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;

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.

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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.

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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

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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 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.

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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 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.

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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.

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.

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.

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;

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.

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.

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

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.

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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.

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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%
Total	$ 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%	
Total	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	