0 million of our FHLB advances, which carried an average coupon of 3.39% and a weighted average remaining life of 2.6 years. The repayment of these advances, which resulted in a $20.4 million pre-tax debt termination expense as reflected in other operating expense, was funded from Citizens Business Bank deposits. At December 31, 2014, we had $46.0 million of overnight borrowings with the FHLB at a cost of 10 basis points.

In November 2006, we began a repurchase agreement product with our customers. This product, known as Citizens Sweep Manager, sells our investment securities overnight to our customers under an agreement to repurchase them the next day at a price which reflects the market value of the use of funds by the Bank for the period concerned. These repurchase agreements are signed with customers who want to invest their excess deposits, above a pre-determined balance in a demand deposit account, in order to earn interest. As of December 31, 2014 and December 31, 2013, total customer repurchases were $563.6 million and $643.3 million, respectively, with weighted average interest rates of 0.29%.

We have one remaining borrowing agreement with the Federal Home Loan Bank with an outstanding balance of $199.5 million at December 31, 2014 and $199.2 million at December 31, 2013. The maturity date of the remaining FHLB advance is November 28, 2016. The weighted average interest rate was 4.52% at December, 2014 and 2013. The FHLB holds certain investment securities and loans as collateral for these borrowings.

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At December 31, 2014, $2.78 billion of loans and $3.11 billion of investment securities, at carrying value, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

Aggregate Contractual Obligations

The following table summarizes the aggregate contractual obligations as of December 31, 2014:

		Maturity by Period			
	Total	Less Than One Year	One Year Through Three Years	Four Years Through Five Years	Over Five Years
			(Dollars in thousands)		
Deposits (1)	$ 5,604,658	$ 5,580,601	$ 17,116	$ 6,208	$ 733
Customer repurchase agreements (1)	563,627	563,627			
FHLB advances (1)	199,479		199,479		
Other borrowings	46,000	46,000			
Junior subordinated debentures (1)	25,774				25,774
Deferred compensation	10,291	787	1,097	457	7,950
Operating leases	19,605	5,479	8,968	4,313	845
Advertising agreements	3,336	1,136	1,600	600	
Total	$ 6,472,770	$ 6,197,630	$ 228,260	$ 11,578	$ 35,302

(1) Amounts exclude accrued interest.

Deposits represent noninterest bearing, money market, savings, NOW, certificates of deposits, brokered and all other deposits held by the Company.

Customer repurchase agreements represent excess amounts swept from customer demand deposit accounts, which mature the following business day and are collateralized by investment securities. These amounts are due to customers.

FHLB advances represent the amount that is due to the FHLB. We have one advance with a fixed maturity date of November 28, 2016.

At December 31, 2014, the Bank had $46.0 million of overnight borrowings with the FHLB at a cost of 10 basis points.

Junior subordinated debentures represent the amounts that are due from the Company to CVB Statutory Trust III. The debentures have the same maturity as the Trust Preferred Securities. CVB Statutory Trust III matures in 2036, and became callable in whole or in part in March 2011.

Deferred compensation represents the amounts that are due to former employees based on salary continuation agreements as a result of acquisitions and amounts due to current employees under our deferred compensation plans.

Operating leases represent the total minimum lease payments due under non-cancelable operating leases.

Advertising agreements represent the amounts that are due on various agreements that provide advertising benefits to the Company.

Off-Balance Sheet Arrangements

The following table summarizes the off-balance sheet items at December 31, 2014:

	Total	Less Than One Year	One Year to Three Years	Four Years to Five Years	After Five Years
			Maturity by Period (Dollars in thousands)		
Commitment to extend credit:					
Commercial and industrial	$ 342,158	$ 255,545	$ 55,555	$ 16,295	$ 14,763
SBA	358	175	158	25	
Real estate:					
Commercial real estate	63,562	21,806	12,023	25,278	4,455
Construction	52,161	15,578	36,583		
Dairy & livestock and agribusiness (1)	175,399	118,687	56,712		
Consumer and other loans	60,806	5,384	5,276	10,374	39,772
Total Commitment to extend credit	694,444	417,175	166,307	51,972	58,990
Obligations under letters of credit	34,636	31,658	2,778	200	
Total	$ 729,080	$ 448,833	$ 169,085	$ 52,172	$ 58,990

(1) Total commitments to extend credit to agribusiness were $11.0 million at December 31, 2014.

As of December 31, 2014, we had commitments to extend credit of approximately $694.4 million, and obligations under letters of credit of $34.6 million. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. We use the same credit underwriting policies in granting or accepting such commitments or contingent obligations as we do for on-balance sheet instruments, which consist of evaluating customers creditworthiness individually. The Company recorded a reduction in the provision for unfunded loan commitments of $1.3 million for 2014, compared to a provision of $500,000 for 2013. The Company had a reserve for unfunded loan commitments of $7.7 million as of December 31, 2014 and $9.1 million as of December 31, 2013 included in other liabilities.

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

Capital Resources

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources, needs and uses of capital in conjunction with projected increases in assets and the level of risk. As part of this ongoing assessment, the Board of Directors reviews the various components of capital.

The Company s equity capital was $878.1 million at December 31, 2014. This represented an increase of $106.2 million, or 13.76%, from equity capital of $771.9 million at December 31, 2013. The increase in 2014 resulted from $104.0 million in net earnings, a $40.4 million increase in other comprehensive income, net of tax, resulting from the net change in fair value of our investment securities portfolio and $4.2 million for shares issued pursuant to our stock-based compensation plan, offset by $42.4 million for common stock dividends declared.

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The Bank and the Company are required to meet risk-based capital standards set by their respective regulatory authorities. The risk-based capital standards require the achievement of a minimum ratio of total capital to risk-weighted assets of 8.0% (of which at least 4.0% must be Tier 1 capital). In addition, the regulatory authorities require the highest rated institutions to maintain a minimum leverage ratio of 4.0%. To be considered well-capitalized for bank regulatory purposes, the Bank and the Company are required to have a Tier 1 risk-based capital ratio equal to or greater than 6%, a total risk-based capital ratio equal to or greater than 10% and a Tier 1 leverage ratio equal to or greater than 5%. At December 31, 2014, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios required to be considered well-capitalized for regulatory purposes.

For further information about our capital ratios, see Item 1. Business Capital Adequacy Requirements.

During 2014, the Board of Directors of the Company declared quarterly common stock cash dividends that totaled $0.400 per share. Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. CVB s ability to pay cash dividends to its shareholders is subject to restrictions under federal and California law, including restrictions imposed by the Federal Reserve and covenants set forth in various agreements we are a party to including covenants set forth in our junior subordinated debentures.

In July 2008, our Board of Directors authorized the repurchase of up to 10,000,000 shares of our common stock. During 2014, we repurchased 344,493 of shares of our common stock outstanding. As of December 31, 2014, we have 7,420,678 shares of our common stock remaining that are eligible for repurchase.

The table below presents the Company s and the Bank s risk-based and leverage capital ratios as of December 31, 2014, and December 31, 2013.

			December 31, 2014		December 31, 2013	
Capital Ratios	**Adequately Capitalized Ratios**	**Well Capitalized Ratios**	**CVB Financial Corp. Consolidated**	**Citizens Business Bank**	**CVB Financial Corp. Consolidated**	**Citizens Business Bank**
Tier 1 leverage capital ratio	4.00%	5.00%	10.86%	10.77%	11.30%	11.20%
Tier 1 risk-based capital ratio	4.00%	6.00%	16.99%	16.85%	17.83%	17.67%
Total risk-based capital ratio	8.00%	10.00%	18.24%	18.11%	19.09%	18.93%

As a result of recently adopted federal regulatory changes to capital requirements (Basel III), which will become effective for us commencing in 2015, our board of directors, in consultation with management, will continue to assess the adequacy and components of our capital seeks to ensure that we meet all required regulatory standards.

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RISK MANAGEMENT

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

Credit Risk Management

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

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

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

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

The major lending categories are commercial and industrial loans, SBA loans, owner-occupied and non owner-occupied commercial real estate loans, construction loans, dairy and livestock loans, agricultural loans, residential real estate loans, and various consumer loan products. Loans underwritten to borrowers within these diverse categories require underwriting and documentation suited to the unique characteristics and inherent risks involved.

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

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

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

The allowance for loan losses is based upon estimates of probable losses inherent in the loan and lease portfolio. The nature of the process by which we determine the appropriate allowance for loan losses requires the exercise of considerable judgment. The amount actually observed in respect of these losses can vary significantly from the estimated amounts. We employ a systematic methodology that is intended to reduce the differences between estimated and actual losses.

Central to our credit risk management is its loan risk rating system. The originating credit officer assigns borrowers an initial risk rating, which is reviewed and possibly changed by Credit Management. The risk rating is based primarily on an analysis of each borrower s financial capacity in conjunction with industry and economic trends. Credit approvals are made based upon our evaluation of the inherent credit risk specific to the transaction and are reviewed for appropriateness by senior line and Credit Management personnel. Credits are monitored by line and Credit Management personnel for deterioration in a borrower s financial condition, which would impact the ability of the borrower to perform under the contract. Risk ratings may be adjusted as necessary.

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

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

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

In the first phase, individual loans are reviewed to identify loans for impairment. A loan is generally considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan. A loan for which there is an insignificant delay in the amount of payments is not considered an impaired loan. Utilizing one of the three methods described in ASC 310-10-35-22, impairment is measured based on either the expected future cash flows discounted at each loan s effective interest rate, the fair value of the loan s collateral if the loan is collateral dependent, or an observable market price of the loan (if one exists). If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the ALLL or, alternatively, a specific allocation will be established and included in the overall ALLL balance.

The Bank evaluates a loan s collectability from information developed through our loan risk rating system and process, and other sources of information that assist management in monitoring loan performance (e.g. past due loan reports). The Bank then identifies loans for evaluation of impairment and establishes specific allowances in cases where we have identified significant conditions or circumstances related to a credit that we believe indicates the probability that a loss has been incurred. We perform a detailed analysis of these loans, including, but not limited to, cash flows, appraisals of the collateral, conditions of the marketplace for liquidating the collateral and assessment of the guarantors. We then determine the impairment under ASC 310-10, which requires judgment and estimates, and allocate a portion of the allowance for losses as a specific allowance for each of these loans, or charge off the impairment amount as described above. The eventual outcomes may differ from the estimates used to determine the impairment amount.

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

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

- then-existing general economic and business conditions affecting the key lending areas of the Company,
- then-existing economic and business conditions of areas outside the lending areas, such as other sections of the United States,
- credit quality trends (including trends in past due loans, adversely graded loans, and nonperforming loans expected to result from existing conditions),
- collateral values, including changes in the value of underlying collateral for collateral-dependent loans.
- the existence and effect of any concentrations of credit, and changes in the level of such concentrations,
- changes in loan volumes,
- specific industry conditions within portfolio segments,
- recent loss experience in particular segments of the portfolio,
- duration of the current business cycle,
- the effect of external factors such as legal and regulatory requirements, including bank regulatory examination results and findings of the Company s external credit examiners.

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

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

ASSET/LIABILITY AND MARKET RISK MANAGEMENT

Liquidity and Cash Flow

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

In general, liquidity risk is managed daily by controlling the level of fed funds and the use of funds provided by the cash flow from the investment portfolio, loan demand and deposit fluctuations. To meet unexpected demands, lines of credit are maintained with correspondent banks, the Federal Home Loan Bank and the Federal Reserve. The sale of bonds maturing in the near future can also serve as a contingent source of funds. Increases in deposit rates are considered a last resort as a means of raising funds to increase liquidity.

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

Since the primary sources and uses of funds for the Company are loans and deposits, the relationship between gross loans and total deposits provides a useful measure of the Bank s liquidity. Typically, the closer the ratio of loans to deposits is to 100%, the more reliant we are on loan portfolio interest and principal payments to provide for short-term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loans to deposit ratio the less liquid are the Company s assets. For 2014, the loan to deposit ratio averaged 66.61%, compared to an average ratio of 70.64% for 2013 and 72.95% for 2012. The ratio of loans to deposits and customer repurchases averaged 59.76% for 2013, 63.46% for 2013 and 65.98% for 2012.

CVB is a company separate and apart from the Bank that must provide for its own liquidity and must service its own obligations. Substantially all of CVB s revenues are obtained from dividends declared and paid by the Bank to CVB. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to CVB. In addition, our regulators could limit the ability of the Bank or CVB to pay dividends or make other distributions.

Under applicable California law, the Bank cannot make any distribution (including a cash dividend) to its shareholder in an amount which exceeds the lesser of: (i) the retained earnings of the Bank or (ii) the net income of the Bank for its last three fiscal years, less the amount of any distributions made by the Bank to its shareholder during such period. Notwithstanding the foregoing, with the prior approval of the California Commissioner of Financial Institutions, the Bank may make a distribution (including a cash dividend) to CVB in an amount not exceeding the greater of: (i) the retained earnings of the Bank; (ii) the net income of the Bank for its last fiscal year; or (iii) the net income of the Bank for its current fiscal year.

At December 31, 2014, approximately $98.0 million of the Bank s equity was unrestricted and available to be paid as dividends to CVB. Management of the Company believes that such restrictions will not have any current impact on the ability of CVB to meet its ongoing cash obligations. See Item 1. Business Regulation and Supervision Dividends. As of December 31, 2014, neither the Bank nor CVB had any material commitments for capital expenditures.

For the Bank, sources of funds include principal payments on loans and investments, growth in deposits, FHLB advances, and other borrowed funds. Uses of funds include withdrawal of deposits, interest paid on deposits, increased loan balances, purchases, and noninterest expenses.

Net cash provided by operating activities totaled $87.7 million for 2014, compared to $111.8 million and $154.8 million for 2013 and 2012, respectively. The decrease in cash provided by operating activities for 2014 was primarily attributed to an increase in vendor and employee payments and an increase in income taxes paid, partially offset by an increase in interest and dividends received.

Net cash used in investing activities totaled $268.5 million for 2014, compared to $378.5 million and $221.1 million for 2013 and 2012, respectively. The decrease in cash used in investing activities for 2014 was primarily the result of a decrease in purchases of investment securities, a decrease in loan and lease finance receivables, an increase in proceeds from maturity of interest-earning balances with other depository institutions and the acquisition of ASB, net of cash paid, partially offset by a decrease in proceeds from repayment, maturity and sale of investment securities.

Net cash provided by financing activities totaled $191.9 million for 2014, compared to $262.9 million for 2013 and net cash used in financing activities of $180.6 million for 2012. The decrease in cash provided by financing activities for 2014 was primarily due to a decrease in customer repurchase agreements and repayment of other borrowings, partially offset by an increase in deposits and repayment of junior subordinated debentures in 2013.

At December 31, 2014, cash and cash equivalents totaled $105.8 million. This represented an increase of $11.1 million, or 11.70%, over a total of $94.7 million at December 31, 2013.

Market Risk

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

The table below provides the actual balances as of December 31, 2014 of interest-earning assets and interest-bearing liabilities, including the average rate earned or paid for 2014, the projected contractual maturities over the next five years, and the estimated fair value of each category determined using available market information and appropriate valuation methodologies.

	December 31, 2014	Average Rate	Maturing One Year	Two Years	Three Years	Four Years	Five Years and Beyond	Estimated Fair Value
				(Dollars in thousands)				
Interest-earning assets:								
Investment securities available-for-sale (1)	$ 3,137,158	2.61%	$ 250,393	$ 301,989	$ 239,629	$ 1,277,028	$ 1,068,119	$ 3,137,158
Investment securities held-to-maturity	1,528	5.07%				1,528		2,177
Investment in FHLB stock	25,338	7.68%					25,338	25,338
Interest-earning deposits with other institutions	27,118	0.35%	27,118					27,118
Loans and lease finance receivables (2)	3,824,196	4.87%	604,842	279,481	255,907	258,100	2,425,866	3,794,454
Total interest-earning assets	$ 7,015,338		$ 882,353	$ 581,470	$ 495,536	$ 1,536,656	$ 3,519,323	$ 6,986,245
Interest-bearing liabilities:								
Interest-bearing deposits	$ 2,738,293	0.19%	$ 2,714,235	$ 15,506	$ 1,610	$ 856	$ 6,086	$ 2,739,221
Borrowings	809,106	1.34%	609,627		199,479			822,607
Junior subordinated debentures	25,774	1.63%					25,774	26,005
Total interest-bearing liabilities	$ 3,573,173		$ 3,323,862	$ 15,506	$ 201,089	$ 856	$ 31,860	$ 3,587,833

(1) These include mortgage-backed securities which generally prepay before maturity.
(2) Gross loans, net of deferred loan fees. Average rate does not reflect discount accretion on PCI loans. The estimated fair value is net of PCI discount and allowance for loan losses.

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Interest Rate Sensitivity Management

During periods of changing interest rates, the ability to re-price interest-earning assets and interest-bearing liabilities can influence net interest income, the net interest margin, and consequently, our earnings. Interest rate risk is managed by attempting to control the spread between rates earned on interest-earning assets and the rates paid on interest-bearing liabilities within the constraints imposed by market competition in our service area. Short-term re-pricing risk is minimized by controlling the level of floating rate loans and maintaining a downward sloping ladder of bond payments and maturities. Basis risk is managed by the timing and magnitude of changes to interest-bearing deposit rates. Yield curve risk is reduced by keeping the duration of the loan and bond portfolios relatively short. Options risk in the bond portfolio is monitored monthly and actions are recommended when appropriate.

We monitor the interest rate sensitivity risk to earnings from potential changes in interest rates using various methods, including a maturity/re-pricing gap analysis. This analysis measures, at specific time intervals, the differences between earning assets and interest-bearing liabilities for which re-pricing opportunities will occur. A positive difference, or gap, indicates that earning assets will re-price faster than interest-bearing liabilities. This will generally produce a greater net interest margin during periods of rising interest rates, and a lower net interest margin during periods of declining interest rates. Conversely, a negative gap will generally produce a lower net interest margin during periods of rising interest rates and a greater net interest margin during periods of decreasing interest rates. In managing risks associated with rising interest rates, we utilize interest rate derivative contracts on certain loans and borrowed funds.

The table below provides the Bank s maturity/re-pricing gap analysis at December 31, 2014, and 2013. We had a negative cumulative 180-day gap of $1.1 billion and a negative cumulative 365-days gap of $580.3 million at December 31, 2014. This represented an increase of $124.3 million, over the 180-day cumulative negative gap of $967.1 million at December 31, 2013. In theory, this would indicate that at December 31, 2014, $1.1 billion more in liabilities than assets would re-price if there were a change in interest rates over the next 180 days. If interest rates increase, the negative gap would tend to result in a lower net interest margin. If interest rates decrease, the negative gap would tend to result in an increase in the net interest margin. However, we do have the ability to anticipate the increase in deposit rates, and the ability to extend interest-bearing liabilities, offsetting, in part, the negative gap.

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Asset and Liability Maturity/Repricing Gap

	December 31, 2014				
	90 days or less	Over 90 days to 180 days	Over 180 days to 365 days	Over 365 days	Total
	(Dollars in thousands)				
Earning Assets:					
Interest-earning deposits with other institutions	$ 12,027	$ 1,288	$ 21,458	$ 3,083	$ 37,856
Investment securities at carrying value	157,015	132,592	289,840	2,559,239	3,138,686
Loans held-for-sale					
Gross loans, net of deferred fees	1,083,302	187,297	355,433	2,198,164	3,824,196
Total	$ 1,252,344	$ 321,177	$ 666,731	$ 4,760,486	$ 7,000,738
Interest-Bearing Liabilities:					
Savings deposits	$ 1,374,131	$ 29,695	$ 54,966	$ 503,294	$ 1,962,086
Time deposits	550,829	100,681	100,639	24,058	776,207
FHLB advances and other borrowings	609,627			199,479	809,106
Junior subordinated debentures				25,774	25,774
Total	$ 2,534,587	$ 130,376	$ 155,605	$ 752,605	$ 3,573,173
Period GAP	$ (1,282,243)	$ 190,801	$ 511,126	$ 4,007,882	$ 3,427,565
Cumulative GAP	$ (1,282,243)	$ (1,091,442)	$ (580,316)	$ 3,427,565	

	December 31, 2013				
	90 days or less	Over 90 days to 180 days	Over 180 days to 365 days	Over 365 days	Total
	(Dollars in thousands)				
2013					
Earning Assets:					
Interest-earning deposits with other institutions	$ 5,917	$	$ 70,000	$	$ 75,917
Investment securities at carrying value	128,716	91,941	191,730	2,253,032	2,665,419
Loans held-for-sale	3,667				3,667
Gross loans, net of deferred fees	1,046,903	152,211	275,443	2,084,463	3,559,020
Total	$ 1,185,203	$ 244,152	$ 537,173	$ 4,337,495	$ 6,304,023
Interest-Bearing Liabilities:					
Savings deposits	$ 1,088,875	$	$	$ 557,236	$ 1,646,111
Time deposits	475,383	94,192	95,478	16,487	681,540
FHLB advances and other borrowings	712,251			199,206	911,457
Junior subordinated debentures	25,774				25,774
Total	$ 2,302,283	$ 94,192	$ 95,478	$ 772,929	$ 3,264,882
Period GAP	$ (1,117,080)	$ 149,960	$ 441,695	$ 3,564,566	$ 3,039,141

Cumulative GAP	$ (1,117,080)	$ (967,120)	$ (525,425)	$ 3,039,141

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The interest rates paid on deposit accounts do not always move in unison with the rates charged on loans. In addition, the magnitude of changes in the rates charged on loans is not always proportionate to the magnitude of changes in the rate paid on deposits. Consequently, changes in interest rates do not necessarily result in an increase or decrease in the net interest margin solely as a result of the differences between re-pricing opportunities of earning assets or interest-bearing liabilities. In general, whether we report a positive gap in the short-term period or negative gap in the long-term period does not necessarily indicate that, if interest rates decreased, net interest income would increase, or if interest rates increased, net interest income would decrease.

Approximately $2.22 billion, or 71%, of the total investment portfolio at December 31, 2014 consisted of securities backed by mortgages. The final maturity of these securities can be affected by the speed at which the underlying mortgages repay. Mortgages tend to repay faster as interest rates fall, and slower as interest rates rise. As a result, we may be subject to a prepayment risk resulting from greater funds available for reinvestment at a time when available yields are lower. Conversely, we may be subject to extension risk resulting, as lesser amounts would be available for reinvestment at a time when available yields are higher. Prepayment risk includes the risk associated with the payment of an investment s principal faster than originally intended. Extension risk is the risk associated with the payment of an investment s principal over a longer time period than originally anticipated. In addition, there can be greater risk of price volatility for mortgage-backed securities as a result of anticipated prepayment or extension risk.

We utilize the results of a simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. The sensitivity of our net interest income is measured over a rolling two-year horizon.

The simulation model estimates the impact of changing interest rates on interest income from all interest-earning assets and interest expense paid on all interest-bearing liabilities reflected on our balance sheet. This sensitivity analysis is compared to policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon assuming no balance sheet growth, given a 200 basis point upward and a 100 basis point downward shift in interest rates. A parallel and pro rata shift in rates over a 12-month period is assumed.

The following depicts the Company s net interest income sensitivity analysis as of December 31, 2014:

Simulated Rate Changes	Estimated Net Interest Income Sensitivity (1)
+ 200 basis points	(2.79%)
- 100 basis points	(0.84%)

(1) Changes from the base case for a 12-month period.

Based on our current models, we believe that the interest rate risk profile of the balance sheet is matched with asset sensitive bias over a two year horizon. The estimated sensitivity does not necessarily represent a forecast and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions including how customer preferences or competitor influences might change.

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Counterparty Risk

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

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

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

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

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

- We have no significant exposure to our Cash Surrender Value of Life Insurance since the Cash Surrender Value balance is with insurance companies that carry an AM Best rating of A- or greater and one company is not rated.

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

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

- We have $461.0 million in Fed Funds lines of credit with other banks. All of these banks are major U.S. banks, each with over $20.0 billion in assets. We rely on these funds for overnight borrowings. We currently have no outstanding Fed Funds balance.

- Our secured borrowing capacity with the FHLB was $2.86 billion, of which $2.66 billion was available as of December 31, 2014.

Transaction Risk

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

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

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

Compliance Risk

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

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

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

Our Risk Management Policy and Program includes an audit program aimed at identifying problems and ensuring that problems are corrected. The audit program includes two levels of review. One is in-depth audits performed by our internal audit department under the direction of the Chief Auditor and supplemented by independent external firms, and the other is periodic monitoring performed by the Risk Management Division. Each year, an Audit Plan for the Company is developed and approved by the Audit Committee of the Board.

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

The Risk Management Division conducts periodic monitoring of our compliance efforts with a special focus on those areas that expose us to compliance risk. The purpose of the periodic monitoring is to verify whether our associates are adhering to established policies and procedures. The Chief Risk Officer will notify the appropriate department head and the Management Compliance Committee, the Audit Committee and the Risk Management Committee of any material exceptions found and noted.

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

Strategic Risk

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

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

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

1. Banks of comparable size

2. High performing banks

3. A list of specific banks

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

The corporate strategic plan is formally presented to all center managers and department managers at an annual leadership conference.

Cybersecurity Risk

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

Price and Foreign Exchange Risk

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

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

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

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

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

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

Market risk is the risk of loss from adverse changes in the market prices and interest rates. Our market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities. We currently do not enter into futures, forwards, or option contracts. For quantitative and qualitative disclosures about market risks in our portfolio, see Asset/Liability Management and Interest Rate Sensitivity Management included in Item 7 Management s Discussion and Analysis of Financial Condition and the Results of Operations presented elsewhere in this report. Our analysis of market risk and market-sensitive financial information contain forward looking statements and is subject to the disclosure at the beginning of Part I regarding such forward-looking information.

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ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

CVB Financial Corp.

Index to Consolidated Financial Statements

and Financial Statement Schedules

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

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

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None

ITEM 9A. ***CONTROLS AND PROCEDURES***

1) Management s Report on Internal Control over Financial Reporting

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

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

As of December 31, 2014, management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2014 is effective. KPMG LLP, an independent registered public accounting firm, has issued their report on the effectiveness of internal control over financial reporting as of December 31, 2014.

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2) Auditor attestation

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

CVB Financial Corp.:

We have audited CVB Financial Corp. and subsidiaries internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CVB Financial Corp. and subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, CVB Financial Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVB Financial Corp. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of earnings and comprehensive income, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 2, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California

March 2, 2015

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3) Changes in Internal Control over Financial Reporting

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

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

During the fiscal quarter ended December 31, 2014, there have been no changes in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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

None.

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PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

Except as hereinafter noted, the information concerning directors and executive officers of the Company, corporate governance and our audit committee financial experts is incorporated by reference from the section entitled Discussion of Proposals recommended by the Board Proposal 1: Election of Directors and Beneficial Ownership Reporting Compliance, Corporate Governance Principles and Board Matters, and Audit Committee of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year. For information concerning the executive officers of the Company, see Item 4A of Part I hereto.

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

ITEM 11. ***EXECUTIVE COMPENSATION***

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

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

The following table summarizes information as of December 31, 2014 relating to our equity compensation plans pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

Equity Compensation Plan Information

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	1,688,326	$ 10.92	10,821,822
Equity compensation plans not approved by security holders		$	
Total	1,688,326	$ 10.92	10,821,822

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

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

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

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

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

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PART IV

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

(a) (1) All Financial Statements
Reference is made to the Index to Financial Statements on page 86 for a list of financial statements filed as part of this Annual Report on Form 10-K.

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

(3) Exhibits
The listing of exhibits required by this item is set forth in the Index to Exhibits on page 156 of this Annual Report on Form 10-K.

(b) Exhibits
See Index to Exhibits on Page 156 of this Form 10-K.

(c) Financial Statement Schedules
There are no financial statement schedules required by Regulation S-X that have been excluded from the annual report to shareholders.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 2nd day of March 2015.

CVB FINANCIAL CORP.

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

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

Signature	Title	Date
/s/ RAYMOND V. O BRIEN III	Chairman of the Board	March 2, 2015
Raymond V. O Brien III		
/s/ GEORGE. A. BORBA, JR.	Vice Chairman	March 2, 2015
George A. Borba, Jr.		
/s/ STEPHEN A. DEL GUERCIO	Director	March 2, 2015
Stephen A. Del Guercio		
/s/ ROBERT M. JACOBY	Director	March 2, 2015
Robert M. Jacoby		
/s/ HAL W. OSWALT	Director	March 2, 2015
Hal W. Oswalt		
/s/ SAN E. VACCARO	Director	March 2, 2015
San E. Vaccaro		
/s/ CHRISTOPHER D. MYERS	Director, President and	March 2, 2015
Christopher D. Myers	Chief Executive Officer	
	(Principal Executive Officer)	
/s/ RICHARD C. THOMAS	Chief Financial Officer	March 2, 2015
Richard C. Thomas	(Principal Financial and	
	Accounting Officer)	

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	December 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 95,030	$ 88,776
Interest-earning balances due from Federal Reserve	10,738	5,917
Total cash and cash equivalents	105,768	94,693
Interest-earning balances due from depository institutions	27,118	70,000
Investment securities available-for-sale, at fair value (with amortized cost of $3,083,582 at December 31, 2014, and $2,679,727 at December 31, 2013)	3,137,158	2,663,642
Investment securities held-to-maturity	1,528	1,777
Investment in stock of Federal Home Loan Bank (FHLB)	25,338	32,331
Loans held-for-sale		3,667
Loans and lease finance receivables	3,817,067	3,546,231
Allowance for loan losses	(59,825)	(75,235)
Net loans and lease finance receivables	3,757,242	3,470,996
Premises and equipment, net	33,591	32,831
Bank owned life insurance	126,927	123,168
Accrued interest receivable	23,194	22,051
Intangibles	3,214	2,261
Goodwill	74,244	55,097
FDIC loss sharing asset	299	4,764
Other real estate owned	5,637	6,979
Income taxes	31,461	59,786
Other assets	25,201	20,924
TOTAL ASSETS	$ 7,377,920	$ 6,664,967
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 2,866,365	$ 2,562,980
Interest-bearing	2,738,293	2,327,651
Total deposits	5,604,658	4,890,631
Customer repurchase agreements	563,627	643,251
FHLB advances	199,479	199,206
Other borrowings	46,000	69,000
Accrued interest payable	1,161	1,111
Deferred compensation	10,291	9,449
Junior subordinated debentures	25,774	25,774
Payable for securities purchased		3,533
Other liabilities	48,821	51,125
TOTAL LIABILITIES	6,499,811	5,893,080

COMMITMENTS AND CONTINGENCIES				
Stockholders Equity:				
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 105,893,216 at December 31, 2014, and 105,370,170 at December 31, 2013.		495,220		491,068
Retained earnings		351,814		290,149
Accumulated other comprehensive income, net of tax		31,075		(9,330)
Total stockholders equity		878,109		771,887
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	7,377,920	$	6,664,967

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share data)

	For the Year Ended December 31, 2014	2013	2012
Interest income:			
Loans and leases, including fees	$ 181,619	$ 179,631	$ 205,753
Investment securities:			
Taxable	47,465	28,374	32,025
Tax-advantaged	20,913	22,025	22,718
Total investment income	68,378	50,399	54,743
Dividends from FHLB stock	2,130	2,033	671
Federal funds sold	427	221	616
Interest-earning deposits with other institutions	349	489	439
Total interest income	252,903	232,773	262,222
Interest expense:			
Deposits	4,977	4,887	5,911
Borrowings	10,991	10,999	16,662
Junior subordinated debentures	421	621	2,699
Total interest expense	16,389	16,507	25,272
Net interest income before provision for loan losses	236,514	216,266	236,950
(Recapture of) provision for loan losses	(16,100)	(16,750)	
Net interest income after provision for loan losses	252,614	233,016	236,950
Noninterest income:			
Service charges on deposit accounts	15,778	15,923	16,106
Trust and investment services	8,118	8,071	8,169
Bankcard services	3,386	3,481	3,650
BOLI income	2,428	2,511	2,973
Gain on sale of loans held-for-sale	6,001		
Gain on sale of investment securities, net		2,094	
Decrease in FDIC loss sharing asset, net	(3,591)	(12,860)	(21,916)
Gain on OREO, net	1,020	3,131	1,544
Other	3,272	2,936	5,377
Total noninterest income	36,412	25,287	15,903
Noninterest expense:			
Salaries and employee benefits	77,118	71,015	68,496
Occupancy and equipment	15,264	14,504	15,473
Professional services	6,018	5,709	7,170
Software licenses and maintenance	4,464	4,671	4,279
Promotion	5,195	4,681	4,869
Provision for unfunded loan commitments	(1,250)	500	(1,000)
Amortization of intangible assets	1,137	1,127	2,159
Debt termination expense			20,379
OREO expense	307	856	2,146
Insurance reimbursements	(372)	(4,155)	(921)
Acquisition related expenses	1,973		

Other	16,375	15,120	15,110
Total noninterest expense	126,229	114,028	138,160
Earnings before income taxes	162,797	144,275	114,693
Income taxes	58,776	48,667	37,413
Net earnings	$ 104,021	$ 95,608	$ 77,280
Other comprehensive (loss) income:			
Unrealized (loss) gain on securities arising during the period	$ 69,661	$ (88,562)	$ 3,074
Less: Reclassification adjustment for net gain on securities included in net income		(2,094)	
Other comprehensive (loss) income, before tax	69,661	(90,656)	3,074
Less: income tax benefit (expense) related to items of other comprehensive income	(29,256)	38,075	(1,292)
Other comprehensive (loss) income, net of tax	40,405	(52,581)	1,782
Comprehensive income	$ 144,426	$ 43,027	$ 79,062
Basic earnings per common share	$ 0.98	$ 0.91	$ 0.74
Diluted earnings per common share	$ 0.98	$ 0.91	$ 0.74
Cash dividends declared per common share	$ 0.400	$ 0.385	$ 0.340

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars and shares in thousands)

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance January 1, 2012	104,482	479,973	193,372	41,469	714,814
Repurchase of common stock	(5)	(54)			(54)
Exercise of stock options	292	2,557			2,557
Tax benefit from exercise of stock options		194			194
Shares issued pursuant to stock-based compensation plan	121	2,039			2,039
Cash dividends declared on Common ($0.340 per share)			(35,642)		(35,642)
Net earnings			77,280		77,280
Other comprehensive income				1,782	1,782
Balance December 31, 2012	104,890	484,709	235,010	43,251	762,970
Repurchase of common stock	(42)	(559)			(559)
Exercise of stock options	428	4,517			4,517
Tax benefit from exercise of stock options		475			475
Shares issued pursuant to stock-based compensation plan	94	1,926			1,926
Cash dividends declared on Common ($0.385 per share)			(40,469)		(40,469)
Net earnings			95,608		95,608
Other comprehensive income				(52,581)	(52,581)
Balance December 31, 2013	105,370	491,068	290,149	(9,330)	771,887
Repurchase of common stock	(384)	(5,474)			(5,474)
Exercise of stock options	512	5,522			5,522
Tax benefit from exercise of stock options		1,116			1,116
Shares issued pursuant to stock-based compensation plan	395	2,988			2,988
Cash dividends declared on Common ($0.400 per share)			(42,356)		(42,356)
Net earnings			104,021		104,021
Other comprehensive income (loss)				40,405	40,405
Balance December 31, 2014	105,893	$ 495,220	$ 351,814	$ 31,075	$ 878,109

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Year Ended December 31, 2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and dividends received	$ 263,878	$ 244,205	$ 264,482
Service charges and other fees received	34,527	30,494	36,399
Interest paid	(16,067)	(16,616)	(27,034)
Net cash paid to vendors and employees	(134,913)	(93,076)	(130,605)
Income taxes paid	(58,589)	(53,200)	(7,455)
(Payments to) proceeds from FDIC loss share agreement	(1,134)	4	18,974
Net cash provided by operating activities	87,702	111,811	154,761
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from redemption of FHLB stock	10,413	24,320	16,038
Proceeds from maturity of interest-earning balances from depository institutions	63,687		
Purchases of interest-earning balances from depository institutions	(10,000)		
Proceeds from sale of investment securities		99,155	
Proceeds from repayment of investment securities	349,473	414,881	559,187
Proceeds from maturity of investment securities	75,916	80,546	84,345
Purchases of investment securities	(805,544)	(920,657)	(942,710)
Net (increase) decrease in loan and lease finance receivables	(16,767)	(87,276)	48,001
Proceeds from sale of loans	9,668		
Proceeds from sales of premises and equipment	663	25	27
Purchase of premises and equipment	(1,893)	(2,421)	(4,271)
Proceeds from sales of other real estate owned	5,825	12,971	18,295
Cash acquired on purchase of American Security Bank, net of cash paid	50,038		
Net cash used in investing activities	(268,521)	(378,456)	(221,088)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in transaction deposits	291,005	149,271	292,422
Net increase (decrease) in time deposits	44,647	(32,627)	(122,983)
Repayment of FHLB advances			(250,000)
Repayment of junior subordinated debentures		(41,238)	(48,043)
Net (decrease) increase in other borrowings	(23,000)	43,000	26,000
Net (decrease) increase in customer repurchase agreements	(79,624)	170,007	(36,126)
Cash dividends on common stock	(42,298)	(29,939)	(44,552)
Repurchase of common stock	(5,474)	(559)	(54)
Proceeds from exercise of stock options	5,522	4,517	2,557
Tax benefit related to exercise of stock options	1,116	475	194
Net cash provided by (used in) financing activities	191,894	262,907	(180,585)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,075	(3,738)	(246,912)
CASH AND CASH EQUIVALENTS, beginning of period	94,693	98,431	345,343
CASH AND CASH EQUIVALENTS, end of period	$ 105,768	$ 94,693	$ 98,431

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CVB FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

	For the Year Ended December 31, 2014	2013	2012
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net earnings	$ 104,021	$ 95,608	$ 77,280
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Gain on sale of loans held-for-sale	(6,001)		
Gain on sale of investment securities		(2,094)	
Loss (gain) on sale of premises and equipment, net	66	(14)	70
Gain on sale of other real estate owned	(957)	(3,048)	(1,393)
Amortization of capitalized prepayment penalty on borrowings	273	272	272
Increase in bank owned life insurance	(2,314)	(2,435)	(3,612)
Net amortization of premiums and discounts on investment securities	21,020	27,064	24,082
Accretion of PCI discount	(5,825)	(12,856)	(22,607)
Provision for loan losses	(16,100)	(16,750)	
Provision for unfunded loan commitments	(1,250)	500	(1,000)
Valuation adjustment on other real estate owned	65	489	1,047
Change in FDIC loss share asset	3,591	12,860	21,916
(Payments to) proceeds from FDIC loss share agreement	(1,134)	4	18,974
Stock-based compensation	2,988	1,926	2,039
Depreciation and amortization, net	559	2,449	7,532
Change in accrued interest receivable	(419)	304	1,157
Change in accrued interest payable	5	(382)	(2,033)
Change in other assets and liabilities	(10,886)	7,914	31,037
Total adjustments	(16,319)	16,203	77,481
Net cash provided by operating activities	$ 87,702	$ 111,811	$ 154,761
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES			
Securities purchased and not settled	$	$ 3,533	$
Transfer of loans to other real estate owned	$ 1,963	$ 1,492	$ 10,246
Transfer of loans held for investment to loans held-for-sale	$	$ 3,667	$

See accompanying notes to the consolidated financial statements.

CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE YEARS ENDED DECEMBER 31, 2014

1. BUSINESS

The consolidated financial statements include the accounts of CVB Financial Corp. (referred to herein on an unconsolidated basis as CVB and on a consolidated basis as we, our or the Company) and its wholly owned subsidiaries: Citizens Business Bank (the Bank or CBB) after elimination of all intercompany transactions and balances. The Company has one inactive subsidiary, Chino Valley Bancorp. The Company is also the common stockholder of CVB Statutory Trust III. CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. In accordance with ASC 810 Consolidation (previously Financial Accounting Standards Board (FASB) Interpretation No. 46R Consolidation of Variable Interest Entities), this trust does not meet the criteria for consolidation.

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

On May 15, 2014, we acquired American Security Bank (ASB), a Newport Beach, CA headquartered regional bank with approximately $433 million in total assets and five branch locations throughout Orange County, San Bernardino County, and Los Angeles County. Our consolidated financial statements for 2014 include ASB operations, post-merger. In the latter half of the third quarter of 2014, we converted the ASB core operating system into the CBB application infrastructure, consolidated branch locations, and closed two electronic banking vestibules. See Note 4 Business Combinations, included herein.

2. BASIS OF PRESENTATION

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Loans Held-for-Sale Loans held-for-sale include loans transferred from our held-for-investment portfolio when a decision is made to sell a loan(s) and are reported at the lower of cost or fair value and if a reduction in value is required at time of the transfer, a charge-off is recorded against the allowance for loan losses (ALLL). Normally a formal marketing strategy or plan for sale is developed at the time the decision to sell the loan(s) is made. Any subsequent decline in value or any subsequent gain on sale of the loan(s) is recorded to current earnings and reported as part of other noninterest income. Gains or losses on the sale of loans that are held-for-sale are recognized at the time of sale and determined by the difference between net sale proceeds and the net book value of the loans. We do not currently retain servicing on any loans sold.

Loans and Lease Finance Receivables Loans and lease finance receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, less deferred net loan origination fees and purchase price discounts. Purchase Credit Impaired (PCI) loans are those loans that when we acquired them were deemed to be impaired. PCI loans are included in total loans and lease finance receivables as of December 31, 2014. Refer to Note 7, Loans and Lease Finance Receivables for total loans, excluding PCI loans, by type and to Note 6, Acquired SJB Assets and FDIC Loss Sharing Asset for PCI loans by type.

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

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

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

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

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

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

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

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

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

2. The delay is insignificant relative to any of the following:

   - The frequency of payments due;
   - The debt s original contractual maturity; or
   - The debt s original expected duration.

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

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

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

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

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

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

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

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

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

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

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

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

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

In the fourth quarter ended December 31, 2013, the Bank implemented a change in its methodology to calculate the Allowance for Loan and Lease Losses (ALLL). Previously, the Bank used an annual three-year look-back period of historical losses, segmented by loan type, with the loss factors updated annually to include the current year s loss experience in the fourth quarter of each year. In the selection of an appropriate look-back period, management considered that its historical loss experience was low in the most recent three year period and higher in the past fourth and fifth year. The three-year average loss factor for 2011 to 2013 would have been less than the previously used 2010 to 2012 three-year average loss factor. External factors that were considered were the improving credit environment and the stabilizing economy. The impact on our methodology was to reduce the volatility of credit losses. In determining the look-back period, management considered the period used to develop the historical loss rate should be long enough to capture sufficient loss data. We determined that a rolling twenty quarters look-back period was appropriate as of December 31, 2013 because we believe it represents the best indicator of inherent losses within the loan portfolio as many of the economic factors in the early stages of the economic recovery still exist.

Purchase Credit Impaired Loans Purchase Credit Impaired (PCI) loans are those loans that we acquired in the San Joaquin Bank (SJB) acquisition for which we were covered for reimbursement for a substantial portion of any future losses under the terms of the FDIC loss sharing agreement. We account for PCI loans under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (acquired impaired loan accounting) when (i) we acquire loans deemed to be impaired when there is evidence of credit deterioration since their origination and it is probable at the date of acquisition that we would be unable to collect all contractually required payments and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition. Acquired impaired loans are accounted for individually or in pools of loans based on common risk characteristics. The excess of the loan s or pool s scheduled contractual principal and interest payments over all cash flows expected at acquisition is the nonaccretable difference. The remaining amount, representing the excess of the loan s cash flows expected to be collected over the fair value is the accretable yield (accreted into interest income over the remaining life of the loan or pool). Refer to Note 6 Acquired SJB Assets and FDIC Loss Sharing Asset for PCI loans by type at December 31, 2014.

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

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

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

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

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

Bank premises	15 40 years
Leasehold improvements	Shorter of estimated economic lives of 15 years or term of the lease.
Computer equipment	3 5 years
Furniture, fixtures and equipment	5 7 years

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

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

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheets. Based on the Company s annual impairment test, there was zero recorded impairment as of December 31, 2014.

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

Fair Value of Financial Instruments We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Investment securities available-for-sale and interest-rate swaps are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a non-recurring basis, such as impaired loans and OREO. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets. Further, we include in Note 20 Fair Value

Information of the consolidated financial statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value we disclose the estimate of their fair value.

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

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

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

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

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

At December 31, 2014, the Company has three stock-based employee compensation plans. The Company accounts for stock compensation using the modified prospective method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are measured at fair value as of the grant date with compensation costs recognized over the vesting period on a straight-lined basis. Also under this method, unvested stock awards as of January 1, 2006 are recognized over the remaining service period with no change in historical reported earnings.

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

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

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

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

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

CitizensTrust This division provides trust, investment and brokerage related services, as well as financial, estate and business succession planning services. CitizensTrust services its clients through three offices in Southern California: Pasadena, Ontario and Newport Beach. CitizensTrust has approximately $2.41 billion in assets under administration, including $1.87 billion in assets under management. The amount of these funds and the related liability have not been recorded in the accompanying consolidated balance sheets because they are not assets or liabilities of the Bank or Company, with the exception of any funds held on deposit with the Bank.

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

Other Contingencies In the ordinary course of business, the Company becomes involved in litigation. Based upon the Company s internal records and discussions with legal counsel, the Company records reserves as appropriate, for estimates of the probable outcome of all cases brought against the Company. Except as discussed in Note 15 Commitments and Contingencies at December 31, 2014, the Company does not have any litigation reserves and is not aware of any material pending legal action or complaints asserted against the Company.

Recent Accounting Pronouncements In January 2014, the FASB issued ASU No. 2014-01, Investments Equity Method and Joint Ventures (Topic 323) Accounting for Investments in Qualified Affordable Housing Projects. This ASU allows reporting entities to make an accounting policy election concerning investments in Low Income Housing Tax Credit (LIHTC) programs, that meet specified conditions, to present the net tax benefits (net of the amortization of the cost of the investment) within income tax expense. The cost of LIHTC investments, that meet the specified conditions, may be amortized in proportion to the total expected tax benefits, including the tax credits and other tax benefits, as they are realized on the tax return. This ASU is effective beginning after December 15, 2014. This ASU is required to be applied retrospectively, if investors elect the proportional amortization method. However, if investors have existing LIHTC investments accounted for under the effective-yield method at adoption, they may continue to apply that method for those existing investments. The adoption of this new guidance is not expected to have a material impact on the Company s consolidated financial statements.

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In January 2014, the FASB issued ASU No. 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. This ASU clarifies when a creditor should reclassify mortgage loans collateralized by residential real estate from loans receivable to other real estate owned. ASU 2014-04 defines when an in-substance repossession or foreclosure has occurred and when a creditor is considered to have received physical possession of residential real estate collateralizing a mortgage loan. This ASU is effective for us on January 1, 2015 and can be applied either prospectively or using a modified retrospective transition method, and early adoption is permitted. The adoption of this new guidance is not expected to have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) . This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 Revenue Recognition and most industry-specific guidance. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The amendments in ASU 2014-9 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early application is not allowed. The adoption of this new guidance is not expected to have a material impact on the Company s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Compensation Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Services Period . The amendments in ASU 2014-12 provide guidance for determining compensation cost under specific circumstances when an employee is eligible to vest in an award regardless of whether the employee is rendering service on the date the performance target is achieved. ASU 2014-12 becomes effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted. The Company is currently evaluating the effects of ASU 2014-12 on its consolidated financial statements and disclosures, if any.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern . The new guidance addresses management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. Management s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ASU 2014-15 will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

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

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4. BUSINESS COMBINATIONS

American Security Bank Acquisition

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

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

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

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

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

5. INVESTMENT SECURITIES

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

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

	December 31, 2013				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
			(Dollars in thousands)		
Investment securities available-for-sale:					
Government agency	$ 350,378	$ 22	$ (23,875)	$ 326,525	12.26%
Residential mortgage-backed securities	1,391,631	13,100	(24,788)	1,379,943	51.81%
CMOs / REMICs residential	361,573	6,576	(1,974)	366,175	13.75%
Municipal bonds	571,145	18,839	(3,893)	586,091	22.00%
Other securities	5,000		(92)	4,908	0.18%
Total	$ 2,679,727	$ 38,537	$ (54,622)	$ 2,663,642	100.00%

Approximately 81% of the available-for-sale portfolio at December 31, 2014 represents securities issued by the U.S government or U.S. government-sponsored enterprises, with the implied guarantee of payment of principal and interest. All non-agency available-for-sale CMO/REMIC issues held are rated investment grade or better by either Standard & Poor s or Moody s, as of December 31, 2014 and 2013. At December 31, 2014, the Bank had $343,000 in CMO/REMIC s backed by whole loans issued by private-label companies (non-government sponsored).

During 2013, management identified 13 securities with a par value of $94.2 million that were experiencing accelerated prepayment speeds that were causing a deterioration in yield. These securities were sold and the Company recognized a net pre-tax gain on sale of $2.1 million. There were no realized gains or losses for the year ended December 31, 2014.

The tables below show the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014, and 2013. Management has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary.

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

	December 31, 2013					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(Dollars in thousands)					
Available-for-sale:						
Government agency	$ 267,936	$ 20,514	$ 38,563	$ 3,361	$ 306,499	$ 23,875
Residential mortgage-backed securities	851,621	23,313	22,999	1,475	874,620	24,788
CMOs / REMICs residential	104,322	1,780	17,747	194	122,069	1,974
Municipal bonds	47,116	3,359	10,338	534	57,454	3,893
Other securities	4,908	92			4,908	92
Total	$ 1,275,903	$ 49,058	$ 89,647	$ 5,564	$ 1,365,550	$ 54,622

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

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

As of December 31, 2014, the unrealized loss on this security was zero and the current fair value on the security was 81% of the current par value. This Alt-A bond, with a book value of $1.5 million as of December 31, 2014, has had $1.9 million in net impairment losses to date. These losses have been recorded as a reduction to noninterest income. The security is rated non-investment grade. We evaluated the security for an other-than-temporary decline in fair value as of December 31, 2014. The key assumptions include default rates, loss severities and prepayment rates. There were no changes in credit related other-than temporary impairment recognized in earnings for the years ended December 31, 2014, and 2013.

Government Agency & Government-Sponsored Enterprise The government agency bonds are backed by the full faith and credit of agencies of the U.S. Government. While the Government-Sponsored Enterprise bonds are not expressly guaranteed by the U.S. Government, they are currently being supported by the U.S. Government under a conservatorship arrangement. As of December 31, 2014, approximately $223.2 million in U.S. government agency bonds were callable. These securities are bullet securities, that is, they have a defined maturity date on which the principal is paid. The contractual term of these investments provides that the Company will receive the face value of the bond at maturity which will equal the amortized cost of the bond. Interest is received throughout the life of the security.

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Mortgage-Backed Securities and CMO/REMICs Almost all of the available-for-sale mortgage-backed and CMO/REMICs securities are issued by government agencies or government-sponsored enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying residential mortgages. All mortgage-backed securities are considered to be rated investment grade with a weighted average life of approximately 4 years. Of the total MBS/CMO, 99.98% have the implied guarantee of U.S. government-sponsored agencies and enterprises. The remaining 0.02% are issued by banks. Accordingly, it is expected the securities would not be settled at a price less than the amortized cost of the bonds.

Municipal Bonds The majority of the Company s municipal bonds are insured by the largest bond insurance companies with maturities of approximately 8.5 years. The Company diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Company s exposure to any single adverse event. Because we believe the decline in fair value is attributable to the changes in interest rates and not credit quality and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized costs, which may be at maturity, management does not consider these investments to be other than temporarily impaired at December 31, 2014.

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

At December 31, 2014, and 2013, investment securities having a carrying value of approximately $3.11 billion and $2.60 billion, respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at December 31, 2014, by contractual maturity, are shown below. Although mortgage-backed securities and CMO/REMICs have contractual maturities through 2043, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed securities and CMO/REMICs are included in maturity categories based upon estimated prepayment speeds.

	December 31, 2014	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available-for-sale:		
Due in one year or less	$ 156,040	$ 159,389
Due after one year through five years	2,056,835	2,107,877
Due after five years through ten years	757,260	754,160
Due after ten years	113,447	115,732
Total	$ 3,083,582	$ 3,137,158

The investment in FHLB stock is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through December 31, 2014.

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6. ACQUIRED SJB ASSETS AND FDIC LOSS SHARING ASSET

FDIC Assisted Acquisition

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

At December 31, 2014, the remaining discount associated with the PCI loans approximated $7.1 million. Based on the Company s regular forecast of expected cash flows from these loans, approximately $4.6 million of the related discount is expected to accrete into interest income over the remaining average lives of the respective pools and individual loans, which approximates 4 years and 0.3 years, respectively. The loss sharing agreement for commercial loans expired October 16, 2014. The FDIC loss sharing asset of $299,000 at December 31, 2014 reflects the amount for which we expect reimbursement from the FDIC.

The following tables provide a summary of PCI loans and lease finance receivables by type and their credit quality indicators as of December 31, 2014 and 2013, respectively:

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Commercial and industrial	$ 14,605	$ 19,047
SBA	1,110	1,414
Real estate:		
Commercial real estate	109,350	141,141
Construction		644
SFR mortgage	205	313
Dairy & livestock and agribusiness	4,890	6,000
Municipal lease finance receivables		
Consumer and other loans	3,336	4,545
Gross PCI loans	133,496	173,104
Less: Purchase accounting discount	(7,129)	(12,789)
Gross PCI loans, net of discount	126,367	160,315
Less: Allowance for PCI loan losses		
Net PCI loans	$ 126,367	$ 160,315

Credit Quality Indicators

The following table summarizes PCI loans by internal risk ratings by loan class as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Pass	$ 26,706	$ 38,961
Watch list	77,371	74,369
Special mention	8,203	15,492
Substandard	21,216	44,241

Doubtful & loss		41
Total PCI gross loans	$ 133,496	$ 173,104

Allowance for Loan Losses

The Company s Credit Management Division is responsible for regularly reviewing the ALLL methodology for PCI loans. The ALLL for PCI loans is determined separately, and is based on expectations of future cash flows from the underlying pools of loans or individual loans in accordance with ASC 310-30, as more fully discussed in Note 3 Summary of Significant Accounting Policies. As of December 31, 2014 and 2013, the Company had zero allowance for loan losses recorded for PCI loans.

FDIC Loss Sharing Asset

The following table summarizes the activity related to the FDIC loss sharing asset for the years ended December 31, 2014 and 2013:

	For the Year Ended December 31, 2014	2013
	(Dollars in thousands)	
Balance, beginning of period	$ 4,764	$ 18,489
FDIC share of additional losses, net of recoveries	342	(81)
Cash paid to (received from) FDIC, net	1,134	(4)
Net amortization (1)	(3,932)	(12,779)
Other reductions, net	(2,009)	(861)
Balance, end of period	$ 299	$ 4,764

(1) Net amortization included accelerated amortization as a result of loans being paid off in full, sold, or transferred to OREO.
Through December 31, 2014, the Bank has submitted claims to the FDIC for net losses on PCI loans totaling $122.0 million.

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

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

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Commercial and industrial	$ 390,011	$ 376,800
SBA	134,265	135,992
Real estate:		
Commercial real estate	2,487,803	2,207,515
Construction	55,173	47,109
SFR mortgage	205,124	189,233
Dairy & livestock and agribusiness	279,173	294,292
Municipal lease finance receivables	77,834	89,106
Consumer and other loans	69,884	55,103
Gross loans, excluding PCI loans,	3,699,267	3,395,150
Less:		
Deferred loan fees, net	(8,567)	(9,234)
Gross loans, excluding PCI loans, net of deferred loan fees	3,690,700	3,385,916
Less: Allowance for loan losses	(59,825)	(75,235)
Net loans, excluding PCI loans	3,630,875	3,310,681
PCI Loans	133,496	173,104
Discount on PCI loans	(7,129)	(12,789)
PCI loans, net	126,367	160,315
Total loans and lease finance receivables	$ 3,757,242	$ 3,470,996

As of December 31, 2014, 67.25% of the total loan portfolio consisted of commercial real estate loans and 1.49% of the total loan portfolio consisted of construction loans, respectively. Substantially all of the Company s real estate loans and construction loans are secured by real properties located in California. At December 31, 2014, the Company held approximately $1.79 billion of fixed rate loans.

At December 31, 2014 and 2013, loans totaling $2.78 billion and $2.31 billion, respectively, were pledged to secure the borrowings from the FHLB and the Federal Reserve Bank.

Loans Held-for-Sale

The following table provides a summary of the activity related to loans held-for-sale for the years ended December 31, 2014 and 2013:

	For the Year Ended December 31, 2014	2013
	(Dollars in thousands)	
Balance, beginning of period	$ 3,667	$
Originations of mortgage loans		485
Sales of mortgage loans		(485)
Transfer of mortgage loans to held for investment		

Sales of other loans		(3,667)		
Transfers of other loans to held-for-sale				3,667
Write-down of loans held-for-sale				
Balance, end of period	$		$	3,667

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Credit Quality Indicators

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

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

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

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

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

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

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

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

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The following table summarizes each class of loans, excluding PCI loans, according to internal risk ratings as of December 31, 2014 and 2013:

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

	December 31, 2013					
	Pass	Watch List	Special Mention	Substandard	Doubtful & Loss	Total
	(Dollars in thousands)					
Commercial and industrial	$ 228,976	$ 100,016	$ 38,219	$ 9,560	$ 29	$ 376,800
SBA	83,951	28,052	15,198	8,390	401	135,992
Real estate:						
Commercial real estate						
Owner occupied	449,853	147,165	74,999	57,934		729,951
Non-owner occupied	1,104,065	242,431	81,088	49,980		1,477,564
Construction						
Speculative	8,611	21	1,529	17,617		27,778
Non-speculative	6,940	3,190		9,201		19,331
SFR mortgage	152,500	20,485	3,302	12,946		189,233
Dairy & livestock and agribusiness	43,588	86,580	92,514	69,005	2,605	294,292
Municipal lease finance receivables	43,445	18,338	20,893	6,430		89,106
Consumer and other loans	43,225	6,938	3,449	1,491		55,103
Total gross loans, excluding PCI loans	$ 2,165,154	$ 653,216	$ 331,191	$ 242,554	$ 3,035	$ 3,395,150

Allowance for Loan losses

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

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

Management believes that the ALLL was appropriate at December 31, 2014 and 2013. No assurance can be given that economic conditions which adversely affect the Company s service areas or other circumstances will not be reflected in increased provisions for loan losses in the future.

The following tables present the balance and activity related to the allowance for loan losses for held-for-investment loans, excluding PCI loans, by portfolio segment as of December 31, 2014, 2013 and 2012:

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

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

	For the Year Ended December 31, 2012				
	Ending Balance December 31, 2011	Charge-offs	Recoveries	(Recapture of) Provision for Loan Losses	Ending Balance December 31, 2012
	(Dollars in thousands)				
Commercial and industrial	$ 8,030	$ (1,158)	$ 876	$ 1,153	$ 8,901
SBA	2,624	(101)	404	(176)	2,751
Real estate:					
Commercial real estate	47,841	(1,873)	514	975	47,457
Construction	4,947		1,139	(3,795)	2,291
SFR mortgage	4,032	(642)	(108)	166	3,448
Dairy & livestock and agribusiness	17,278	(1,150)	166	2,402	18,696
Municipal lease finance receivables	2,403			(815)	1,588
Consumer and other loans	1,590	(283)	36	(173)	1,170
Unallocated	5,219			920	6,139
Total allowance for loan losses	$ 93,964	$ (5,207)	$ 3,027	$ 657	$ 92,441

The following tables present the recorded investment in loans held-for-investment, excluding PCI loans, and the related allowance for loan losses by portfolio segment, based on the Company s methodology for determining the allowance for loan losses as December 31, 2014 and 2013:

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

	December 31, 2013			
	Recorded Investment in Loans		Allowance for Loan Losses	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
	(Dollars in thousands)			
Commercial and industrial	$ 3,348	$ 373,452	$ 293	$ 8,209
SBA	1,685	134,307	72	2,260
Real estate:				
Commercial real estate	33,440	2,174,075		39,402
Construction	26,818	20,291		1,305

SFR mortgage	11,405	177,828	103	2,615
Dairy & livestock and agribusiness	29,812	264,480	2,702	9,026
Municipal lease finance receivables		89,106		2,335
Consumer and other loans	401	54,702	4	956
Unallocated				5,953
Total	$ 106,909	$ 3,288,241	$ 3,174	$ 72,061

Past Due and Nonperforming Loans

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

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

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

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

The following tables present the recorded investment in the aging of past due and nonaccrual loans, excluding PCI loans, by class of loans as of December 31, 2014 and 2013:

	December 31, 2014					
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Lease Finance Receivables
	(Dollars in thousands)					
Commercial and industrial	$ 943	$ 35	$ 978	$ 2,308	$ 386,725	390,011
SBA	75		75	2,481	131,709	134,265
Real estate:						
Commercial real estate						
Owner occupied	36	86	122	4,072	786,173	790,367
Non-owner occupied				19,246	1,678,190	1,697,436
Construction						
Speculative					36,574	36,574
Non-speculative					18,599	18,599
SFR mortgage	425		425	3,240	201,459	205,124
Dairy & livestock and agribusiness				103	279,070	279,173
Municipal lease finance receivables					77,834	77,834
Consumer and other loans	64	17	81	736	69,067	69,884
Total gross loans, excluding PCI loans	$ 1,543	$ 138	$ 1,681	$ 32,186	$ 3,665,400	$ 3,699,267

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

	December 31, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1)	Current	Total Loans and Lease Finance Receivables
			(Dollars in thousands)			
Commercial and industrial	$ 900	$ 93	$ 993	$ 2,175	$ 373,632	$ 376,800
SBA				1,686	134,306	135,992
Real estate:						
Commercial real estate						
Owner occupied	220		220	4,105	725,626	729,951
Non-owner occupied	303		303	8,305	1,468,956	1,477,564
Construction						
Speculative				9,966	17,812	27,778
Non-speculative					19,331	19,331
SFR mortgage	773	935	1,708	7,577	179,948	189,233
Dairy & livestock and agribusiness				5,739	288,553	294,292
Municipal lease finance receivables					89,106	89,106
Consumer and other loans	75		75	401	54,627	55,103
Total gross loans, excluding PCI loans	$ 2,271	$ 1,028	$ 3,299	$ 39,954	$ 3,351,897	$ 3,395,150

(1) As of December 31, 2013, $23.9 million of nonaccruing loans were current, $473,000 were 30-59 days past due, $854,000 were 60-89 days past due, and $14.7 million were 90+ days past due.

Impaired Loans

At December 31, 2014, the Company had impaired loans, excluding PCI loans, of $85.8 million. Of this amount, there was, $3.2 million of nonaccrual SFR mortgage loans, $23.3 million of nonaccrual commercial real estate loans, $2.3 million of nonaccrual commercial and industrial loans, $2.5 million of SBA loans, $103,000 of nonaccrual dairy & livestock and agribusiness loans and $736,000 of consumer and other loans. These impaired loans included $73.9 million of loans whose terms were modified in a troubled debt restructuring, of which $20.3 million are classified as nonaccrual. The remaining balance of $53.6 million consisted of 36 loans performing according to the restructured terms. The impaired loans had a specific allowance of $1.5 million at December 31, 2014. At December 31, 2013, the Company had classified as impaired, loans, excluding PCI loans, with a balance of $106.9 million with a related allowance of $3.2 million.

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The following tables present held-for-investment loans, excluding PCI loans, individually evaluated for impairment by class of loans, as of December 31, 2014, 2013 and 2012:

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

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

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	As of and For the Year Ended December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial and industrial	$ 1,936	$ 2,476	$	$ 2,131	$ 43
SBA	1,449	1,739		1,635	
Real estate:					
Commercial real estate					
Owner occupied	13,478	14,569		14,459	397
Non-owner occupied	28,639	38,633		29,801	670
Construction					
Speculative	21,314	21,607		21,650	311
Non-speculative	9,219	9,219		9,219	574
SFR mortgage	11,079	14,342		11,292	54
Dairy & livestock and agribusiness	12,406	13,756		11,834	173
Municipal lease finance receivables	263	263		443	5
Consumer and other loans	142	196		145	
Total	99,925	116,800		102,609	2,227
With a related allowance recorded:					
Commercial and industrial	304	327	289	387	
SBA					
Real estate:					
Commercial real estate					
Owner occupied	19	19	2	28	
Non-owner occupied					
Construction					
Speculative					
Non-speculative					
SFR mortgage	3,766	4,071	434	3,363	
Dairy & livestock and agribusiness	4,303	4,340	1,596	4,017	73
Municipal lease finance receivables					
Consumer and other loans	73	74	11	75	
Total	8,465	8,831	2,332	7,870	73
Total impaired loans	$ 108,390	$ 125,631	$ 2,332	$ 110,479	$ 2,300

The Company recognizes the charge-off of impairment allowance on impaired loans in the period it arises for collateral dependent loans. Therefore, the majority of the nonaccrual loans as of December 31, 2014 and 2013 have already been written down to their estimated net realizable value. The impaired loans with a related allowance recorded are on nonaccrual loans where a charge-off is not yet processed, on nonaccrual SFR loans where there is a potential modification in process, or on smaller balance non-collateral dependent loans.

Construction was completed on one $9.6 million impaired construction speculative loans which was therefore reflected as a nonperforming commercial real estate loan as of December 31, 2014.

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

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loan commitments at the same time it evaluates credit risk associated with the loan and lease portfolio. The Company recorded a reduction of the reserve for unfunded loan commitments of $1.3 million for the year ended December 31, 2014, compared with a provision for unfunded loan commitments of $500,000 for the year ended December 31, 2013 and a $1.0 million reduction of the reserve for the year ended December 31, 2012. As of December 31, 2014 and December 31, 2013, the balance in this reserve was $7.8 million and $9.1 million, respectively, and was included in other liabilities.

Troubled Debt Restructurings

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

As of December 31 2014, there were $73.9 million of loans classified as a TDR, of which $20.3 million were nonperforming and $53.6 million were performing. TDRs on accrual status are comprised of loans that were accruing interest at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. At December 31, 2014, performing TDRs were comprised primarily of 11 commercial real estate loans of $24.7 million, one construction loan of $7.7 million, eight dairy & livestock loans of $15.7 million, 11 SFR mortgage loans of $3.7 million, three commercial and industrial loans of $711,000, and one SBA loan of $699,000. There were no loans removed from TDR classification for the years ended December 31, 2014 and 2013.

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 $726,000 and $2.7 million of specific allowance to TDRs as of December 31, 2014 and December 31, 2013, respectively.

The following table provides a summary of the activity related to TDRs for the years ended December 31, 2014, and 2013:

	For the Year Ended December 31,	
	2014	2013
	(Dollars in thousands)	
Performing TDRs:		
Beginning balance	$ 66,955	$ 50,392
New modifications	462	30,796
Payoffs and payments, net	(14,527)	(15,492)
TDRs returned to accrual status	699	1,259
TDRs placed on nonaccrual status		
Ending balance	$ 53,589	$ 66,955

	For the Year Ended December 31,	
	2014	2013
	(Dollars in thousands)	
Nonperforming TDRs:		
Beginning balance	$ 25,119	$ 31,309
New modifications (1)	4,372	4,187
Charge-offs	(1,061)	(92)
Payoffs and payments, net	(7,446)	(9,026)
TDRs returned to accrual status	(699)	(1,259)
TDRs placed on nonaccrual status		
Ending balance	$ 20,285	$ 25,119

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The following are the loans modified as troubled debt restructurings for the years ended December 31, 2014, 2013, and 2012:

Modifications (1)

	For the Year Ended December 31, 2014				
	Number of Loans	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Outstanding Recorded Investment at December 31, 2014**	**Financial Effect Resulting From Modifications (2)**
	(Dollars in thousands)				
Commercial and industrial:					
Interest rate reduction (3)(4)	3	$ 553	$ 553	$ 522	$ 185
Change in amortization period or maturity					
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction (3)	1	199		187	
Change in amortization period or maturity					
Other					
Non-owner occupied					
Interest rate reduction (3)	3	3,573		3,469	
Change in amortization period or maturity					
Other					
Dairy & livestock and agribusiness:					
Interest rate reduction					
Change in amortization period or maturity					
Consumer					
Interest rate reduction (4)	1	421	421	419	
Total loans	8	$ 4,746	$ 974	$ 4,597	$ 185

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

Total loans	18	$	29,069	$	29,069	$	24,719	$	244

	For the Year Ended December 31, 2012				
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at December 31 2012	Financial Effect Resulting From Modifications (2)
			(Dollars in thousands)		
Commercial and industrial:					
Interest rate reduction	1	$ 80	$ 80	$ 66	$
Change in amortization period or maturity	8	2,301	2,301	1,817	3
Real estate:					
Commercial real estate:					
Owner occupied					
Interest rate reduction					
Change in amortization period or maturity	6	4,225	4,225	3,903	
Non-owner occupied					
Interest rate reduction	1	3,378	3,378	3,359	
Change in amortization period or maturity	4	5,906	5,906	5,303	
Construction:					
Speculative					
Interest rate reduction					
Change in amortization period or maturity	1	10,966	10,966	10,663	
Non-speculative					
Interest rate reduction					
Change in amortization period or maturity					
Other					
SFR mortgage:					
Interest rate reduction	1	399	399		